

In an ever-globalized economy, regulatory safeguards are popping up to enhance the quality of supply chains

## Sustainable Supply Chains

Going beyond IS compliance.

On 29th November 2018, Deloitte's Responsible Supply Chain practice organized a roundtable discussion to drill deeper to the compliance and beyond-compliance challenges and opportunities of sustainable supply chain management. We asked our speakers to focus on minerals sourcing as in 2021 the EU Regulation on Conflict Minerals will come into force. This will require better transparency and due diligence in the minerals supply chain, and will affect many upstream and downstream companies with some sectors more affected than others, e.g. mining, automotive, electronics, medical device and aerospace industries.

In light of growing legislation globally, but also from a sheer business risk management perspective, long, often non-transparent supply chains create risks that companies are not aware of. If compliance is the only aim of a company headquartered in EU, it should already prepare for proper due

diligence regarding social and environmental impact in high-risk areas. We gathered a couple of questions around it:

- Sustainability due diligence means cleaning your own house first. Do you have the commitment, signed by the BoD, right policies, tone at the top
- Are you looking at suppliers and business relations too? (also clients!)
- Do you have the right competence in the board, in your operational teams (procurement, legal, etc) and at your suppliers to understand what is at stake in e.g. human rights judicial vs non-judicial remedy?
- Are you integrating solutions to your management systems by setting KPIs, allocating responsibility where it belongs, training staff, making it count via performance management and assessing / engaging suppliers?
- Are you transparent enough so your stakeholders understand what is the risk you are running while delivering your products, services to them?

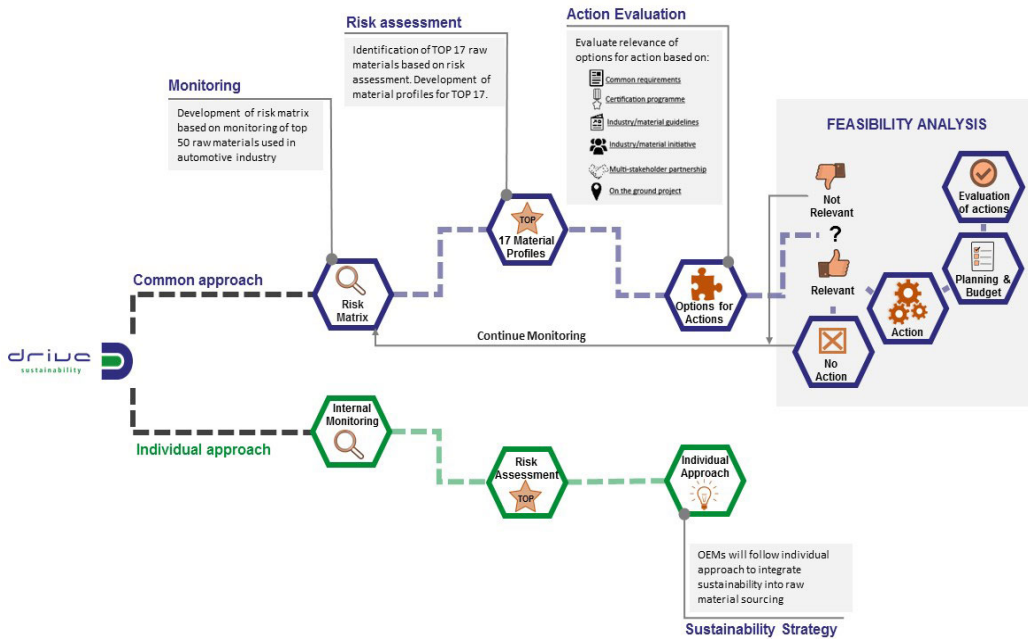
The roundtable consisted of a small, but diverse group providing insight from upstream, downstream, EU, authority, and consultancy perspectives on the status quo where compliance with (at least EU) law is just as challenging as thinking about going beyond it. In fact, there was a common understanding that compliance with responsible supply chain management measures is not doable by only box-ticking. The scope is large and the number of risks within any supply chain is growing. Compliance is closely linked to reputational risks, especially the risk of being labelled as a company doing nothing.

## Demonstrating leadership

However, in order to do the “right thing”, as Intel’s Julian Lageard put it, one needs to scratch the surface more to find the pain points and also look for partners making the job of compliance easier. In the minerals supply chain players like RMI and EPRM can help shape the internal process and move projects ahead, while collaboration with other companies can reduce transaction costs and increase impact. Nonetheless, everything cannot be done through third-parties. Accountability for the potential adverse impact has to come from the top.

Many stakeholders are still learning how to develop competence around the numerous risks and legal requirements in order to understand and enforce expectations, such as many EU member states. Going beyond compliance is not requiring probably too much more effort than proper compliance, only other doors need to be left open for continuous improvement and multi-stakeholder consultation / collaboration. Some of the hints coming out of the roundtable are not new, but worth taking in to consideration:

- Collaboration is key, but takes time, since many points need to be sorted out, one of which is navigating competition law meanders. Lilian Meyer of Drive Sustainability, an automotive working group joining forces to assess and train suppliers on sustainability management explained that it took 5 years to take the initiative to a level of seamless operation.
- Capacity-building is key to build supplier competence and receive better data.
- Thought leadership will improve reputation and help co-create knowledge that needs proofing. Drive Sustainability’s Material Change report is a good case in point.



- Avoiding duplication and going into sharing and integration mode is a skill that many companies have to learn by doing.
- And last but not least, upstream, supply chain transparency will require thinking out-of-the-box to have access to reliable, truthful, crowd-assured real-time data. Technology, especially blockchain, has a role to play there, but activating communities to provide and cross-check the data via mobile solutions is also a challenge to be surmounted, as H el ene from BetterChain explained. Tools like appropriately built and managed grievance mechanisms (also a legal requirement) will have a major contribution to providing 360o local information.

## Blockchain Fundamentals

- 1 Chronologically updated
- 2 Cryptographically sealed
- 3 Consensus-based
- 4 Distributed & shared

