

The Importance of Sustainable Standards and Regulation in Supply Chain Management

Ever since the COVID-19 pandemic, managing supply chains has become a daunting task for managers around the world, with sustainability becoming a key focus. This white paper will discuss the significance of sustainable standards and regulations in SCM. This white paper aims at exploring the current emerging challenges, trends and regulations in supply chain management (SCM). The discussion includes insights from research papers, industry reports, and real-world examples to provide a clear understanding of the subject.

Executive Summary:

While the concept of sustainability emerged in the 1970s (Lozano, 2008), it was the United Nations Brundtland Report that brought the term to the forefront. This report defined sustainability as meeting the “needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Commission, 1987). It emphasized three key dimensions that organizations should consider when implementing sustainable solutions: economic, social, and environmental (Brundtland Commission, 1987; Mebratu, 1998; Lozano, 2008).

Acknowledging that supply chains rely on the natural environment in which they operate (Chopra and Meindl, 2013), this chapter delves into the environmental aspect of sustainable supply chains. However, economic considerations are inevitably intertwined, as businesses must evaluate the costs and benefits of the environmental strategies they adopt.

Supply chains are integral to economic vitality, driving international production, trade, and investments. Under favorable conditions, the development of supply chains and their integration into global networks can result in significant productivity gains, job creation, and income growth. They also enhance social protection, skills development, knowledge and technology transfer, adherence to higher standards, and women's economic empowerment. Nevertheless, global supply chains can also magnify inequalities both within and between countries and supply chains.

The global governance structure for sustainable supply chains is intricate, consisting of various instruments. It includes legally binding multilateral agreements and standards on human rights, labor conditions, environmental protection, and climate change, as well as a global normative framework reflecting governmental expectations for sustainable supply chains. Furthermore, it comprises numerous private, voluntary sustainability standards (VSS) and multi-stakeholder initiatives

(MSIs), which are largely aligned with the multilateral legal and normative frameworks.

Understanding Sustainable Standards and Regulations:

Definition and Scope:

Sustainable standards and regulations encompass a wide range of guidelines and laws designed to ensure that business operations are environmentally friendly, socially responsible, and economically viable. These standards and regulations aim to minimize the negative impact of supply chain activities on the environment, promote fair labor practices, and ensure long-term economic sustainability.

Key Frameworks and Guidelines:

Several frameworks and guidelines have been developed to guide businesses in implementing sustainable supply chain practices. Some of the most prominent include:

ISO 14001:

This international standard provides a framework for environmental management systems, helping organizations improve their environmental performance through more efficient use of resources and reduction of waste.

Global Reporting Initiative (GRI):

The GRI Standards help businesses and governments worldwide understand and communicate their impacts on critical sustainability issues such as climate change, human rights, and corruption.

United Nations Global Compact:

This initiative encourages businesses worldwide to adopt sustainable and socially responsible policies and report on their implementation.

Sustainable Development Goals (SDGs):

Adopted by all United Nations Member States in 2015, the SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. They are an urgent call for action by all countries in a global partnership.

The Need for Sustainable Supply Chain Management:

1. Human Rights and Environmental Issues:

Some companies believe they have adequately addressed human rights and environmental concerns, arguing that further efforts are unnecessary. However, due to growing public concern and the trend towards mandatory due diligence legislation in Europe and other regions, the scope of human rights and environmental issues that companies must consider is expanding. Human rights issues encompass not only the rights of the company's employees but also those of various stakeholders, including business partners and local communities. Environmental concerns extend beyond the immediate vicinity of company operations to include the stages of raw material sourcing and product supply.

Therefore, companies must recognize their responsibility to address not only direct human rights and environmental issues but also those linked to their business activities through their supply chains. It is essential to reassess and enhance current efforts to meet these expanding expectations.

2. International Norms and Rules:

- **United Nations Guiding Principles on Business and Human Rights:**

In 2011, the United Nations Human Rights Council endorsed the Guiding Principles on Business and Human Rights in response to increased concerns about the negative impacts of global business activities on stakeholders. These principles clarify that business enterprises have a responsibility to respect human rights, which includes conducting human rights due diligence (HRDD) to assess and address the negative impact of their activities. Importantly, HRDD applies to all companies, regardless of their position in the supply chain, nationality, sector, or size, and requires them to address negative impacts on human rights not only through direct operations but also through their business relationships.

- **B. OECD Guidelines for Multinational Enterprises:**

The HRDD elements of the UN Guiding Principles are also incorporated into the OECD Guidelines for Multinational Enterprises. These guidelines call for due diligence across supply chains and other business relationships, covering human rights, environmental, and other sustainability issues. The OECD Due Diligence Guidance for Responsible Business Conduct, published in 2018, provides detailed recommendations and practical actions for implementing due diligence.

3. Rule Making an Impact in Different Countries and Regions:

- **Supply Chain Regulations:**

International norms on human rights and environmental due diligence have spurred the creation of laws and regulations mandating companies to implement and disclose due diligence throughout their supply chains. These include the EU Non-Financial Reporting Directive (2014), the UK Modern Slavery Act (2015), the French Vigilance Law (2017), the Australian Modern Slavery Act (2018), the Dutch Child Labor Due Diligence Act (2019), and the German Supply Chain Due Diligence Act (2021). In February 2022, the European Commission proposed the Corporate Sustainability Due Diligence Directive, further mandating human rights and environmental due diligence.

Customs laws in the United States and Canada also prohibit the import of goods produced by forced labor, requiring companies to conduct due diligence to avoid embargoes.

- **Japan's National Action Plan on Business and Human Rights**

In 2020, the Japanese Government published its National Action Plan on Business and Human Rights, expecting Japanese enterprises, regardless of size and sector, to respect internationally recognized human rights and fundamental rights set out in the ILO Declaration. The government encourages the implementation of human rights due diligence based on the UN Guiding Principles and engagement in dialogue with stakeholders, including those in supply chains.

- **Expansion of ESG Investing and Sustainable Finance:**

Environmental, social, and governance (ESG) investing and sustainable finance are growing trends, with institutional investors and financial institutions increasingly assessing companies based on their efforts to address social and environmental sustainability issues. Businesses are expected to act urgently on these issues to attract investment and financing.

4. Importance of Addressing Human Rights and Environmental Issues:

It is crucial for both business partners and our company to not only comply with laws and regulations but also respect international norms on human rights and environmental due diligence. Addressing these issues through supply chains and other business relationships offers benefits such as risk management and the creation of business opportunities. It helps prevent human rights and environmental issues, promotes early detection and response, ensures compliance with diverse regulations, strengthens customer relationships, and enhances the company's attractiveness to investors and lenders. In the long term, efforts to address these

issues will maintain and improve trust with business partners and stakeholders, ultimately enhancing corporate value.

Business Benefits of Sustainable Standards and Regulations

Early Business Benefits:

Sustainable standards and regulations offer a wide array of early benefits for businesses. These benefits can be grouped into five primary clusters: sales and marketing, operations, procurement, stakeholder engagement, and sector-wide change. Among these, market-related benefits are the most frequently mentioned, with nearly all sources (98%) highlighting these advantages. Additionally, 78% of the sources cite benefits related to operations, and 70% point to procurement-related benefits. Stakeholder engagement (50%) and sector-wide change (28%) are less commonly mentioned but still significant.

Operational Benefits:

Utilizing sustainability standards can lead to notable operational benefits. Companies often report improvements in operational efficiencies and risk management, alongside added value to sustainability strategies and human capital development.

Operational efficiency and risk management (63%) encompass several specific benefits:

1. Management Systems and Processes (53%):

Businesses see increased organizational knowledge, enhanced strategic and operational planning capacity, better management systems, continuous improvement approaches, and improved internal communication. These improvements can apply to organizational and production processes (e.g., forestry or mining practices).

2. Operational Risk Management (23%):

Implementation of procedures and due diligence processes helps businesses comply with local laws and avoid incidents like chemical spills and work-related accidents. Governance and Membership Engagement (10%): Companies benefit from transparent and democratic decision-making, leadership improvements, and better service delivery to members.

3. Innovation (5%):

Adoption of standards can lead to innovative solutions for complex issues, with learnings and partnerships around standards fostering innovation in other areas.

These benefits are particularly relevant for producers, including large-scale enterprises, SMEs, and producer groups. Downstream businesses that utilize management system-based standards (e.g., Union for Ethical Biotrade (UEBT), Responsible Jewellery Council (RJC)) also report improved operational efficiency. Governance and membership engagement improvements are unique to producer groups.

Sustainability Strategy

Sustainability strategy (45%) refers to the advantages of using standards to develop, implement, and monitor a company's sustainability strategy. Specific benefits include:

1. Awareness of Sustainability Issues (5%):

Increased awareness throughout the supply chain, especially on environmental and social issues at the producer level.

2. Benchmark or Roadmap Towards Operationalizing Sustainability (25%):

Standards provide a credible benchmark or baseline for sustainability, eliminating the need for businesses to develop their own criteria. They aid in operationalizing sustainability and facilitate communication within and between businesses.

3. Helps Achieve Sustainability/Business Goals (23%):

Standards help position sustainability at the core of the business, assist in delivering on sustainability commitments and business needs in responsible production or sourcing, and facilitate communication about CSR strategy.

4. Performance/Impact Monitoring (10%):

Improved knowledge of sustainability performance and impacts, along with systems to assess these impacts.

These benefits are mainly realized by downstream actors.

- **Human Capital Development**

Human capital development (30%) involves improvements in working conditions, worker benefits, and employee satisfaction and retention:

1. Working Conditions and Worker Benefits (15%):

Businesses report better occupational health and safety, employee empowerment, worker grievance procedures, and improved contract terms.

2. Employee Satisfaction and Retention (20%):

Enhanced employee motivation, trust in the business, stronger work ethic, team building, and the ability to attract and retain employees.

Improved working conditions and worker benefits are predominantly experienced by producers, while the benefits of employee satisfaction and retention are observed throughout the entire supply chain.

In survey-based studies, the highest-rated benefits on operations are linked to sustainability strategy and operational efficiencies. Employee engagement, although less frequently mentioned or included in surveys, remains a valuable benefit.

Strategies for Implementing Sustainable Standards and Regulations:

Stakeholder Engagement:

Engaging stakeholders, including suppliers, customers, employees, and communities, is crucial for successful implementation. Collaborative efforts can drive collective action and ensure that sustainability goals are aligned across the supply chain.

Continuous Improvement:

Sustainable supply chain management is an ongoing process that requires continuous monitoring and improvement. Businesses should regularly assess their performance, set measurable targets, and implement corrective actions as needed.

Leveraging Technology:

Technology plays a vital role in sustainable supply chain management. Advanced analytics, blockchain, and IoT (Internet of Things) can enhance transparency, traceability, and efficiency, enabling businesses to make data-driven decisions.

Education and Training:

Investing in education and training programs can help bridge the knowledge gap and build expertise in sustainable supply chain management. Businesses should provide training for employees and collaborate with industry partners to share best practices.

Case Studies: Successful Implementation of Sustainable Standards and Regulations:

Unilever:

Unilever has long been a leader in sustainability, with its Sustainable Living Plan aiming to decouple its growth from its environmental footprint while increasing its positive social impact. The company has committed to sourcing 100% of its agricultural raw materials sustainably and has made significant progress in reducing greenhouse gas emissions, water use, and waste across its supply chain.

Patagonia:

Patagonia is known for its strong commitment to environmental sustainability. The company has implemented several initiatives to ensure responsible sourcing of materials, reduce waste, and promote fair labor practices. Patagonia's Worn Wear program encourages customers to repair, reuse, and recycle their products, further enhancing its sustainability efforts.

IKEA:

IKEA has integrated sustainability into its core business strategy, focusing on renewable energy, sustainable sourcing, and circular economy principles. The company aims to become climate positive by 2030, meaning it will reduce more greenhouse gas emissions than its value chain emits while growing its business.

The Future of Sustainable Supply Chain Management:

Regulatory Trends:

The regulatory landscape for sustainable supply chain management is expected to become more stringent in the coming years. Governments and international organizations are likely to introduce new regulations and standards to address pressing environmental and social issues.

Emerging Technologies:

Emerging technologies such as artificial intelligence, blockchain, and the Internet of Things (IoT) will play a critical role in enhancing supply chain sustainability. These technologies can improve transparency, traceability, and efficiency, enabling businesses to implement more effective sustainable practices.

Consumer Expectations:

Consumer expectations for sustainability are likely to continue rising. Businesses that fail to meet these expectations may face reputational risks and lose market share to more sustainable competitors.

Collaborative Efforts:

Collaboration among businesses, governments, non-governmental organizations, and other stakeholders will be essential for driving sustainable supply chain management. Collective action can amplify the impact of individual efforts and accelerate the transition to a more sustainable future.

Conclusion:

The importance of sustainable standards and regulations in supply chain management cannot be overstated. As businesses navigate the challenges and opportunities of the 21st century, integrating sustainability into supply chain practices is essential for long-term success.

By adhering to sustainable standards and regulations, companies can enhance their brand reputation, mitigate risks, drive innovation, and ensure their long-term viability. Despite the challenges, the benefits of sustainable supply chain management make it a worthwhile endeavor for businesses of all sizes and industries.

The future of supply chain management lies in sustainability, and businesses that embrace this shift will be well-positioned to thrive in a rapidly evolving global landscape.

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