

# Future Supply Chain

Briefing: Q3 2014



## Executive summary

This briefing explores some of the global trends and development drivers set to affect the future of supply chains, including:

- Sustainability mega trends and the challenges and opportunities these pose to supply chains.
- Experts' perspectives on how businesses can look to the future.
- A spotlight on supply chain innovation and recommendations on how businesses can address future trends.

## Shifting landscape

We live in a fast-paced and uncertain globalised economy, in which the challenges of sustaining a successful business are vast.

Increasingly, being a sustainable business – in the broadest sense – is no longer confined to meeting expectations around profit growth and shareholder value.

**A global momentum for business and sustainable development is reaching the tipping point.**

Sustainability issues and mega trends like climate change, resource scarcity, energy security, etc. are changing the systems within which business – and their supply chains – operate.

How companies respond to these complex sustainability challenges – some of which have the potential to threaten a company's license to operate – is becoming increasingly vital as customers, shareholders and other stakeholders continue to pay closer attention.

## Sustainability and business - the situation now:

A 2013 report by MIT Sloan and The Boston Consulting Group surveying 1,847 executive and manager respondents from commercial enterprises found that:

“Two thirds rate social and environmental issues as “significant” or “very significant” among their sustainability concerns. [...] Yet only 10% say their companies fully tackle<sub>1</sub> these issues and only 40% report that their organisations are largely addressing them.”<sub>1</sub>

“CSR in procurement will be the most influential mega trend affecting procurement in 2020. [The survey] revealed that the likelihood of a CSR-related event negatively impacting supply chains is 28%. Should it occur, the average cost exposure is calculated at over €100 million.”

**Procurement Leaders Network survey of global procurement and CSR officials<sub>2</sub>**

There are many different sustainability mega trends impacting supply chains, including:

- Unhindered world population growth.
- Dire risk of dangerous climate change.
- Escalating resource scarcity.
- Increasing governmental intervention and regulation.
- Expanding consumer pressures.



## The changing landscape

Pressure and expectations on businesses are increasing from all stakeholders – but crucially the international community now appreciates the vital positive role businesses can play to push sustainable development – expanding expectations on businesses remit and responsibility.

If we look at where this is happening, we will see a big shift in where sustainability is being driven.

Today's lists of leading brands are dominated by Western companies. In the 2020s, the picture could be sharply different as new company names from places such as Brazil and Indonesia become globally recognised. Also, consumers in emerging markets represent a substantial opportunity for businesses. Yet despite rapid growth rates, many people still live in poverty. This vast 'bottom of the pyramid' market will be a critical motive for innovation in the decades ahead. More companies will develop business models, products and services that reduce poverty, tackle corruption, deliver safe drinking water and improve health.

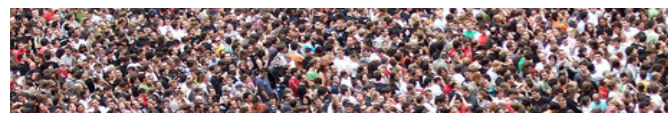
## Population growth

It has taken all of human history until circa 1800 for world population to reach 1 billion.<sup>1</sup>

The 20th century witnessed the most rapid increase in population and decline of mortality in human history. Globally, life expectancy at birth rose from 47 years in 1950-55 to 69 years in 2005-10.<sup>2</sup>

### 2050: a more crowded, urban world

- The current world population of 7.2 billion is predicted to increase by almost 1 billion people within the next eleven years, reaching 8.1 billion in 2025 and 9.6 billion in 2050.<sup>2</sup>
- Most growth is expected in developing regions, especially Africa.<sup>2</sup>
- Global life expectancy is also projected to significantly increase. By the end of the 21st century, people in developed countries could live on average around 89 years, compared to about 81 years in developing regions.<sup>2</sup>
- If trends continue, urbanisation may reach 70% - an increase of 2.8 billion people - requiring the building of an estimated 400 mega cities in and around existing urban areas.<sup>3</sup>
- Despite progress on poverty alleviation, a growing world population may leave as many extreme poor as there are today.<sup>3</sup>



“The human population has become the defining feature influencing change for our planet.”

Lucy Shea, Futerra



## Resource Scarcity

### Food:

- The need for a 70% increase in food production from 2006 levels.<sup>4</sup>
- For which agricultural experts believe we will need an additional two million square kilometres of farming land by 2030.<sup>5</sup>
- FAO (Food and Agriculture Organization of the UN) predicts that the livestock population required to feed that number of people will increase from around 70 billion animals today to around 120 billion by 2050.<sup>5</sup>
- Continued overfishing beyond maximum yield, combined with other factors affecting habitat degradation might lead to a global collapse of ocean fisheries.<sup>3</sup>

### Water:

- In 2050, 3.9 billion people (>40% of the global population) will live in river basins under severe water stress.<sup>3</sup>

## Climate change and biodiversity

### Land:

- If the planet warms by just 2 degrees centigrade, the amount of land lost to rising sea levels by the end of the century would be around two million square kilometres.<sup>5</sup> This loss is the same amount needed in addition to current farming land to meet food requirements in 2030.<sup>4</sup>

### Energy:

- Accelerated increase in GHG emissions and global warming.<sup>3</sup>

### Forests

- The world lost nearly 13 million hectares of forest—an area roughly the size of England—every year between 2000 and 2010.<sup>6</sup>
- Deforestation rates are in decline but still alarmingly high. Most primary forests might be destroyed by 2050.<sup>3</sup>

### Soil and biodiversity

- Soil health plays a critical role in maintaining biodiversity. Yet experts warn that 33% of world soil is already moderately to highly degraded due to erosion, nutrient depletion, acidification, urbanisation, and chemical pollution, putting future supplies of food, water and energy at risk.<sup>7</sup>

## Legislation and development

Increasing legislation - with support from industry initiatives - is driving sustainable procurement in the supply chain, and looks set to increase. Recent examples include:

- **2014 - UK Draft Modern Slavery Bill** – Legislation to expose the hidden crime of slavery, bring more perpetrators to justice and protect and support victims.<sup>1</sup>
- **2013 - The World We Want** – As targets for achieving the Millennium Development Goals approach, business have been targeted as a key source of input for next global development agenda; the Sustainable Development Goals.<sup>2</sup>
- **2013 - UN Guiding Principles for Business and Human Rights** - Recognise the impact business can have on almost the entire spectrum of human rights, their reach across borders and boundaries and their responsibility to respect those rights.<sup>3</sup>
- **2012 - California Transparency in Supply Chains Act** - Applies to all retailers and manufacturers with annual global revenues of \$100 million+ that do business in California. The Act creates public reporting requirements to disclose information about their efforts to eradicate slavery and human trafficking from their direct supply chains where they make tangible goods for sale.<sup>4</sup>
- **2011 - Dodd-Frank Act** - US legislation that includes aims to prevent funding of illegal arms groups by eliminating or limiting the sourcing of conflict minerals from the DRC and surrounding regions. In 2012 added guidance and reporting requirements including companies have to document due diligence trails and 3rd party auditor review; ensuring compliance.<sup>5</sup>
- **2010 - UK Bribery Act** - Creates a new offence which can be committed by commercial organisations which fail to prevent persons associated with them from bribing another person on their behalf.<sup>6</sup>
- **2005 - The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC)** - An international treaty setting binding obligations on industrialised countries to reduce emissions of greenhouse gases.<sup>7</sup>

“Scientists have been warning us for over 20 years about climate change, but governments globally have failed to address it. Nonetheless, as humans, we must be optimistic and assume that some kind of intervention to try and reduce carbon in the atmosphere is coming. Every year that action is delayed means that when it comes, it will need to be ever more draconian to be effective. If you are not already thinking about how this will impact your supply chain you need to.”

Steve Kenzie, Head of Secretariat, Global Compact Local Network-UK

## Global citizenship

According to the results of a 2011 survey conducted by the Reputation Institute, a company's CSR programme can be responsible for up to 40% of its company's reputation.<sup>8</sup> Leading businesses recognise that a future with greater sustainability challenges will increase consumer expectations and influence how they interact with the brands they buy into:

- The role of consumers and ethical consumption is changing. Technology empowers consumers with easily accessible information in unprecedented amounts. Powerful, true stories - good and bad - can be shared easily around the world via social media.
- Accessible digital media has also empowered consumers with the ability to transform the wider world and voice their opinions. Consumers rely on brands they trust to deal with issues, but can voice their displeasure via campaigns and boycotts if this trust is misplaced.
- From the company perspective, technology enables companies to activate large-scale consumer campaigns, often around a social cause. Businesses can influence more people – creating movements around a social mission, interacting with consumers in real time and creating a dialogue on the social impacts of the company.

“Ethical consumers are still a vitally important agent of change; however the actions of progressive business are now a significant contributor to sales growth. 50% of consumers surveyed avoided a product based on a company's responsible reputation.”

2012 Co-operative's Ethical Consumer Markets Report<sup>9</sup>

“What's interesting about the transparency movement is how it empowers consumers and citizens in a way that has hitherto been unknown in the history of the world. The future is about citizens acting in different ways because they're better informed and empowered.”

Robert Barrington, Executive Director, Transparency International UK

## Insights from thought leaders

We asked leading experts what sustainability mega trends they expect in the future and recommendations to businesses to meet future challenges:



### Collaboration



#### Trends:

- Increasing use of technology to mobilise innovation, collaboration and transparency in supply chains.
- Interoperability of systems collecting data.
- Moving beyond individual company data to information that can be aggregated to give insight into sectoral and regional supply chain trends.
- Remove barriers to collaboration internally and build understanding – shift to conversations with wider/different parts of the organisation. Multi-disciplinary teams.
- Multi-Stakeholder Initiatives (MSIs) - Companies of the future will need to work with more varied organisations to plan for uncertainty and align to meet big global development goals. Voluntary MSIs will increasingly become a key mechanism for the delivery of simultaneous corporate and societal goals.
- Greater cooperation and collaboration between businesses of all sizes.

“There is buyer to buyer collaboration; there is buyer to supplier collaboration. But more importantly, what we see will be the most vital form of collaboration, is the business to government to civil society collaboration. This needs to happen at a local level.”

**Peder Michael Pruzan-Jorgensen,**  
VP Europe, BSR

**AIM-Progress:** A forum of leading FMCG manufacturing brands formed to enable collaboration on shared responsible sourcing practices and building supply chain capability. [aim-progress.com](http://aim-progress.com)

**Water Action Hub:** an online platform designed to assist stakeholders to efficiently identify potential collaborators and engage with them in water-related collective action to improve water management in regions of critical strategic interest. [wateractionhub.org](http://wateractionhub.org)

### Investor pressure

Both SRI (Socially Responsible Investment) and RI (Responsible Investment) investors are now looking at supply chain issues as they understand the positive and negative impact those issues have on a company's bottom line.

#### Trends:

- Accelerated adoption of leading investment practices for integrating environmental, social and governance issues across the financial markets.
- Increased leveraging of the strength of investors to promote and implement sustainable business practices among major global companies.
- Increasing role of robust legislative action that rewards sustainable business practices and discourages harmful ones.
- Transparent accounting, with companies, investors and capital markets integrating the full environmental and social costs of economic activity.

“Responsible investment market = \$13,568bn. 21.8% of assets under management worldwide.”

**Global Sustainable Investment Alliance**<sup>1</sup>

Recent examples of investor action on supply chain issues include the **Investor Statement on Bangladesh**. 202 organisations representing over \$3.1 trillion USD in assets under management, are calling on industry leaders to implement systemic reforms that will ensure worker safety and welfare, and to adopt zero tolerance policies on global supply chain abuses.<sup>2</sup>

RI initiatives focusing investor attention on supply chain issues include the United Nations Principles for Responsible Investment, UN Environment Programme Finance Initiative, CDP, Social Investment Forums around the world, sustainable investment indices (such as FTSE4Good and Dow Jones Sustainability Index) and stock exchanges which require companies to disclose information on supply chain issues as part of listings requirements.

## Governance and transparency

Research by Transparency International shows that corruption is an impediment to meeting global development milestones.<sup>1</sup>

- Pressure is building for governments and companies to be more transparent in their practices and their supply chains - and to tackle corruption issues head on.
- Technology means consumers are better informed than ever before – consumers can be unforgiving if they feel their sustainability expectations behind a brand are misplaced and are willing to publicly voice their opinions.
- Sustainability expectations at the international level are changing, with an emphasis on enabling policies and frameworks.
- Increasing legislation is creating greater liability and due diligence from companies - such as the UK Bribery Act and similar laws in Russia, China and other areas.



“More than three million people identified “an honest and responsive government” amongst the top four UN development priorities that they want to see in the future.”

**Transparency International**<sup>1</sup>

**The Robin Hood Tax:** A multi-stakeholder initiative committed to reducing poverty and tackling climate change by taxing financial transactions. Starting as an idea in 2010 following the financial crisis, it quickly became a movement of campaigns in more than 25 countries around the world with millions of supporters including 115 organisations; charities, green groups, trade unions, financiers, religious leaders and politicians, business people, economists, celebrities and citizens alike. It is intended to fight poverty and tackle climate change through income raised from taxing financial transactions. [robinhoodtax.org.uk](http://robinhoodtax.org.uk)



“Companies who are behind the curve on transparency, that are either not transparent themselves or oppose the trend towards transparency - for example by lobbying against transparency regulations - are on the wrong side of the argument; they're pushing against a tide which is flowing in the other direction.”

**Robert Barrington, Executive Director, Transparency International UK**

Following labour standards scandals Nike<sup>2</sup> and Apple<sup>3</sup> have publicly disclosed full supplier lists.

**GoodGuide:** Founded in 2007, GoodGuide provides one of the world's largest and most reliable sources of information on health, environmental, and social impacts of over 200,000 consumer products. [goodguide.com](http://goodguide.com)

## Technology and data

Technology and data are increasingly crucial to efficiency in supply chain management.

- New digital platforms and affordable technologies allow people to share information and data instantly. Real-time exchanges amongst billions of people is fast becoming a reality - and no longer limited to the west. Reports from Groupe Speciale Mobile Association (GSMA) reveals that the Asia Pacific region now accounts for half of the world's mobile subscribers and will remain one of the world's fastest growing mobile markets through 2020 and beyond - only Sub-Saharan Africa's market will grow faster in this period.<sup>1</sup>
- Consequently, privacy and security concerns will accelerate and novel forms of scrutiny will mean that companies are no longer able to hide from demands for transparency.
- Issues surrounding data leaks and security will become strategic issues for companies in all sectors by the 2020s. One way of reducing the risk of "digital wildfires" of false rumours is to ensure data is of high quality, audited and meets the stakeholder needs for transparency.
- Emphasis on measuring impact will increase: if we only measure what we do, rather than the impact it is having, we will not get closer to the impact we would like to achieve.
- Predictive CSR - increasing use of sustainability analysts in company CSR teams to assess data and impact and to proactively use supply chain trends to predict potential issues before they happen.
- Increasing use of collaborative systems to gain access to good quality supply chain data.
- Interoperability of systems and data points to inform better decision making.

## 3D profit and loss accounting

- Companies are increasingly being asked for honest, transparent reporting of their whole impact, profit and loss. The real threats of resource scarcity, climate change, biodiversity and habitat degradation due to company activities are no longer acceptable as an inevitable 'environmental cost' or 'externality'.
- Companies may have to justify use of natural resources as part of their product or service development.
- They may need to openly account for negative impact they have on the natural world.
- Increasing pressure to lessen impact from multi-stakeholders.

**Kering – Environmental Profit & Loss (E P & L):** First published in 2011, E P & L is a pioneering natural capital accounting and reporting system, developed by Kering and its brand PUMA, that places a monetary value on the environmental impacts that result from a business's activities not only within its own operations but along the entire supply chain. Including full analysis of water use, water pollution, waste and greenhouse gas. [kering.com](http://kering.com)



“We need to work on interoperability of systems and how systems in an IT developed world can interact with each other and provide the data – speed up the responses and give information on trends.”

**Sir Mark Moody Stuart, Chairman, Foundation for the Global Compact**

### Good World Solutions (GWS) - Labor Link:

GWS builds transparency across global supply chains by implementing affordable, scalable web and mobile technologies. Labor Link is an interactive voice response (IVR) platform that collects information and opinions from workers and farmers around the world using mobile phone surveys. GWS supports companies to design and implement mobile surveys, and analyse survey data and deliver results back in near real-time. [mylaborlink.org](http://mylaborlink.org)

“We know climate change is happening and we know its going to have a devastating impact on global supply chains. What we are not seeing yet are supply chains that are really beginning to work to address that and that is not only a tremendous opportunity but a tremendous need.”

**Peder Michael Pruzan-Jorgensen, VP Europe, BSR**

## Sustainable procurement and business innovation

As consumers are being asked to live more sustainable lives by considering the social and environmental attributes of the products and services they buy, businesses must also do the same when making their purchasing decisions.

- Leading companies are incorporating sustainability earlier in the procurement process, creating the foundation and business case to enhance decision-making, that benefit the environment, workers in the supply chain, consumers, and the company's bottom-line.<sup>1</sup>
- Many companies are looking to be more proactive, but are challenged with traditional procurement processes that focus on mitigating supply chain costs and risks rather than creating new business value and innovation. Companies are looking for more tools, methods, and inspiration to integrate sustainability into the procurement process and create new opportunities and business benefits.<sup>1</sup>
- Sustainability will be considered right at the beginning of the procurement cycle, stimulating innovation across all aspects of business and how business is done.
- Sustainability will be increasingly incentivised and embedded throughout company culture and systems rather than side-lined in separate departments.

“76% of operations professionals said their company's focus on creating a more sustainable supply chain would increase over the next three years, [yet] 39% say company leadership is not providing the mandate, incentives, and resources to turn supply chain sustainability into action.”

**Sustainable supply chains: Making value the priority. APICS and PwC Report 2013<sub>2</sub>**

Levi Strauss developed the Wellthread Process to create a replicable process for designing durable apparel that connects smart design, environmental practices and the well-being of the apparel workers who make the garment. The outcomes include reducing energy and water use by 30%. In addition, innovative design and procurement have actually streamlined costs—Wellthread garments will carry a 30% lower price tag than comparable products using conventional means.<sup>3</sup>

In 2012, the Center for Sustainable Procurement (CSP) was established to be the go-to-place for procurement professionals to access resources and tools to enhance their sustainable procurement efforts. The CSP is introducing new tools and collaborative initiatives for companies to share common challenges and successes. [bsr.org](http://bsr.org)

## Scale

With a world set to be increasingly pressured by population growth, scale is a vital component of supply chain management:

- Prototyping and scaling new sourcing and manufacturing models.
- Multi-stakeholder engagement and collaboration to further worker empowerment models.
- Collaboration and the use of systems to scale up efforts to engage multi-tier.
- Moreover, decreasing technology costs will make available a larger amount of data on supply chains. Organisations will need to build capacity to leverage this data and create analytical capabilities to benefit from this.



“We need to build on the great work that has already been done to reach out to the millions of small and medium-sized organisations that are not fully engaged on supply chain issues; without them on board we will not be able to meet our global development goals.”

**Carmel Giblin, CEO, Sedex**

**Delivering scale and global action for responsible sourcing:** Since launch in 2004, **Sedex** (Supplier Ethical Data Exchange) has grown from six founding members to the world's largest platform for sharing ethical data. We may be at the tipping point – there may be enough momentum, but work remains to be done to scale-up engagement with complex, multi-tier supply chains. [sedexglobal.com](http://sedexglobal.com)

## Recommendations

No one can predict for certain what the future holds. However, global research tells us we can be relatively certain that:

1. Sustainability is not a passing trend; future scenarios of resource scarcity, climate change and escalating population pressures are widely accepted.
2. Companies need to embrace technology to mobilise the innovation, collaboration, transparency and scale required to rise to the challenges of the future.

### Meet sustainability challenges head on

- Embrace leadership – don't shy away from setting ambitious strategies integrating economic, social and environmental aspects.
- Be predictive - look to the future and consider how your company will navigate the challenges and opportunities it holds.
- Anticipate issues and requirements your business needs to address or report on.

### Collaborate

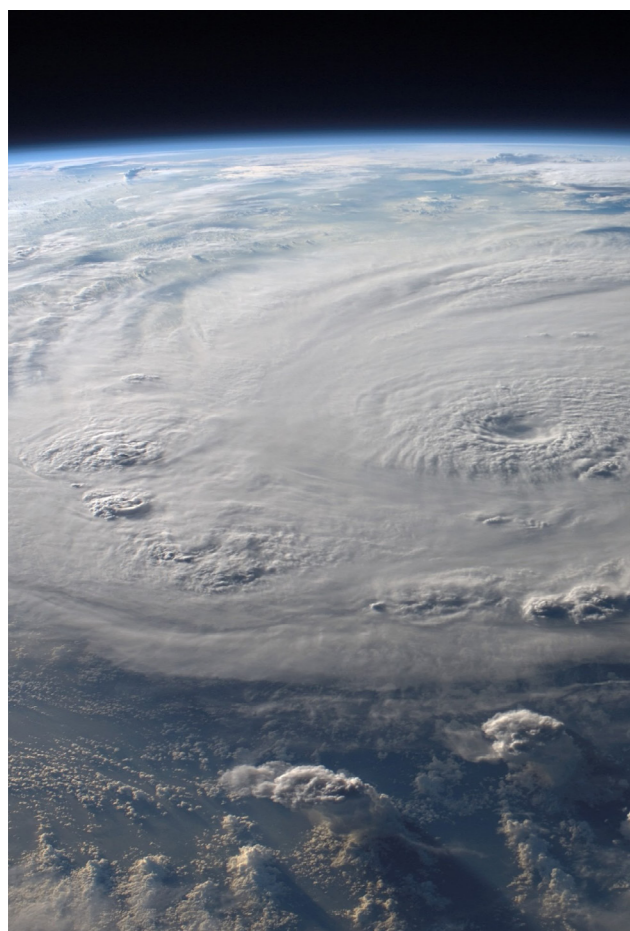
- Solo, iconic sustainability agendas are not enough. None of these big supply chain issues can be tackled by individual companies acting alone.
- There are an estimated 300 million enterprises in the world today. We need to see collaborative action on a unprecedented scale to not just tackle issues but change the global systems in which they operate.
- Engage in credible, impact-driven collaborative initiatives that add value to your organisation and help you scale your impact.
- Don't re-invent the wheel – see the wider objective.

### Embrace transparency

- Anticipate increasing expectations on business by the international community and national governments.
- Use available systems and mechanisms to understand your supply chain and its material impacts.
- Increasing legislation requiring due diligence from companies.

### Innovation and technology

- Be ambitious and utilise new technologies and digital media.
- Embrace innovation in business models and in how business is done.
- Big data: move beyond individual company data to information that can be aggregated to give insight into trends in a sector or in a region.
- Being a well-run and responsible business in the future will mean being an expert at managing data securely and intelligently, as well as protecting consumer autonomy where citizens demand it. Companies will be able to monitor and track more information on raw materials, commodities and people. More information means that reliability and verification will grow in importance.



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## About this briefing:

This briefing is the latest in a series of films, publications, resources, webinars and in-person events by Sedex Global and partners. These focus on a range of topics including; key emerging trends for sustainable supply chains by region and emerging CSR topics, risk and performance management in global supply chains, highlighting companies' achievements of good practice and best practice, impact, collaboration and convergence in responsible business.

See <http://www.sedexglobal.com/resources/publications/>

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## About Sedex:

### Sedex Global ([sedexglobal.com](http://www.sedexglobal.com))

Our mission is to drive collaboration, increase transparency and build the capacity that's needed to raise standards across all tiers of the supply chain. We offer the world's largest collaborative platform for managing and sharing ethical supply chain data, along with leading-edge services which multi-national companies use to understand, monitor and manage supply chains risks and improve standards.

Sedex works to drive engagement up and down the supply chain, encouraging follow up corrective actions on audits and facilitating dialogue to address challenges 'on the ground'. We collaborate with a range of stakeholders to share insights and promote best practice on responsible supply chain issues.

Sedex offers a range of services to enable effective responsible supply chain management. See: <http://www.sedexglobal.com/member-services/>

## RESOURCES

### Sedex Film | Supply Chain 2.0 – Where's it all heading?

In the sixth — and final — film in Sedex's Responsible Sourcing Insights Series, supply chain experts share their visions of what the future holds for responsible supply chain management.

[www.sedexglobal.com/films/sedex-film-supply-chain-2-0-wheres-it-all-heading/](http://www.sedexglobal.com/films/sedex-film-supply-chain-2-0-wheres-it-all-heading/)

### Center for Sustainable Procurement (CSP):

[www.bsr.org/en/our-work/working-groups/center-for-sustainable-procurement](http://www.bsr.org/en/our-work/working-groups/center-for-sustainable-procurement)

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