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In pursuit of a sustainable supply chain: Insights from Westpac Banking Corporation

Abstract

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. 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. 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. 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. A best practice model is developed from the discussion to provide practical guidance to firms. 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.

Keywords

sustainable development, supply chain management, corporate social responsibility, banking, australia, social responsibility, corporate governance, case studies

Disciplines

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Running head: Sustainable Supply Chain Management

In Pursuit of a Sustainable Supply Chain

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In Pursuit of a Sustainable Supply Chain

Structured Abstract

Purpose	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.
Design/methodology/approach	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.
Findings	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.
Research limitations/implications	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.
Practical implications	A best practice model is developed from the discussion to provide practical guidance to firms.
Originality/value	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.
Keywords	Sustainability, supply chain management, corporate social responsibility, CSR, banking.
Paper type	Research Note/Viewpoint

In Pursuit of a Sustainable Supply Chain

Introduction

Corporate social responsibility (CSR) has emerged as a key area of concern for industry since it came to prominence in the 1970's (Friedman, 1970; Davis, 1973; Carroll, 1979). Essentially, 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 could 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 and Kramer, 2006; Chad and Fraser, 2006; Schiebel and Pochtrager, 2003; Murphy and Verschoor, 2002; Simpson and Kohers, 2002).

In recent years, firms have embraced the importance of working collaboratively with their supply chain partners to enhance their CSR performance (Nalebuff and Brandenburger, 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. This has led firms to increasingly recognise that social, ethical and environmental forces in their supply chains directly impact on their own activities. 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 (Kytle and Ruggie, 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.

Historically, academics and practitioners have devoted modest attention to this area and little normative advice exists to guide firms that desire a more sustainable supply chain (Murphy and Poist, 2002). As such, the aim of this paper is twofold. First, it seeks to briefly review the literature regarding CSR within the supply chain management discipline. Second, it seeks to provide clues to industry on how best to approach the challenge of developing a sustainable supply chain. This secondary objective will be resolved by considering how one of the world's most socially responsible banks[1] has approached the challenge of managing CSR in their supply chain.

Towards a Sustainable Supply Chain

Sustainability issues in the supply chain have previously been considered in a rather eclectic fashion. While numerous scholars have noted the importance of incorporating CSR into the purchasing decisions of firms (Roberts, 2003; Young and Kielkiewicz-Young, 1999; Bowersox, 1998; Stock, 1990); the literature provides little guidance on how best to pursue this objective. Svensson (2007) asserts that this is largely due to the narrow and myopic approach to supply chain management (SCM) research. To this end, Svensson highlights that sustainability issues in SCM have previously been investigated in isolation; with past research focusing on specific aspects of CSR such as environmental management (Lippman, 1999), green purchasing strategies (Min and Galle, 1997), sustainable labelling solutions (De Boer, 2003).

An inherent challenge therefore exists to understand the impact that CSR has on the myriad of internal and external stakeholders. Firms desiring to improve the sustainability of their supply chains by influencing the CSR performance of their suppliers need to become more proactive in monitoring their suppliers across a range of business functions. Hence Svensson (2007) suggests that, as a minimum, sustainable supply chain management (SSCM) requires a consideration of the economic, ecological and social aspects of business practice.

Carter and Jennings (2004) examined the drivers of CSR in relation to purchasing. Their research conceptualised 'purchasing social responsibility' as a multidimensional construct comprised of philanthropy, environment, human rights and safety issues. In particular, they observed that 'top management leadership' and a 'people oriented organisational culture' were key factors influencing an organisations purchasing social responsibility. The findings suggested that while top management can influence the uptake of supply chain focused purchasing initiatives; it is critical that employees within an organisation are appropriately engaged with and support the organisation's CSR objectives.

Environmental regulation has also been identified as one of the most important determinants of a firm's socially responsible purchasing practices (Ellram and Birou, 1995). However, prior research provides mixed support regarding the impact of increased regulation on CSR actions. Though some studies have found a positive relationship between regulation and the adoption of environmental purchasing policies (Min and Galle, 1997), others have found no relationship at all (Carter and Carter, 1998). The main concern seems to relate to the inconsistent and dynamic nature of

environmental regulation—which is observed to act as an obstacle to the development of effective CSR purchasing strategies.

Another key 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 and Helms (2005) take up this issue by proposing a framework for measuring and reporting green supply chain management practices. They assert that many firms fail to appreciate the inter-functional nature of CSR in the supply chain. 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, the study also found that CSR practices were more likely in industries characterised by strong consumer activism and high profile brands.

The susceptibility of high profile brands to consumer backlash in the area of CSR is seen a major driver for the extension of CSR to their supply chains. For example, Murphy and Mathew (2001) observed that Nike's decision to embrace CSR in the supply network was largely the result of negative consumer sentiment. To this end, Roberts (2003) asserted that the effectiveness of any

CSR response is influenced by three factors: 1) the maturity of the organisation/brand; 2) the centrality of supply chain control; and 3) the diffuseness of the supplier base.

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. 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.

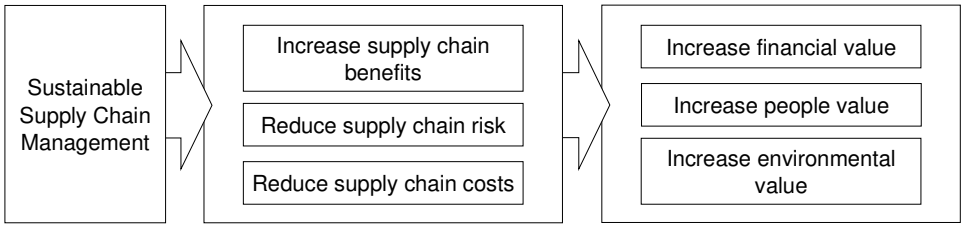
Westpac reiterated their commitment to CSR in the supply chain in later reports. A key extension was the development of a strategic approach to managing key supplier relationships. Of particular interest was gaining a better understanding of supply chain risks and positively influencing supply chain 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.

Figure 1: Business Case for Sustainable SCM



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.

Table 1: Elements of the SSCM Questionnaire

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

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.

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,

While caution needs to be exercised when generalizing from case based research, it is hoped that this paper has provided some interesting insights regarding sustainable supply chain management. In particular, the authors' believe that this paper represents a 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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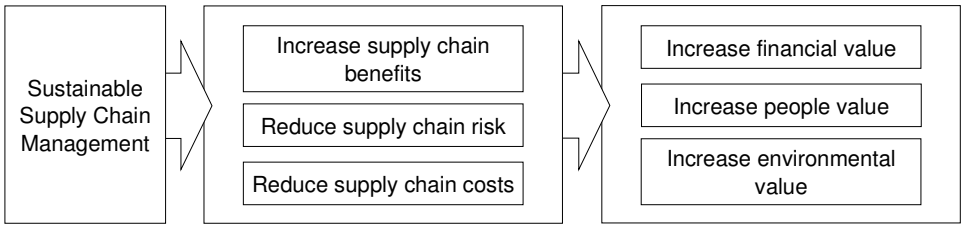

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Step 13. Develop sustainability action plans to facilitate improvements where necessary.

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