



Sustainable supply chains

Brief introduction to sustainable supply chain management

1 Key aspects at a glance

- Many supply chains are now interconnected on a global scale. Human rights and the environmental risks specific to certain industries and countries make it necessary to carefully assess the supply chains of companies in the German economy.
- Sustainable supply chain management requires systematic and process-based due diligence at each stage of the supply chain.
- Demands on companies are increasing: the new Supply Chain Due Diligence Act will require large companies based in Germany to comply with human rights and environmental requirements within their own company and across their supply chains from 2023.
- Smaller companies are not directly affected by the act, but are nevertheless advised to address the legal requirements.

This stems from the requirement placed on large companies to carefully check and verify whether human rights are being observed and environmental protection standards are being implemented, which also extends to (direct) suppliers.

- A systematic approach involves several process steps: On the basis of risk analyses, companies need to implement measures, review and support suppliers, communicate progress internally and externally, and address grievances.

2 What does sustainable supply chain management involve?

Supply chains for numerous sectors of the German economy are now linked on a global scale. Companies face increasing pressure to provide information on where the raw materials and upstream products they use originate and whether human rights are respected and environmental protection standards are complied with across the supply chain. In order to satisfy these requirements, due diligence processes need to be incorporated at companies and sustainable supply chain management needs to be promoted.

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Sustainable supply chain management takes an integrated and systematic view of all the steps in the supply chain – from direct suppliers in the region to resource extraction in Asia or Africa. Sustainable supply chain management lays the groundwork for avoiding negative environmental impacts and human rights violations and contributing to sustainable development.

Sustainable supply chain management deals with established areas of action for sustainability.

Overview of sustainability issues				
Fields of action	Human rights and ethics	Labour laws	Fair business practices	Environment
	Government influence	Freedom of association	Taxation	Climate & energy
	Conflicts & safety	Work conditions (contracts, working hours)	Corruption	Biodiversity & deforestation
	Land use & property rights	Forced labour & human trafficking	Market distortion & unfair competition	Water consumption & availability
	Impact on the local community	Child labour		Air pollution
	Animal protection	Discrimination		Soil & (ground) water pollution
	Consumer interests & product safety	Pay & compensation		Environment & waste (general)
		Occupational health & safety		

Source: Sustainability issues correspond to the issues from the CSR Risk Check published by MVO. The tool is available on the Helpdesk on Business and Human Rights website: <https://wirtschaft-entwicklung.de/wirtschaft-menschenrechte/csr-risiko-check>.

In addition, companies should closely address the topics mentioned in the German Supply Chain Due Diligence Act (further information in Chapter 3, see below). In terms of legislation, human rights issues are typically governed by international agreements such as the core labour standards of the International Labour Organisation (ILO). German legislation primarily focuses on child and forced labour along with slavery, failure to comply with occupational safety obligations and freedom of association, inequality and failure to provide an adequate wage, certain environmental pollution related to human rights as well as land grabs, torture and cruel, inhumane or degrading treatment.

Environmental aspects are also included in legislation if environmental damage is found to result in human rights violations. Three international environmental conventions stipulate environmental due diligence obligations: the Minamata Convention (risks arising from involvement in the production and disposal of products containing mercury), the Stockholm Convention (risks arising from the production or use of certain persistent organic pollutants) and the Basel Convention (risks arising from the import and export of waste).

3 Why does sustainable supply chain management matter?

According to the UN Guiding Principles on Business and Human Rights (UNGPs), all companies, including SMEs, have a responsibility to protect human rights and the environment across their (international) supply and value chains and to implement appropriate measures.

The discussion regarding legal requirements for sustainable supply chain management has dynamically evolved in recent years on the basis of the UNGP. The [Supply Chain Due Diligence Act \(Lieferkettensorgfaltspflichtengesetz - LkSG\)](#), which was passed in the German Bundestag in June 2021, will require companies with at least 3,000 employees (from 2024 with at least 1,000 employees) to establish a due diligence system for their entire supply chain from 2023 onwards.

As a result, the previously fundamentally non-binding concept of human rights and environmental due diligence across the supply chain has now become a legally binding framework of requirements that companies need to address – whether as a company directly affected by the act, or a supplier to one of these companies. This results in a number of implications for the practical implementation of sustainable supply chain management in smaller companies.

In response, SMEs should start preparing as soon as possible in order to gain an understanding of the (increased) requirements and establish due diligence processes. Conversely, buying groups and large companies should not limit their supply chain management to contractual terms and codes of conduct, but should also actively support their suppliers. Practical support is required to ensure that their contractual partners can comply with these new conditions. SMEs able to proficiently implement customer requirements and promote supply chain transparency stand to potentially gain a tangible competitive advantage.

Other European countries such as France (Loi de Vigilance, 2017), the UK (UK Modern Slavery Act, 2015) and the Netherlands (Child Labour Due Diligence Law, 2019) have already adopted requirements for corporate due diligence along the supply chain into legislation in recent years. At the same time as the enactment of national legislation, legislative initiatives for a European supply chain act are also gaining momentum at the EU level.

Beyond these legal requirements, there are other important reasons to create sustainable and resilient supply chains. If direct suppliers or subcontractors are affected by water shortages or stricter environmental regulations, the outcome may involve price increases or supply disruptions, both of which can very quickly affect their own business. Inhumane working conditions among suppliers or the use of conflict minerals can seriously damage the reputation of a company.

But sustainable supply chain management involves more than just risks and reputation. At its core, sustainable supply chain management revolves around the positive contribution a company can make to sustainable development through its actions, namely by making its supply chain sustainable and optimising it. As much of the impact on the environment and people in the region can occur in the supply chain, there is great potential for improvement here and an opportunity to improve the company's sustainability performance beyond its factory halls and offices.

Sustainable supply chain management is a key component of forward-thinking entrepreneurship. If a company works with suppliers to establish more efficient processes, the need for materials and, in turn, manufacturing costs goes down. Sustainable supply chain management encourages long-term thinking. Long-term and trusting supplier relationships, drive innovation, i.e. in new production processes or transportation. Together with suppliers, companies can develop sustainable products and move into new business areas.

4 Which processes are covered by sustainable supply chain management?

Sustainable supply chain management can be split into five process stages:

In the **first stage, 'Mapping and developing the supply chain'**, the company looks at the supply chain from a sustainability perspective and gains an overview of the supply chain structure and the production processes employed by suppliers – from direct suppliers all the way to raw material extraction. The company then commits to respecting human rights and protecting the environment in the supply chain in its corporate principles.

In the **second stage, 'Identifying and analysing sustainability risks'**, companies start by gathering overarching, sector- and country-specific information on their potential risks. Relevant sustainability risks can then be evaluated and prioritised on this basis.

This lays the foundation for targeted measures affecting the company's operations or those of suppliers in the **third stage 'Defining and implementing measures'**. In this stage, the company gains an overview of which existing information or existing processes in the company can be used to make the supply chain more sustainable. This knowledge can then be used to derive fields of action, develop an action plan and implement measures which the company can use to design and optimise its supply chain from a sustainability perspective (e.g. accounting for sustainability criteria in procurement, supplier training on corporate environmental protection).

In the **fourth stage, 'Measuring the impact of measures and communicating corporate action'**, the company measures the effectiveness of measures introduced within the company, among suppliers and, if applicable, among customers. The company provides information on sustainable supply chain management and communicates internally and externally with stakeholders.

In the **fifth and final stage, 'Recording grievances and improving processes'**, the company creates mechanisms for recording grievances from groups of people who are (potentially) negatively affected by its activities or business relationships. The company establishes processes to collect grievances, tips and improvement opportunities.

5 What should be kept in mind when designing a sustainable supply chain?

In order to make the supply chain more sustainable, the aim should be to reduce complexity, particularly in the early stage. This is all the more important if the supply chain is particularly extensive and interconnected. In many sectors such as mechanical engineering and retail trade, supply chains can be understood more as complex networks of suppliers with innumerable branches than as chains. It is important to focus on relevant sustainability impacts.

Different departments have to work together to draw attention to sustainability within companies. Commitment on the part of the **company management** provides the foundation for successful integration of the issue into the company. If possible, the company should start with its product design stage. The employees working on **product development** can check whether substitutes can be found for raw materials and whether their use can be reduced. The company's **procurement department** is an indispensable factor in successfully improving sustainable supply chain management. Beyond this, **quality management** should also be involved in sustainable supply chain management. Quality management specialists know how suppliers can be incorporated into the company's internal quality management processes. The company should take empirical values into account in sustainable supply chain management.

When working with suppliers, short-term corrective action should go hand-in-hand with medium- and long-term capacity building for suppliers. Trade-offs between sustainable and ‘traditional’ procurement criteria should be carefully weighed up, and a binding solution needs to be established. The responsibility for a sustainable supply chain is a shared one: direct suppliers should certainly be given a share of responsibility.

6 Where can companies find more information?

Publisher of information	Informational website
The Information Centre for the Environment and Economy, part of the Bavarian Environment Agency	The online sustainability management tool for SMEs provided by the Information Centre for the Environment and Economy offers helpful materials that can be downloaded or ordered. www.umweltpakt.bayern.de/werkzeuge/nachhaltigkeitsmanagement/module.htm?m=1#kette
Bavarian State Ministry of Labour and Social Affairs, Family and Integration (StMAS)	Together with the Association of Bavarian Chambers of Commerce and Industry (BIHK), the StMAS has developed a guide and an interactive website with an online tool about CSR for small and medium-sized enterprises. www.csr.bayern.de
Bayerischer Industrie- und Handelskammertag (BIHK) e.V.	The website of the Association of Bavarian Chambers of Commerce and Industry (BIHK) features support services offered by the IHK network on the topic of CSR in general and on the Supply Chain Due Diligence Act. www.bihk.de
Federal Ministry for Economic Cooperation and Development	The SME compass launched by the Agency for Business & Economic Development (AWE) helps SMEs identify and manage sustainability risks. https://kompass.wirtschaft-entwicklung.de/
Federal Ministry for Economic Cooperation and Development	The CSR Risk Check gives companies the opportunity to obtain individual information on human rights, social, environmental and governance risks arising from their business activities. https://wirtschaft-entwicklung.de/wirtschaft-menschenrechte/csr-risiko-check
Federal Ministry for Economic Cooperation and Development	The helpdesk acts as a point of contact for companies looking to make their value chains environmentally friendly and socially responsible. https://wirtschaft-entwicklung.de/wirtschaft-menschenrechte
Company values – CSR Made in Germany Federal Ministry of Labour and Social Affairs (BMAS)	Federal Ministry of Labour and Social Affairs website; incl. promoting CSR Practitioner Days. www.csr-in-deutschland.de
German Global Compact Network (DGCK)	The DGCK also offers a wide range of support resources for small companies. www.globalcompact.de



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