

# When a sustainable supply chain begins in Italy

By [Luca Guzzabocca](#)

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Italy is known for its culture, art, fashion, food and wine, but what about sustainability?

Italy has the highest number of SA8000 certified facilities in the world, 3 million green jobs and 328,000 enterprises that invested in green products and technologies between 2008 and 2013.

The chemical, pharma, paper and ceramics industries lead the green transformation of manufacturing, while the electronics industry focuses more on products, the paper, plastics and food industries on process, and textile sector on efficiency.

Leading companies with known sustainability practices include Barilla, Ferrero and illycaffè in the food industry, Graniti Fiandre in ceramics, Monnalisa in fashion, Ferrari and Fiat in automotive, Unipol in insurance, Novamont in chemicals and Kerakoll in construction materials.

Since 2007, Acquisti & Sostenibilità has observed sustainability ripple through the supply chains of these leading firms and published its findings in its annual "[Sustainable Supply Chain Review](#) (SCCR)." It has found that although green supply chain awareness is growing, few Italian companies have taken a holistic approach with practices that include life cycle assessments of the entire supply chain or mature KPI-based processes.

The competitive advantages of transparent communication, based on the stakeholders' shared value and the progress in the sustainable supply chain management, are becoming more apparent. We think sustainability reporting will continue to become a market and investor requirement. It would be driven, in particular, by the disclosure required by SRI analysts, encouraged by the new G4 version of the Global Reporting Initiative, European regulation, and the need to address international markets, where economic, environmental and social sustainability is a growing prerequisite.

## **A deeper dive into green Italian supply chains**

The SCCR's findings are based on annual CSR reports, annual reports and company Codes of Conduct and websites, and suppliers' dedicated portals.

The SCCR focused on two main clusters of companies (some additional sub-clusters are identified based on business sectors). The first is a group of 50 Italian companies that published sustainability or CSR reports in 2012 before Aug. 31, 2013, and are included in the FTSE All Share Italy index.

The second is a meaningful sample of 26 other Italian companies with sustainability or CSR reports for 2012 and but are not included in FTSE All Share Italy. Some companies are smaller (SMEs are

a core component of Italian economy). They are public, family-owned and also include a few important subsidiaries. These companies are key to providing a better sample of the Italian market and for proving that awareness of sustainable procurement is a driving factor.

In the SSCR's sixth edition, we have nearly tripled the number of evaluation factors used for a total of 33, in order to accurately assess the various aspects which we use to assign a rating to the maturity level of companies' supply chain sustainability, classifying them into four categories of decreasing importance: fundamental; qualifying; procedural; implementing.

## **The findings**

Nearly all companies in the SCCR claim they have integrated some CSR criteria in the suppliers' selection and many require compliance with their Code of Ethics or Code of Conduct as a contractual term, even with effective penalties for proven non-compliance. However, in many cases, there is still an orientation towards mitigating operational and reputational risks, rather than to improve the environmental and social sustainability of supply chains, and sometimes the percentage of certified suppliers is prevalent.

In general, growing attention is paid to the process of sustainable purchasing, taking into account economic, environmental, social and cultural perspectives. This includes the choice of renewable raw materials, energy and other resources, and a strategic relationship with sustainable suppliers. But only a few enterprises consistently implement a holistic and pervasive approach, use LCA through their entire supply chain, including second-tier suppliers, have developed mature processes based on KPI, and dedicated resources and experts in evaluating and improving sustainable procurement.

The evolution of the G4 GRI reporting system probably will make CSR reporting more quantitative and focused on the role of the supply chain, led by the powerful concept of materiality. Until now, in some cases, it is still qualitative, providing only ad hoc examples instead of the proof of evidence for virtuous and pervasive practices.

We have analyzed the public disclosure of the implemented processes, the target and the results achieved for supply chain sustainability, performed on both the selected clusters. We found:

- The differences in the total score, which we calculated for the sustainability of purchases, are very meaningful, with about a 1:8 ratio between the best- and worst-in-class companies in the same cluster. Some sectors (transport, utilities and energy, insurance and food) tend to be more virtuous, probably also because their supply chains have material impacts more closely related to sustainability objectives.
- The 27 companies with CSR reports have an overall rating of about 15 percent better than the 50 firms in the first cluster that are included in FTSE ALL SHARE. But the mean value of our rating for the second cluster of 26 companies, where there are also many smaller organizations, is a little better than the mean value of larger companies. This probably means that the commitment to voluntary and non-trivial CSR reporting is taken by companies with fewer financial resources only if they understand the opportunities and share its aims.
- The provided best practices from the international sustainability champions, and the leading sustainable companies in Italy, some with a global market, shows that sustainability, now extended to the management of suppliers and selection of raw materials and energy, is recognized as an essential component of the company's strategy. In fact, it demonstrates to investors and other

stakeholders an ability to proactively manage the risks of a more complex, extensive and relevant supply chain, which requires systematic checks extended to indirect providers, certifications, processes and skills. It also shows suppliers are considered strategic partners for sustainability, enforcing not only rules, constraints and penalties, but also offering incentives and joint initiatives to improve sustainability as an added shared value.

- It's interesting to note that having extended the SCCR to a larger number of companies, we evaluated that the factors most important for the orientation to sustainability are: the comparison with direct competitors that are aware of sustainability; the presence in global markets, as some are more sensitive to the environmental and ethical issues than the Italian one; the CEO's personal commitment; the responsibility to the local territory and citizenship; the existence of legal constraints.