

# The Sustainable Supply Chain

Establishing Continuity and Excellence in Business

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PAPER



 VENTANA RESEARCH

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# Table of Contents

<b>The Business of Sustainability .....</b>	<b>3</b>
<b>Optimizing Supply Chain Sustainability.....</b>	<b>4</b>
<b>The Path to Sustainability.....</b>	<b>5</b>
<b>Dedicated Applications Bring Value .....</b>	<b>6</b>
<b>The Benefits of Supply-Chain Sustainability.....</b>	<b>7</b>
<b>About Ventana Research.....</b>	<b>8</b>



## The Business of Sustainability

The sustainability and the continuity of the supply chain in business has never been as high in importance as it is today. Buyers are bringing to the marketplace substantial expectations concerning ethics in all aspects of how business operates, making these issues crucial for organizations to assess and optimize. Both customers and organizations expect more transparency to enable them to understand the processes and information being used – not just to manage relationships but to evaluate every aspect of suppliers’ operations and compliance. The nuances of supplier organizations’ operations and their interrelationships with product and service offerings should be one click away to ensure governance at the level desired and be able to review and mitigate any risk that might pose a

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serious risk. For these reasons, as well as the imperative to be good business stewards, we believe every organization should consider itself obligated to maintain high standards for its supply chain of contractors and suppliers. The sustainability of the supply chain should have a high level of accountability and the highest level of standards across environment, social and governance (ESG) areas.

The economics of sustainability across the supply chain are not a traditional part of an executive’s knowledge set, but in fact an awareness of and focus on sustainability can lead business to be smarter and more self-reliant and can guide strategic decision-making. That’s because a big part of sustainability involves applying many factors to managing to the principles of ESG, bringing an

ethical yardstick to the operations and decisions related to suppliers. In addition, many of these suppliers are in places that have lacked scrutiny and guidelines and have operated accordingly. The environmental decisions suppliers make can pose great risk to an organization, so executives must have full access to these decisions. Organizations should in turn provide the public with all available information relative to the sustainability of the supply chain; doing so can increase operational efficiency and enable the level of performance expected to deliver the highest value for all key constituents.

Increasingly, sustainability and corporate responsibility are also issues that impact employee satisfaction and operational effectiveness. Organizations are beginning to realize this and are using their commitment to sustainability as part of their efforts to attract and retain workers. On the job, well-defined, sustainability-aware and transparent supplier processes and compliance standards contribute to mitigating safety and workplace risk. Using dedicated



applications designed for ESG and sustainability in the supply chain makes it easier for everyone to recognize the organization's commitment.

## Optimizing Supply Chain Sustainability

Most organizations aspire to perform comprehensive reviews of their third-party procurement processes. This is important as they need to minimize security risks and ensure even execution and compliance with the principles of ESG. Where performance and governance matter, it is critical that organizations establish comprehensive and efficient processes to review and govern the supply chain. Existing suppliers can pose just as much risk to organizations as new suppliers do, particularly if past sustainability-related practices were subject to minimal scrutiny. Organizations need to determine if suppliers, especially in underdeveloped countries, are aware of sustainability principles and if so, how they are understood and interpreted.

Ensuring well-defined, effective and transparent procurement processes can help save time and establish rigor and thus efficiency. However, that may require effort, as procurement is not always well-connected to the supply chain; in our benchmark research, only one-quarter of organizations said they view procurement as well- or very well-integrated into their supply-chain plans. To reckon with this challenge, organizations must establish and enforce standards for suppliers.



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Not only must organizations publish those standards and make them readily available to all current and potential suppliers but they should also provide ongoing education and support. Doing this contributes to accomplishing a goal that four out of five organizations subscribe to: identifying and managing risks faster. Publishing all standards establishes organization-wide expectations and enables a more efficient and effective compliance process.

However, simply publishing standards isn't enough. They must at the very least be built into operational processes and applications supporting them; suppliers may well need to be trained and potentially certified as well. Automating and tracking these activities through applications is far more effective

than managing these tasks on paper or in spreadsheets. Scheduling and automating audits makes it far more certain that suppliers' workers, processes and insurance always meet corporate supply chain standards. Automation also makes adherence to standards easily quantified and measurable and gives organizations the information to make the best decisions efficiently. Unfortunately,



our research finds that fewer than half (48%) of organizations use specific metrics to measure and assess risk.

Determining which suppliers best fit an organization's needs requires grading through scoring to ensure a reliable and consistent evaluation of each supplier's strengths and weaknesses. Organizations should also establish feedback methods to prevent any lapse in compliance.

## The Path to Sustainability

Achieving optimal sustainability with respect to suppliers involves a series of steps. First, organizations should establish a supplier review process that is transparent and centrally managed. Then they need to establish the steps of a

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procurement qualification process that addresses compliance, safety and insurance. All communications and documentation associated with the development and operation of this process should be stored in a known central location for easy access and use. Executing these steps properly requires continuous education about sustainability across the organization and all its suppliers.

Mitigating safety risk must be a compliance requirement in every contract across the supply chain. Furthermore, organizations should establish training and qualification processes that every worker, in the organization as well as its suppliers, must adhere to. All necessary steps to develop employee understanding and compliance should be built into workflows to ensure a

common method and easily verifiable records. Third-party providers can help adjust and review suppliers' processes to ensure consistent adherence to standards.

Despite the best of intentions and sets of processes to ensure transparency and disclosure, third-party suppliers can find themselves blindsided by sustainability expectations they were not clear they were expected to meet. Organizations need to work and regularly check to ensure they have successfully communicated their vision of sustainability and related guidelines so that potential suppliers understand how those guidelines will impact their organization. Failure to do this can lead to disruptions in the supply chain that are costly and expose the organization to unplanned risk. Unfortunately, our research finds that only 9 percent of organizations said they have very effective business controls in place. To guide expectations, organizations should publish the supplier audit and review



process regularly, both before and after confirming supplier contractual commitments.

These steps are essential for more effective supply-chain plans, but are easier said than done. Our research finds only one-third (35%) of organizations are satisfied with their current process of creating supply-chain plans.

## Dedicated Applications Bring Value

A unified approach to sustainability cannot be achieved without centralized supply-chain processes. Using manual tasks and outdated systems and files to manage disparate processes wastes time and resources and makes strategic management all but impossible. On the other hand, establishing a single process and underlying

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application environment helps ensure consistency and mitigate risk. Current ERP systems, which often play a role in operational management, are not flexible or designed to adapt to business processes such as supplier and supply-chain needs related to ESG, a problem cited in our benchmark research by 40 percent of organizations.

A unified system makes it easier to adopt new policies and guidelines across an organization. Our research indicates that when selecting an application, organizations should prioritize usability so that everyone involved in the process can easily access and use the system as needed so that it meets any regulatory requirements. Unlike filing cabinets, spreadsheets and legacy file systems, a modern sustainable supply chain system provides immediate access to supplier

performance and metrics. Almost half of organizations (42%) report that trying to use an ERP system to retrieve such information is difficult.

Having available both leading and lagging indicators from a centralized management application ensure that everyone involved is aware of potential issues and so can help address challenges that arise in the supply chain. When one system manages the process and supporting details, both generating supply chain regulatory audits and internal reviews and responding to them is more efficient as well as trackable.

Reacting to business needs requires effective management of the supply chain, which itself is both literally and figuratively a moving target. Embedding a framework can provide the rigor of an established framework. Also, supplier risk is minimized when each supplier's activities are transparent and plans to address any issues that may arise are enacted through supplier lifecycle management.



Unfortunately, our research finds that fewer than half (41%) of executives are able to communicate needs to adapt the supply chain to changing conditions.

## The Benefits of Supply-Chain Sustainability

In order to stay competitive in a marketplace that increasingly values sustainability, organizations must build a philosophy and a practice of sustainability and establish performance and management methods to support it. This requires building standards into processes that are supported by applications and then providing ongoing education and support. Making sure that supplier data

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on supply-chain sustainability is available helps ensure that effective metrics from analytics can guide future decisions. Our analytics research finds that 38 percent of organizations are evaluating or planning to evaluate supplier information to perform more predictive and forward-looking analytics. Setting goals for improvement becomes easier when current suppliers' sustainability efforts are quantified, subjected to analytics and understood.

Organizations can grow and adapt more effectively with one system to support supplier and sustainability needs across the supply chain. Indeed, organizations should understand that elimination of manual methods and tools not designed to support supply-chain sustainability is a corporate responsibility. One system designed

for supply-chain sustainability simplifies processes, increases productivity and drives better, more responsible decisions. A supply chain that adapts to today and tomorrow's governance, risk and compliance concerns will help to address the finding of our governance, risk and compliance (GRC) research that only one-third (34%) of organizations are satisfied with their current technology to support these processes.

A commitment to sustainability of the supply chain can help organizations and all of the suppliers supporting it differentiate their corporate efforts. While most organizations rhetorically declare their commitment to sustainability in their annual report, public statements and marketing materials, they do little to support a unified approach where applications and data are integral to their processes. Organizations must take responsibility for appropriately educating suppliers, especially those from countries who have not had to operate under any governance or compliance reviews. Ultimately, the quality of any organization's efforts is measured by the rigor of its procurement and delivery of services across the entire supply chain.



## About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

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