

**Sustainable sourcing
among SME's**

Small companies delivering on big challenges

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**dutch sustainable
trade initiative**

Foreword

President Obama recently said that there are only two kinds of car companies: those that sell hybrid cars and those that will sell hybrid cars in the near future. The same is true for sustainability in supply chains. There are companies that source and sell more sustainable products and there are those that will do so in the near future. With a world soon populated by nine billion people and over two billion new middle-class citizens, traditional sourcing and selling will simply be a no. You are either on the pathway to sustainable development or you are out of business.

The challenge of sustainability is reshaping the relationship between business and society. Industry needs to better manage natural resources and significantly lower its global ecological footprint. And companies need to engage much better with suppliers and workers in the emerging and developing economies.

The mission of the Dutch Sustainable Trade Initiative (IDH) is to upscale and accelerate the mainstreaming of sustainability in international commodity chains. IDH joins the forces of business, non-governmental organisations, labour unions and governments. We bring diverse stakeholders together in focused and result-oriented sectoral coalitions that implement ambitious improvement programmes. These programmes tackle social, ecological and economical bottlenecks in the countries of origin of raw materials, while at the same time creating value for more sustainable products in developed countries.

IDH acts as a knowledge broker, capturing and sharing best practices in sustainable business. This will help frontrunners to move even faster, while supporting others to overcome thresholds. To mark its first-year anniversary, IDH is publishing a series of six booklets on current practices in sustainability in mainstream business:

- Sustainable Marketing: The positioning of sustainable products in mainstream markets, with cases of Lipton (tea), FSC (timber) and Nespresso (coffee).
- Sustainable Sourcing: Advanced strategies and cutting-edge practices in sustainable procurement, with case studies of AkzoNobel (chemicals), Mars (cocoa) and IKEA (cotton).
- Sustainable Trading: Why and how traders have become key agents for sustainability in the coffee supply chain and how this is being replicated in cocoa, with case studies of Ecom (coffee) and Olam (cocoa).
- **Sustainable SMEs: Best practices in sustainable sourcing among small and medium-sized enterprises, with case studies of Wijma (timber), Fair Wear Foundation (garments), and RMP Grafmonumenten (natural stone).**
- Sustainable Retail: Why and how retailers incorporate sustainability into their business strategy, with case studies of Ahold, Asda/Wal-Mart, and Carrefour.
- Labour Standards beyond Auditing: Best practices in going beyond auditing to achieve genuine social impact, and the business case for doing so, with a dozen cases in the garments, electronics, and sportswear industries.

We hope you enjoy reading these booklets and that they may inspire you with actionable ideas to further embed sustainability within your own organisation.

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Chapter 1 Introduction

‘For SMEs smart collaboration can be instrumental in overcoming the barriers of lack of resources and limited bargaining power.’

In this chapter we set the scene for sustainable sourcing by discussing the essence of this concept, key themes, some driving and enabling forces, and specific issues for small and medium-sized enterprises (SME).

1.1 Sustainable sourcing: setting the scene

There is an increasing awareness of, and attention to, sustainability issues in contemporary business. More and more organisations are paying attention to social and environmental issues in their activities as they recognise the need to contribute to the quality of life of future generations. Sustainable sourcing has enormous potential to contribute to the search for better quality of life. In view of the outsourcing tendency of past decades, organisations have become increasingly dependent on external parties for the supply of goods and services needed for their operations. These external parties can make a substantial contribution to the sustainability targets of the sourcing organisation.

Moreover, it is important to emphasise that the term sustainability not only refers to environmental issues related to sourcing. The notes below demonstrate that sustainable sourcing also covers a variety of social and ethical themes (Vos et al, 2008). Setting priorities is highly company specific and must align with the strategic goals of the organisation.

Social Themes

- Child labour
- Forced labour
- Discrimination
- Working times
- Salary
- Safe workspace workconditions

1.2 The essence of sustainable sourcing

Sustainable sourcing is not only a case of being, and remaining, profitable, but is a balancing act, termed the Triple-P approach. This approach aims to find the perfect balance between profit, people and planet elements of an organisation's activities. Although this seems a logical way of designing and managing businesses, its use is not always as easy as it sounds, as it involves multiple stakeholders with different interests.

Environmental themes

- Dangerous material
- Waste processing
- Use of energy
- Use of building materials

Ethical themes

- Bribery and corruption
- Animal welfare
- Product safety
- Product quality

1.3 Drivers

So what drives organisations to highlight sustainable sourcing themes? Carter and Jennings (2004) defined three important drivers: customer demand, (top down) management leadership and support, and employee initiatives (bottom up). In addition, organisations are increasingly aware of the benefits of sustainable sourcing. These potential payoffs range from offering competitive advantage via enhanced cost-efficiency and/or creating a unique selling point by offering sustainable products or services. The cases discussed in the following chapters clearly contain elements of this competitive advantage driver.

1.4 Enablers

How can organisations make sustainable sourcing happen? In essence there are three enablers for successful implementation of sustainable sourcing. First, top management support is needed to anchor the sustainable sourcing policy within the company. Second, it is of utmost importance that sourcing organisations start and maintain dialogue with their stakeholders. Supplier relationship management is obviously of vital importance from a sourcing perspective, but dialogues with stakeholders such as and trade unions are also valuable. Finally there is a spectrum of instruments to facilitate sustainable sourcing efforts such as training and development, corporate responsibility monitoring and reporting, auditing and sanctioning policies.

1.5 Momentum for sustainable sourcing

In contemporary, globalised business environments organisations need transparent supply chains to control their processes. In other words, the time is right to focus on sustainability in order to reap the benefits of bringing innovative and creative solutions to the marketplace.

By now there are many examples of organisations that have captured these opportunities by integrating sustainability elements into their supply chains. For example, a recent booklet of the Royal Tropical Institute describes the experiences of Unifine and Ahold in the sustainable sourcing of agricultural products from African countries.

In the Netherlands, the Dutch government has set ambitious targets in the area of sustainable sourcing for 2010. With an annual sourcing value of over 50 billion euros, these governmental policies will generate enormous momentum, triggering suppliers to incorporate specific sustainability criteria set for their products or services. Moreover, there is growing media attention concerning environmental and social themes.

1.6 Sustainable sourcing in small and medium-sized enterprises

The relevance of sustainable sourcing is by no means restricted to large companies, although the vast majority of research in this area has been geared towards those organisations (Walker et al., 2008). Still, there are also opportunities for so-called small and medium-sized enterprises (SMEs), although such companies may face specific issues and challenges.

On the positive side, the diverse and flexible nature of SMEs means that they have the potential to be a springboard for providing sustainable solutions for the marketplace. Moreover, SMEs can benefit from their proximity to customers by displaying the value of sustainable products and services (Kerr, 2006).

These features provide opportunities for SMEs to act as agents of change in sustainable supply chain management. However, in comparison with large companies, SMEs typically lack the resources required to implement sustainability standards in their supply base. Moreover, it is unlikely that SMEs individually have the bargaining power required to sanction suppliers who fail to comply with the standards (Jorgensen and Knudsen, 2006).

Leading SMEs will be able to overcome these barriers in order to operate in a sustainable way. Kerr (2006) identified the following SME core competences required to enable sustainable operations:

- practicing environmental leadership to give direction to the operations
- goal-setting environmental management systems (EMS)
- encourage suppliers to comply with EMS
- collaborating with stakeholders in utilising environmentally-friendly technologies
- developing a company culture practicing continuous improvement on sustainability issues
- utilising the benefits of forming regional and industry alliances

Smart collaboration can be instrumental in overcoming the barriers of lack of resources and limited bargaining power.

1.7 Structure

In the remainder of this booklet we aim to inspire readers with a description of the experiences of three Dutch SME organisations.

Chapter 2 covers the responsible forest management activities of Wijma, a company operating in wood supply chains. The focus in Chapter 3 is on the efforts of the Fair Wear Foundation to improve labour conditions in global clothing supply chains. The unique way sustainable memorial stones are made by RMP tombstones is described in Chapter 4. Finally, in Chapter 5 we summarise the key lessons learned based on the experiences of the SME companies described in this booklet.

Chapter 2

Wijma's sustainable FSC rollercoaster

‘Based on its FSC principles, Wijma is well placed to take advantage of the Dutch government goals on sustainable sourcing.’

In the Netherlands Wijma is one of the pioneers in responsible forest management operations. From a sustainable sourcing perspective, the ultimate aim is to find the right balance between economic, ecological and social issues. In this chapter we discuss Wijma's experiences in riding the sustainable rollercoaster of responsible forest management.

2.1 Wijma - a name written in wood

In 1897, Gerard Wijma, started a timber company in Apeldoorn, has grown to become one of the largest players in the international tropical timber market. Despite its growth, Wijma has remained an autonomous family-owned business active in the timber supply chain, and employs more than 1,200 people worldwide. In the past decades Wijma has been involved in 'showcase' projects such as the construction of a wooden rollercoaster in Belgium, the delivery of boardwalks for Disneyworld Florida or designing and constructing the first FSC-certified Ekki bridge for their host city Kampen in the Netherlands.

As early as 1947 Wijma processed its first tropical hardwood log in the company's sawmill in Apeldoorn. Given the lack of availability of high quality European timber just after World War II, Wijma had to look for alternatives elsewhere. They found and gradually expanded these alternative sources of timber supply relatively close to their Dutch operations, in Western Africa. In 2009, Wijma's African forest operations cover processing facilities in Cameroon, Ghana, and Ivory Coast. Timber and timber products from these countries are either sold directly through Wijma's sales offices in France, Germany and the U.K., or further processed for building and civil engineering purposes in the Netherlands.

2.2 Sustainable sourcing in a historical perspective

Since Wijma began sourcing timber in Africa more than sixty years ago, the wood industry has faced growing concerns about the state of the world's tropical rainforests. As far back as 1989, when many stakeholders were calling for a boycott on the use of tropical timber, Wijma publishing the brochure 'Tropical Rainforest Tropical Timber'. In this brochure Wijma expressed its concerns about the causes, consequences and possible solutions for the continuous decline of tropical forest area. It also stressed the economic, ecological and social importance of proper forest management. The company initiated a training and research programme focussing on subjects such as reforestation, training and the continuous use of firewood.

Wijma realised that safeguarding the company's future lay in continuous improvement in the area of responsible forest management. The company opted for a proactive approach, and were the first forest companies in Central Africa to receive a certificate of the Forest Stewardship Council (FSC) for one of its concessions in Cameroon. This was soon followed by the certification of other African concessions with increasing forest management improvements.

2.3 Drivers behind responsible forest management

What are the drivers behind responsible forest management, according to Wijma? Responsible forest management is a new concept, which is basically a response to growing customer demand for sustainable wood production, with the support of its top managers and the involvement of its employees.

Wijma's main objective is to provide its customers with high quality timber. Sustainability plays an important role in the design of the business as most of Wijma's work is with governmental bodies. Wijma already integrates sustainability in its supply chain, in the form of responsible forest management, in agreement with the FSC principles (Box 1). The FSC principles are viewed as representing the most credible forest certification scheme for responsible forest management available globally. As a result, Wijma is well placed to take advantage of the Dutch government goals on sustainable sourcing. Wijma is a member of FSC Netherlands since 2007. This organisation was founded in 1999, and aims to promote responsible forest management across the globe by increasing the market share of FSC wood products in the Netherlands. Ten years after its foundation, FSC Netherlands has now over 200 members, covering wood-related and construction firms, as well as municipalities and services providers.

2.4 The harsh reality of a FSC pioneer

Although the implementation of FSC certification seems to be a logical next step in Wijma's responsible forest management efforts, FSC compliance has not happened overnight. First of all, FSC principles need to be adapted to the local situation. For example, in Cameroon, no national standard was available. Wijma contacted the certification body Bureau Veritas Certifications who developed such a standard for Cameroon based on the general FSC principles and criteria (see box 1).

Box 1. 10 FSC principles

1. Compliance with laws and FSC principles
2. Tenure and use rights and responsibilities
3. Indigenous peoples rights
4. Community relations and worker's rights
5. Benefits from the forest
6. Environmental impact
7. Management plan
8. Monitoring and assessment
9. Maintenance of high conservation value forests
10. Plantations

www.fsc.org

Another bottleneck for Wijma was the overall lack of knowledge of, and expertise in, the implementation of quality management systems. In addition, the company was confronted by multiple interpretations of the FSC standard at the national level. Wijma succeeded in becoming the first FSC certified forest management company in Central Africa by forming a dedicated local project team in Cameroon. But it was criticised by several NGOs (non-governmental organisations), since up to then, FSC certification in Central Africa seemed to be an impossible achievement. This resulted in a turbulent time when there were much uncertainty about the validity of Wijma's FSC certificate. In close consultation with all stakeholders, certain improvements were introduced to ensure full compliance with FSC principles. Finally, Wijma went on to receive a second FSC certificate for another forest concession in Cameroon in 2008. Being a FSC pioneer can sometimes feel like riding a rollercoaster! It requires a lot of perseverance and continuous investment.

2.5 Benefits and impacts of responsible forest management

Wijma's ongoing focus on responsible forest management has a positive impact on internal organisation of the company. The implementation of, and compliance to, FSC principles (see Box 1) is clearly beneficial in terms of quality management. Six full time employees (FTEs) are dedicated to supporting and monitoring the quality of Wijma's responsible forest management activities. These efforts in turn contribute to improved supply chain transparency and process control.

An ongoing dialogue process with relevant stakeholders proved to be essential in overcoming the difficulties and uncertainties described above. One good example of this is the so-called *Comité de Suivi*, which is active at each of Wijma's wood concessions in Cameroon. These independent organisations aim to organise and stimulate dialogue with local stakeholders.

Finally, FSC certification enhances the company's market access to customers sensitive to sustainable solutions. Such customers are willing to pay a premium, up to 10-15%, for FSC-certified timber products. By offering such products, Wijma positions itself as a company with a sustainable image and reputation.

Wijma's role in the construction of the first FSC Azobé bridge in the Netherlands in 2006, located in the municipality of Kampen, is a good example. The wood used in this bridge originates from Wijma's Cameroonian forest concessions. This project is also a good example of the growing interest of the Dutch government in sustainable sourcing. Since Wijma does a lot of business with governmental organisations, its FSC experiences may be a valuable asset in the coming years. The exact impact of the government's sustainability criteria are yet unknown, yet it is likely that FSC (or comparable) certification schemes will play an important role in the sourcing of wood for construction.

2.6 Lessons learned by Wijma

The Wijma case has taught us some interesting lessons. First, efforts to improve sustainability require active involvement of upstream parties in supply chains. In the Wijma case, this refers to the company's responsible forest management operations. The Cameroonian experience clearly demonstrates that implementing sustainability standards for these operations requires a significant investment in time, money and training. Hands-on operational management by a dedicated local project team was a critical factor in successfully implementing responsible forest management. Cameroonian employees now wear safety helmets when undertaking logging activities thanks to the efforts of the local team. Ultimately these investments do pay off in terms of improved quality control throughout the supply chain.

In order to avoid differences in expectations, it is crucial to specify and agree on the correct sustainability requirements for customers, from the start. One good example is a pedestrian bridge which was delivered by Wijma. Their direct customer was satisfied with the certified sustainable timber used in the construction of this bridge. However, the final customer, a governmental organisation, was not happy as they maintained they had requested the use of FSC certified wood. Their persistence on the matter finally led to the replacement of the bridge, leading to a waste of materials that can hardly be labelled as sustainable. This is a good example of unsustainable solutions arising from rigid use of sustainable sourcing criteria.

In conclusion, riding the sustainable rollercoaster called responsible forest management as experienced by Wijma is a good example of 'a bird in the hand that is worth two in the bush'. Their pioneering activities clearly contributed to better process control, improved capabilities for targeting customer groups sensitive to sustainable solutions and overall enhanced sustainability image and reputation.

Chapter 3

A stitch in time saves nine: Fair Wear Foundation's role in improving labour conditions in global clothing supply chains

‘Membership of Fair Wear Foundation enables ODLO to achieve its strategic objective of doing business in a socially responsible manner.’

Ever since its foundation in 1999, Fair Wear Foundation's activities have been focused on improving the conditions in global clothing supply chains. The Foundation is a clear example of a multiple stakeholder initiative (MSI), built on a code of labour practices covering eight core standards. In this chapter we highlight the Foundation's critical role in supporting its members, mostly SMEs who lack the resources to improve labour conditions on their own.

3.1 Background

Fair Wear Foundation (FWF) is an independent, not-for-profit foundation which has its origin in the mid-nineties when trade unions, NGOs and business organisations joined forces to improve labour conditions within the clothing industry. In that period, many multinationals such as, for example C&A, Nike and Reebok, faced negative publicity with regard to clothing factories. Meanwhile, in Amsterdam at that time, there were many Moroccan and Turkish nationals working under deplorable labour conditions. This is disgraceful, especially since this was happening only a decade ago.

In response to these developments, FWF was founded in 1999 and is governed by business associations, NGOs and trade unions, making it a truly multiple stakeholder initiative. Founding members include FNV, Kampagne, Kleren, Modint, Novib, Oxfam and Schone. Different parties with different interests are working together towards a common goal, improving the labour conditions within the global production facilities of the FWF member companies. As the call for sustainability became more urgent among governments and companies, the growing commitment within society is also visible in FWFs expansion. A decade after its foundation, almost fifty companies have joined the initiative, acknowledging their role in realising responsible supply chains of the clothing industry.

3.1 A multiple stakeholder initiative

The multiple stakeholder nature of FWF is also reflected in its funding structure. There are five key groups of stakeholders, (business associations, government, members, NGOs, and trade unions), and each group accounts for about 20% of FWF's budget. The membership fee depends on a company's annual turnover. Most members, predominantly small and medium-sized enterprises, have limited experience in dealing with codes of conduct. They often also lack the resource and management systems to get started. FWF supports these companies by giving them thirty hours of dedicated support, for example to create improvement plans or to map relevant factors influencing labour conditions in production facilities.

Most FWF members are Dutch, but it is gradually become a European initiative with members in Belgium, Denmark, England, Germany, Sweden, and Switzerland. The production countries are spread across the world. While labour legislation is reasonably acceptable in many of these countries, cases of sub-standard labour conditions do still occur. For example, workers may be unable to exercise their freedom of association and

employers often resist or hinder the implementation of labour laws. FWF aims to eliminate such practices via its member companies. In order to check if their management systems are adequate, FWF annually executes verification audits at 3% of the suppliers of a member. In 2008, teams trained by FWF carried out about 100 audits in countries such as Bangladesh, China, India, Tunisia, Turkey and Vietnam.

3.3 FWF code of labour practices

All approved member companies are listed on the FWF website. Once they have monitored at least 60% of their suppliers, members are allowed to use the FWF logo on hangtags and labels attached to their products.

A first obligation for member companies is to give full access to their list of suppliers. FWF member companies agree to implement the eight core standards of the FWF Code of Labour Practices (Box 2) in their supply chains. These standards are based on the conventions of the International Labour Organisation (ILO) of the United Nations and the Universal Declaration of Human Rights.

After signing the Code of Labour Practices, a member company informs its suppliers and manufacturers and formulates a plan of implementation, with the support of FWF, if required (see Section 3.2). This annual work plan, including an overview of supplier companies, is subject to the approval of FWF and forms the cornerstone of the co-operative arrangement. Suppliers are asked to subscribe to the labour standards within the code and to collaborate in their gradual implementation. In addition, the participating company and their suppliers are asked to inform their employees of the labour standards, audits and future implementation plans. FWF member companies are responsible for setting up a coherent management system for monitoring the labour situation within the production facilities. Factory audits are

Box 2. The eight core standards of the Code of Labour Practices

1. Employment is freely chosen
2. No discrimination in employment
3. No exploitation of child labour
4. Freedom of association and the right to collective bargaining
5. Payment of a 'living' wage
6. No excessive working hours
7. Safe and healthy working conditions
8. Legally binding employment relationship

www.fairwear.nl

one of the monitoring instruments available. FWF demands that 40% of the member company's production facilities are monitored in the first year, 60% in the second year, and 95% after three years. In case of non-compliance, corrective action plans are created, which FWF member companies implement, in co-operation with their supplier's factory management.

As part of its verification activities, FWF works closely with local organisations such as labour NGOs and trade unions in producing countries. FWF can verify whether the member company is effectively monitoring its production facilities and whether corrective action plans are actually executed using a management audit system.

Box 3 provides an example of how one of the FWF member companies, ODLO, applies the code of labour practices to monitor their suppliers.

Transparency is a core value of FWF. All companies are required to report on their progress in a social report which is made public. From 2009 onwards, the management system audit reports will also be published on the FWF website.

3.4 The safety net of a complaints procedure

As part of the structural approach of monitoring and verification, FWF has a contact person responsible for every country and region where it is active, to whom employees and other stakeholders can submit their complaints. In most of the cases this is a (female) representative of a local labour NGO whom employees can trust. When a complaint is filed, FWF will assess the nature of the complaint. If there is a case to answer, FWF will work together with the member company on a solution. In 2008, four complaints were filed, two of which concerned a factory in China where employees' payments were often late and resigning was not a possible option for them because of the threat of withholding of payment.

Box 3. The FWF code of labour practices at work: Assessing and improving supplier compliance at ODLO

ODLO, a Swiss company selling high quality underwear and sportswear, was motivated to join the FWF initiative in 2008 because improving labour conditions in its global supply chain had become too complex to handle on its own. The following quote from ODLO's chairman of the board illustrates the strategic importance of sustainability: 'At ODLO we act with social and ecological responsibility.'

Being a FWF member enables ODLO to fulfil its responsibilities in a more comprehensive, structured, and professional way. As a member, ODLO is committed to the gradual implementation of the code of labour practices (see Box

In this particular case, there were two FWF members sourcing part of their materials from this factory and both were informed about this complaint. The two members were able to put considerable pressure on the Chinese's supplier management as together they accounted for around 85% of the production capacity of this factory. The pressure worked and resulted in the generation of specific improvement plans.

2) and the regular monitoring of the company's suppliers. Based on an annual assessment, ODLO suppliers receive a rating (A, B or C). Suppliers with an A rating are rewarded by increasing business volumes, whereas a B rating implies continuing the same volume level. Suppliers with a C rating face the end of their relationship with ODLO. In other words, good suppliers according to FWF standards will benefit from ODLO's growth. In terms of follow-up activities, ODLO discusses the assessment results with its suppliers, resulting in concrete action plans with details on how to improve.

In conclusion, membership of FWF enables ODLO to achieve its strategic objective of doing business in a socially responsible manner.

3.5 Hurdles on a sustainable road to fair wear

In the past decade FWF expanded from a membership of just three companies to almost fifty. Although this is a considerable expansion, there are obviously still many non-member companies in the clothing business, sourcing from production facilities where labour conditions do not meet the FWF standards. One of the major hurdles on the road to sustainable fair wear is convincing companies of the value that is added by improving labour conditions. The implementation and ongoing monitoring of good labour practices is an intensive process, which requires considerable investment of time and money. In addition, the FWF obligation to provide a complete list of suppliers discourages some companies, claiming that by doing so they risk losing their competitive edge.

On the factory level, cultural differences may hinder the implementation of the FWF code of labour practices. For example, in some countries employees are still reluctant to co-operate with FWF, partly because they fear potential consequences such as losing their jobs. Moreover, many employees have little confidence in the change that all of these auditing efforts will bring in terms of improving their labour conditions. Therefore FWF is pushing for more transparency by publishing the results of management system audits, encouraging member companies to actively implement the corrective action plans and show results.

3.6 Benefits and impact of supply chain transparency

The FWF approach, based on the eight core standards of the code of labour practices, facilitates gradual improvements in labour conditions. More specifically, it enhances the transparency of the entire supply chain of its member companies. FWF support is crucial, since most members are SMEs who lack the experience and resources to improve labour conditions on their own.

When companies are open to improving their working methods and practices, they contribute to stakeholders' ability to hold organisations accountable for the labour conditions of their employees. Most violations of good labour practices have complex causes, ranging from political and economical factors, to a lack of understanding. Tackling this complexity is nearly impossible for a single company. Sharing knowledge and resources through FWF, allows companies to better tackle their problems and contribute to a sustainable way of producing, thereby enhancing process control. FWF firmly believes in its process-driven approach: a stitch in time saves nine. As the ODLO case clearly indicates, FWF member companies can benefit from the accumulated knowledge and expertise in their efforts to gradually improve labour conditions in global supply chains.

Chapter 4

RMP Tombstones: A sustainable supply chain approach with a personal touch

‘The strong relationship between RMP and its Indian supplier Heritage granites could be compared to a marriage.’

Creating customised memorial stones is a crucial element in RMP Tombstones’ business model. Sustainable natural stones form the main input for these stones, mainly sourced in India. In this chapter we describe RMP Tombstones’ journey to source these input materials in a sustainable manner.

4.1 Philosophy: A personal way of designing memorial stones

The story of RMP Tombstones, a company that designs sustainable tombstones, originated in Eastern Europe. Bert Reubsaet, director of RMP Tombstones, lost his father in 1996 and began looking for a personalised memorial stone and went as far as designing a sketch of the headstone he wanted. He was surprised to find out that the tombstones offered on the Dutch market were all ready-made stones, supplied by importers and wholesalers. On a trip through Eastern Europe Reubsaet discovered that this kind of craftsmanship still existed in that region. Based on the designed sketch, Reubsaet had the personal memorial stone for his father made in Eastern Europe and returned to the Netherlands with the tombstone in the back of his car and a company idea in the back of his head. The birth of RMP Tombstones was a fact, based on the philosophy of designing personal memorial stones for people who are in need of a customised approach. Sustainable sourcing of natural stone materials is a key element of this approach. Since 1996 the formula has proven to be successful in the Netherlands and now RMP is expanding its activities to Belgium, France, Germany, and Luxembourg. In these countries RMP’s products are based on materials from its Indian suppliers (see Section 4.2) rather than sourcing from ‘anonymous’ importers and wholesalers.

4.2 The choice of a sustainable sourcing partner

RMP is known for providing a personal touch. By using sustainable natural stone in the design of a tombstone, RMP intends to contribute to this customised approach. Within this context, the choice of sustainable sourcing partners has been of vital importance for the company.

The company started operations in Poland in the late nineties, where tombstone designs were made of natural stone sourced from Dutch wholesalers. In those early days Reubsaet found out that transporting the nature stone from Holland to Poland was a cumbersome process.

Therefore, Reubsaet investigated the origin of natural stone (freestone), and discovered that most of these materials came from stone pits in India. Reubsaet decided to start sourcing the freestone directly. In 2000 he travelled through India in search of a sustainable partner who could provide his company with freestone. Since delivery times are of the utmost importance in his business, Reubsaet was looking for an extremely trustworthy supplier.

After visiting 60 different suppliers and having the experience of a failed partnership with a supplier who could not fulfil his requirements quantity and quality wise, Reubsaet found a trustworthy Indian supplier company, Heritage Granites. Supported by RMP Tombstones this company managed to build a modern high-tech factory. There is a strong relationship between RMP and Heritage Granites and could be compared to a marriage.

4.3 Developing and practicing the nature stone of code of conduct

The working group on sustainable natural stone was founded in 2005 by non-governmental organisations in cooperation with private companies. Some partners involved in this initiative are the Dutch business association for natural stone companies, *Natuur en Milieu*, MVO Nederland and SOMO. The key objective is to stimulate organisations, both public and private, involved in natural stone supply chains to take their social and environmental responsibilities seriously. In 2006 this working group approached Reubsaet to participate in the development of a code of conduct for the sustainable sourcing of natural stone (Box 4). The main goal of the code of conduct is that participating entrepreneurs should abandon 'bad practices' such as child labour and environmental damage. In addition to this they must also monitor their suppliers.

Practicing this code of conduct is one of the 'marital obligations' of Heritage Granites. An essential element in this approach is to source natural stone solely from stone pits that are willing to comply with the code of conduct. Willingness within this context for example implies that stone pits agree with unannounced inspections. RMP is developing an education programme to enhance this process.

The working group considers the type of support and guidance provided by RMP to its supply chain partners in producing countries to be critically important. In addition, sourcing companies can use their buying power to ensure compliance to the code of conduct throughout the supply chain. The natural stone used by RMP is sourced from thirty different stone pits, which in principle are all willing to comply with the code. In case of unwillingness or violations, the sanction is that RMP will no longer buy natural stone sourced from that particular stone pit.

Box 4. Points of Interest Natural Stone Code of Conduct

- Rules and licenses
- Environmental relationship
- Child labour
- Forced labour
- Discrimination
- Freedom of association
- Wage
- Labour conditions
- Environment policy
- Water
- Pollution

4.4 The mutual importance of improving labour conditions

RMP is currently one of the few Dutch companies that opened up its entire supply chain for monitoring and inspection. As RMP heavily depends on its supplier Heritage Granites in its efforts to conduct sustainable business, RMP supports the company by providing European machinery, resources and training on the job. Furthermore, employees of Heritage Granites work according to European labour conditions, facilitated by European employees, paid by RMP. These employees also hire qualified employees in India, who are in turn able to train other factory employees. An interesting side-effect of employing European people within the Indian factory is that labour conditions are in line with European standards.

RMP is also working on the design of a workings council, based on the Dutch model. By Indian standards, this is considered to be a revolutionary development, yet the people at the Heritage Granites factory are willing to participate.

4.5 Sustainable challenges for RMP tombstones

Implementing the natural stone code of conduct is an integral element of RMP's overall business strategy, but it brings with it specific challenges. Internally, it requires ongoing investments of time and money. RMP is willing to make these investments, given the strategic importance of sustainability.

Externally, there are still some 'weak spots' in RMP's supply chain, although progress has certainly been made in the past decades, especially in its Indian factories, such as the increase in the minimum payment to employees who are being trained at the factory.

The improvement of labour conditions at the stone pits is a more difficult problem to solve. RMP is not in a position to directly influence the operations in these pits. Reubsaet visited most of the pits in his supply chain personally and did not encounter practices such as child labour, yet he reported that labour conditions could still be improved. For this purpose, RMP intends to convince Heritage Granites to begin using contracts with the stone pits which contain explicit criteria on social conditions. Moreover, RMP has played a crucial role in establishing the Indian Fair Stone Foundation (IFSF). All members of this foundation, typically small companies with 20-50 employees, are not direct competitors since they work with different materials and/or colours. Membership offers them certain advantages, such as support from RMP and exchange of information and experiences with other members. Moreover, being an IFSF member is seen as a marketing tool in attracting other customers.

4.6 Benefits and impact of sustainable sourcing

The close co-operation with the Indian supplier Heritage Granites plays an important role in RMP's overall business model. More specifically, sustainable sourcing based on close supplier relationship management rather than working with wholesalers offers RMP the following advantages:

- collaborating with a trustworthy supplier
- improved supply chain transparency and process control
- international recognition by employing the natural stone code of conduct
- helps to building the company's sustainable image

Moreover, besides these company-specific advantages, working according to the natural stone code of conduct contributes to improved labour conditions in India, both in the factories and in the stone pits. These improvements will not happen overnight, especially not in the upstream stone pit operations, yet by adhering to the code, companies such as RMP are gradually improving the social and environmental conditions in their supply chains.

Chapter 5

Lessons learned and next steps

‘Collaborative efforts of the case companies are a smart response to overcome typical SME barriers of limited resources and bargaining power.’

This booklet contains three inspiring stories about the experiences of SME companies in their efforts to integrate sustainability in their business, focusing on the sourcing function.

It is not possible to draw generic conclusions based on three cases, yet these stories offer some valuable lessons learned and ideas for next steps. Prior to discussing these issues, the SME sustainability core competences, are compared for the three case companies.

5.1 Sustainable operations core competencies at the case companies

Table 1 summarises the applicability of the SME operations core competences identified by Kerr (2006) in the three case companies.

The data shown in Table 1 clearly demonstrate that evidence for all core competences is present in the three case companies, albeit each in a distinctive way.

Table 1: Case comparison of sustainable operations' core competences

Core competence	Wijma	FWF	RMP
Environmental leadership	Pioneering role	Response to negative publicity	Personal drive
Goal setting EMS	Quality management	Management support systems	Partnership investments
Encourage supplier compliance	FSC principles	Code of labour practices	Natural stone code of conduct
Stakeholder collaboration	<i>Comité de Suivi</i>	Multiple stakeholder initiative	Working group on sustainable natural stone
Continuous improvement of culture	Yes	Yes	Yes
Forming alliances	Responsible forest management operations	Local organisations	Heritage Granites

Some observations on these data are instructive. First of all, the leadership and management systems competences are broad and are not only restricted to environmental issues. Actually FWF and RMP emphasise the social, labour-oriented rather than the environmental, dimension. Second, all case companies are engaged in various forms of collaboration, as indicated by the competences of stakeholder collaboration and forming alliances. Some of these joint efforts are vertically oriented, such as Wijma's responsible forest management operations and RMP's partnership with its Indian supplier Heritage Granites, whereas FWF's alliances are focused on supporting its local verification activities. Despite the differences in scope, all collaborative efforts are a smart response to overcome typical SME barriers of limited resources and bargaining power (see Section 1.6).

Moreover, the three companies are clearly determined to offer sustainable solutions to their customers. This demand-driven approach is already visible in their competitive edge aspirations as described above. Still, their stories also demonstrate that it is not always easy to convince customers about the added value of their sustainable solutions. For example, Wijma experiences that only 'sustainability sensitive' customers appear to be willing to pay a premium for timber products based on responsible forest management practices. In this respect the sustainable sourcing ambitions of the Dutch government (see also Chapter 1) can be an important force in generating more demand for responsible wood solutions in the near future.

The three cases also confirm the importance of establishing and maintaining a 'dialogue with multiple stakeholders'. This may involve a variety of stakeholders, for example business associations, NGOs, and trade unions in the FWF case, yet from a sourcing perspective these dialogues should at least cover key suppliers. Examples include the clothing material suppliers of FWF members and RMP's partnership with Heritage Granites. All cases reveal that it requires substantial investments in time, money, and energy to assure that the suppliers, especially in developing countries, comply with the sustainability criteria set by the purchasing companies (see Table 1).

The cases also reinforce the importance of 'top management support' as a vital enabling force for sustainable sourcing efforts, albeit each in a distinctive way (see also Table 1). In the case of RMP Tombstones, the sustainability search was clearly triggered by the personal motives of the company's managing director. The Wijma case is a good example of the need for management leadership in the company's efforts to be a pioneer in its industry by engaging in responsible forest management.

Fortunately, the case companies have found and used multiple *instruments* to make this happen. An example found in all cases is the important role of quality control systems throughout the supply chain. These systems are aimed at improving both process control and supply chain transparency.

Another important instrument is training and development. Wijma emphasises the importance of safety measures in its African forest operations. RMP tombstones supports its suppliers by providing specific educational programmes. Interestingly, the RMP case also reveals the link with sanctioning policies, another sustainable sourcing instrument. Suppliers unwilling or unable to provide high quality materials, despite all support and guidance offered, will lose RMP as a customer and hence also the associated revenues.

Finally, *external codes or certificates* are clearly instrumental to the sustainable sourcing initiatives of the three companies. For Wijma, the FSC principles (Box 1) clearly guide their responsible forest management activities; the code of labour practices (Box 2) has a similar role in the FWF case. In the RMP case a dedicated working group developed a code of conduct for sourcing sustainable natural stone materials (Box 4). Such external standards are very useful as a frame of reference for all supply chain members.

First, it really requires a lot of patience and perseverance to succeed, implying that continuing investments are vital in overcoming hurdles and unanticipated events. For example, in the RMP case this implies that the managing director will continue to visit his upstream suppliers to monitor progress on relevant sustainability criteria.

Second, the network of sustainable partners needs to be expanded to fuel the future growth of the case companies' sustainable activities. In the FWF case it is impressive that the number of members has grown from three to almost fifty in only seven years, yet much more members are needed to reach its goal of fair labour practices in the global clothing industry. This also fits nicely with the identified core competences of stakeholder collaboration and industry associations.

Finally, cultural differences are bound to play an important role in further developing sustainable sourcing initiatives. Buying companies need to be flexible and open-minded to cope with such differences. For example, in the Wijma case it took time to convince employees in Cameroon to abandon established local practices by wearing helmets for safety reasons.

In conclusion, we hope the FWF, RMP and Wijma experiences as described in this booklet prove to be a source of inspiration. In addition, we welcome other SME companies to share their experiences, and in doing so, contributing to the ongoing process of learning more about, and increasing the effectiveness of, sustainable sourcing efforts.

5.2 Lessons learned

When looking at the 'drivers' described in Chapter 1, the three case companies with their sustainable sourcing efforts all hold a distinctive competitive edge. Wijma anticipates an increasing demand for responsible (FSC) wood solutions, RMP Tombstones sees clear potential for personalised, sustainable memorial stones, and the Fair Wear Foundation (FWF) seeks to improve labour conditions in the global clothing business.

The cases also reinforce the importance of 'top management support' as a vital enabling force for sustainable sourcing efforts, albeit each in a distinctive way (see also Table 1). In the case of RMP Tombstones, the sustainability search was clearly triggered by the personal motives of the company's managing director. The Wijma case is a good example of the need for management leadership in the company's efforts to be a pioneer in its industry by engaging in responsible forest management.

5.3 Next steps

The stories of the three SME companies described in this booklet are by no means over. Despite the fact that each story has its own unique features, there are some common elements which they face in further developing their sustainable sourcing approach.

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