

MAY 2019

# The Supply Chain Leadership Ladder 2.0

BSR Maturity Model for Supply Chain Sustainability



## About This Report

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### ACKNOWLEDGMENTS

The authors wish to thank the following people for their time and effort in providing input and reviewing this document, especially BSR colleagues: Aditi Mohapatra, Asako Nagai, Chaoshuai Hu, Charlotte Bancilhon, Chhavi Ghuliani, David Korngold, Dunstan Allison-Hope, Giulio Berruti, Jonathan Morris, Jorgette Marinez, Lauren Shields, Lin Wang, Michael Rohwer, Michele Aquino, Rosa Kusbiantoro, Sara Enright, and Shubha Chandra. We would also like to thank external contributors, Dr. Benn Lawson; Alice Blanchard, Astrid de Boysson, Austin Linus Rupp, and Zeren Sun, students at University of Cambridge's Judge Business School; and Meghan Ryan, Global Sustainable Sourcing & Sustainable Agriculture, PepsiCo.

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# Contents

<b>1. Introduction: An Evolving Vision for Supply Chain Sustainability</b>	<b>3</b>
<b>2. About the Leadership Ladder</b>	<b>4</b>
<b>3. Key Issues &amp; Impacts</b>	<b>7</b>
<b>4. Results from Leadership Ladder Assessments to Date</b>	<b>8</b>
<b>5. Alignment with Global Frameworks</b>	<b>10</b>
<b>6. The Leadership Ladder 2.0 in Detail</b>	<b>12</b>
<b>7. An Evolving Vision: So, What's Changed?</b>	<b>14</b>
<b>8. Conclusion: How to Leverage the Leadership Ladder</b>	<b>14</b>
<b>9. Contact</b>	<b>15</b>

# 1. Introduction: An Evolving Vision for Supply Chain Sustainability

The Supply Chain Leadership Ladder is a maturity model for companies to evaluate and evolve their approach to **supply chain sustainability**. Two years following the launch of the Leadership Ladder, BSR is pleased to release this update. The Leadership Ladder 2.0 incorporates learnings from our work with companies where we use the framework to identify their level of maturity and ambition, benchmark their practices against their peers, and develop concrete action plans to improve.

## What's In this Report

This report outlines:

- » Background on supply chain sustainability and the Leadership Ladder
- » An introduction to the Leadership Ladder, and how it has been used since 2017
- » The Leadership Ladder 2.0 with a description of the changes made from the 2017 version
- » The Leadership Ladder itself, including “defining statements” at each level for companies to do a light self-assessment

## The Evolution of Supply Chain Sustainability

Supply chain sustainability, also known as responsible sourcing, sustainable sourcing, responsible supply, sustainable procurement, and by other names, continues to evolve. When companies started putting such programs in place in the 1990s, they were largely targeted at managing risk in the supply chain, setting out supplier codes of conduct and conducting audits to determine if suppliers were compliant with those codes. That approach then evolved in the 2000s to go beyond monitoring, based on a strong realization of the need to engage suppliers and supply chain workers in developing more sustainable practices and understanding what was needed in different contexts. This era was marked by more industry collaboration, the rise of supplier capability building, and supplier engagement. Since 2015, we have been seeing another evolution, with companies adopting the practices from the compliance and “beyond monitoring” eras, but also driving towards more transparency. Companies are also increasingly willing to embrace technology and financial incentives, such as preferential supply chain finance, to enhance programs and to gain more visibility and validation of the impacts of efforts in global supply chains. Alongside this, the rise of supply chain legislation, for example the various Modern Slavery Acts, has compelled companies to take more action.

These trends in supply chain sustainability align with overall management trends in the evolution of procurement and supply chain management, which has gone from the outsourcing model of the 1990s to strategic supply chain management in the 2000s and into the developing digital supply chain era of today.

**Figure 1. Evolution of Supply Chain Management and Supply Chain Sustainability**



## 2. About the Leadership Ladder

### Reminder: Why Companies Should Manage Sustainability in their Supply Chains

For many companies, the greatest risks and opportunities are embedded in the supply chain, making supply chains a critical leverage point to drive business value and sustainability impact at scale. When we think of many of our most pressing environmental concerns such as climate change, water scarcity, pollution, and biodiversity loss, supply chains are a key area for action. For instance, on average, companies report that their [supply chain greenhouse gas emissions that are 5.5 times greater than their own direct impact from scope 1 and 2 emissions](#). From a social perspective, many unacceptable conditions, such as forced and child labor, unsafe working conditions, and unfair wages, are prevalent across global supply chains. The ILO estimates that [152 million children are victims of child labor and that almost half of them work in hazardous child labor](#). By improving practices, companies can drive major

sustainability impacts through their supply chains, from providing for the needs and assuring the rights of all workers to optimizing resource use and repairing environmental damage.

Alongside benefits to people and the environment, advancing supply chain sustainability can unlock business value and build competitive advantage against a back drop of increasing consumer, regulatory, and investor expectations. The U.K. Modern Slavery Act and similar transparency requirements are helping to illuminate companies' policies and approaches to understanding and engaging in performance improvement in their supply chains, as companies are disclosing their practices to meet the requirements. The difference between leaders and laggards is becoming increasingly obvious, with leaders positioned to be able to capture value in the evolving regulatory environment and expectations put on companies. While there are many benefits to implementing a supply chain sustainability program, here are some of the most persuasive:

- » **Mitigating risk:** Investing in climate resilience and supply chain human rights and working conditions will continue to climb in importance. According to the WHO, ILO, and UNDP, by 2030, productivity losses related to heat-related [workplace disruption and injury could rise above US\\$2 trillion](#). Several countries have introduced legislation to tackle forced labor in supply chains, which has disrupted supply chains where companies have been unable to assure the avoidance of forced labor in the production of their goods.
- » **Cost savings through resource efficiency:** Reporting from [CDP's supply chain program](#) shows that 99 participating companies saved US\$19B while reducing GHG emissions by 633 million tons of CO<sub>2</sub> - equivalent.
- » **Driving innovation growth:** [Businesses in the supply chain economy](#) are a major source of innovation, including sustainability innovation, accounting for over 86 percent of the U.S. utility patents granted in 2015. Such innovation can be harnessed to capitalize on evolving consumer preferences for sustainability attributes such as organic, local and recycled inputs.
- » **Accessing finance:** [Ninety percent of the studies on the cost of capital](#) show that sound sustainability standards lower the cost of capital of companies. Further, investors are challenging companies on a swath of sustainability issues, including climate disclosure, deforestation, and antibiotics use in animal supply chains.

The Leadership Ladder enables companies to understand their advancement in areas such as supply chain knowledge, management, and supplier engagement, and identify the investments required to improve their program in order to capture some of the sustainability benefits outlined above.

## The Leadership Ladder

BSR's perspective is that the maturity of company's supply chain sustainability efforts is defined by the extent to which a program is designed to exert the greatest positive impact on the most critical areas of the supply chain, while also delivering on the company's performance ambition. The higher a company climbs up the Ladder, the more likely it will have a positive impact and gain value from its program.

Maturity is evaluated through **internal** and **external** program dimensions that influence the comprehensiveness and effectiveness of supply chain sustainability efforts.

Internal dimensions are about how a company acts to put in place practices that are under its direct control. These dimensions are:

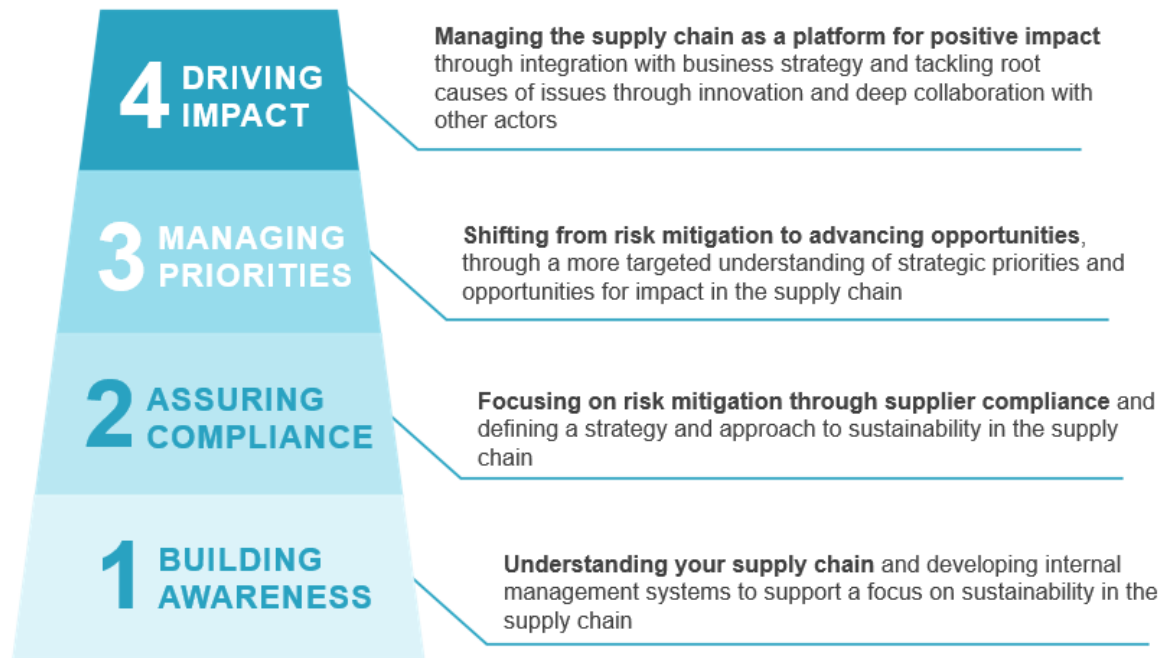
- » Supply chain knowledge and understanding
- » Supply chain strategy and processes
- » Commercial terms and buying practices
- » Governance and management

External dimensions pertain to how a company enables its suppliers to act in accordance with the company's values and in turn, create an enabling environment for worker well-being and empowerment. In addition, these dimensions consider how a company influences its industry and broader stakeholder set to drive change. These dimensions are:

- » Supplier engagement
- » Supply chain worker engagement
- » Collaboration
- » Reporting

The Supply Chain Leadership Ladder includes four "rungs," or levels, which we illustrate here at a high level and describe in more detail later. These rungs also offer ranges, in that a company may score high or low within the rung, depending on its maturity.

Figure 2. BSR Supply Chain Leadership Ladder



Companies can rank at different levels across the eight dimensions. For example, it is possible that a company is leading at Level 4 (Driving Impact) in their governance and management, but only achieving a Level 2 (Assuring Compliance) for supply chain workforce engagement. In addition, the quality of the program indicates program maturity, not the quantity of activities. For example, the ladder provides a higher score to those who utilize supply chain audits strategically, and a lower score to a large number of supplier audits applied without much forethought or follow-up.

The Ladder should provide a company in any industry with a holistic view of the maturity of their approach to managing sustainability in the supply chain.

### 3. Key Issues & Impacts

The Leadership Ladder provides guidance on the processes that a company should have in place, regardless of the industry and the sustainability issues that are of most importance. As each company's and industry's most critical sustainability issues, risks, and impacts are different, the Ladder is not prescriptive about the issues that should be covered in the company's supply chain sustainability approach. That said, as BSR has more than 26 years of experience working with companies across sectors, there are some key issues that are cross-cutting and high priority for all companies. These topics include:

- » [Climate resilience](#) – Companies in all sectors need to cascade requirements for managing climate risk and resilience into their supply chains. Related issues will be the management of water, pollution, and waste. In certain sectors, such as food and agriculture, deforestation is critical.



- » [Human rights](#) and labor rights for workers – As workers are a key part of all supply chains, all companies should be addressing this important issue. For some sectors where the majority of the supply chain is indirect spend, such as financial services companies, there may be a focus on this issue only in a few categories.
- » [Women's empowerment](#) – As the majority of workers in the supply chain, especially in certain sectors such as apparel and specific agricultural sectors, are women, it is critical that women's empowerment is addressed as a key issue.
- » Inclusive sourcing – Companies have an opportunity to drive inclusion with their sourcing practices. From [impact sourcing](#)<sup>1</sup> to supplier diversity to purchasing from small and medium enterprises (SMEs) and local suppliers, companies have an opportunity to use their sourcing dollars to drive positive change for diverse suppliers and create job opportunities for vulnerable populations.

## 4. Results from Leadership Ladder Assessments to Date

Since we launched it in 2017, BSR has worked with its member companies to utilize the [Leadership Ladder](#) to assess their supply chain sustainability practices across the internal and external dimensions outlined below.

### Internal dimensions:

- » **Program scope and structure** considers the extent to which the company knows its supply chain and its impacts
- » **Governance and management** assesses the extent to which the company makes consistent and clearly communicated decisions supported by senior management

### External dimensions:

- » **Supplier engagement** considers the extent to which the company's approach to supplier engagement reflects its vision for positive impact
- » **Collaboration and Reporting** assesses the extent to which the company collaborate to ensure supplier, industry and community changes

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<sup>1</sup> A business practice where a company prioritizes suppliers that intentionally hire and provide career development opportunities to people who otherwise have limited prospects for formal employment.

The assessments rank the maturity of their supply chain programs across these dimensions on a scale from Level 1 to Level 4. The levels, from Level 1: Building Awareness through to Level 4: Driving Impact are described above in Figure 2. BSR has anonymized data on 32 companies from across five sectors:

- » **Consumer Products**
- » **Food, Beverages and Agriculture**
- » **Information and Communications Technology (ICT)**
- » **Extractives**
- » **Manufacturing**

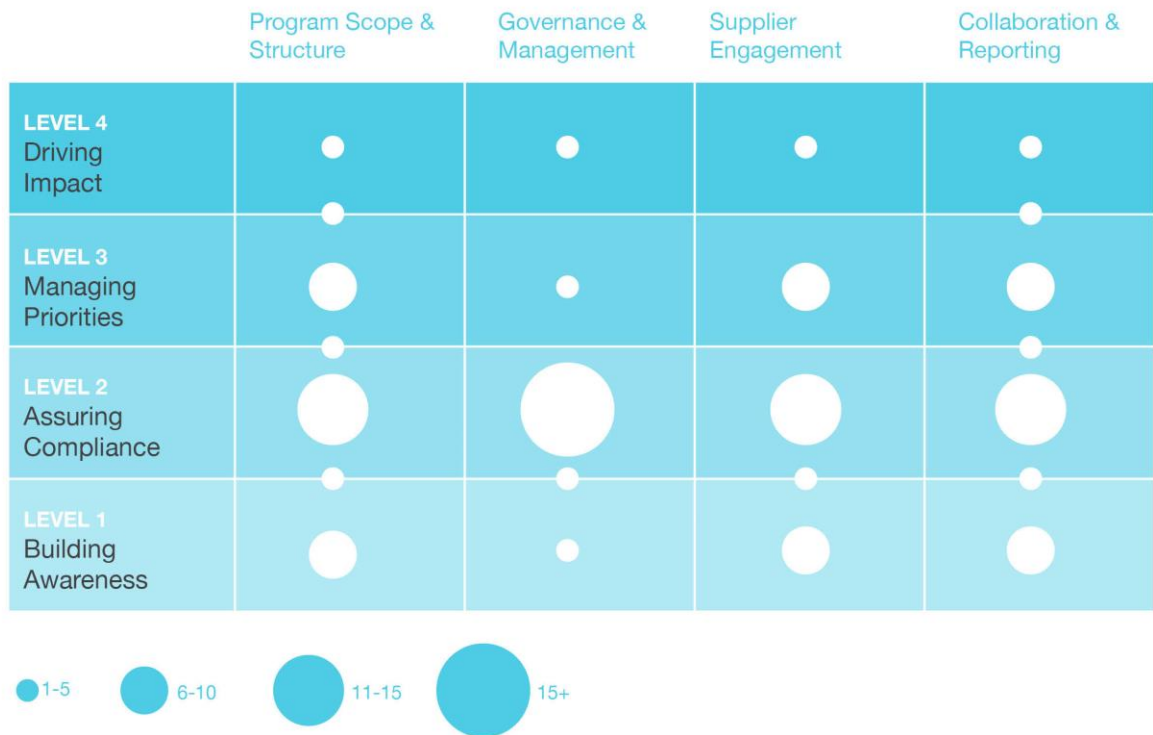
We have found that the tool is applicable to all of these sectors, and it has produced useful results for our member companies, highlighting strengths to build on and gaps to address.

## Maturity Level of Assessed Companies

From the assessment of these 32 companies, regardless of industry, the most common level of maturity across company programs is Level 2, Assuring Compliance. This is true across the internal and external dimensions, from the scope and structure of the program and the governance and management practices in place to the engagement of suppliers through collaboration and reporting on sustainability issues.

Companies at the Assuring Compliance level are focusing on risk mitigation through supplier compliance and are still defining their sustainability strategy and approach. Fewer companies are Building Awareness at Level 1 and Managing Priorities at Level 3. Few companies have been ranked as truly driving impact at leadership level. At this level, slightly more companies were ranked as Driving Impact on the internal dimensions versus the external ones, which shows that there is still effort required for companies to achieve their leadership potential.

One key finding is that a company can vary in its implementation success. Some companies perform better on certain dimensions than others. However, the distribution of a company's ranking across the different dimensions is influenced by the maturity of its ranking in other areas. Companies who achieve a Level 1 in one dimension of the ladder did not tend to rank beyond Level 3 in any other dimension. Frequently, those companies identified to be Driving Impact (Level 4) in some dimensions already have well-grounded good practices in other areas, ranking at Level 2 and above across the dimensions.

**Figure 3. Leadership Ladder Benchmark Results**

## 5. Alignment with Global Frameworks

The Leadership Ladder is aligned with global frameworks. During this process of updating the framework, we invited students from the University of Cambridge Judge Business School's Supply Chain Management class to benchmark the Leadership Ladder against four global sustainable procurement frameworks described below: the ISO 20400:2017 Sustainable Procurement Guidance, the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct, and the Global Reporting Initiative Standards (GRI).

Framework	Description
<b>ISO 20400:2017 (ISO) Sustainable Procurement – Guidance</b>	Provides guidance to organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000 (standard on social responsibility). The guidance is intended for stakeholders involved in, or impacted by, procurement decisions and processes.
<b>OECD Guidelines for Multinational Enterprises</b>	Provides recommendations for responsible business conduct that 46 adhering governments encourage their enterprises to observe wherever they operate. The guidelines outline non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

### OECD Due Diligence Guidance for Responsible Business Conduct

Provides practical support to enterprises on the implementation of the OECD Guidelines for Multinational Enterprises through clear explanation of its due diligence recommendations and associated provisions. Implementing these recommendations helps enterprises avoid and address adverse impacts related to workers, human rights, the environment, bribery, consumers, and corporate governance that may be associated with their operations, supply chains, and other business relationships.

### Global Reporting Initiative Standards (GRI)

Helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues. They represent the global best practice for reporting on a range of economic, environmental, and social impacts.

This benchmarking helped us to ensure that the Ladder is aligned with global practice and highlighted some areas for us to improve the Ladder, which have been incorporated in our update. What sets apart the Leadership Ladder is that it is a diagnostic tool applicable and useable across companies and industries. The Leadership Ladder provides a comprehensive basis for assessing a company's strengths and gaps on supply chain sustainability. The results are used to develop company-specific recommendations by BSR, or indeed by companies themselves, which can be incorporated to strengthen the company's program.

The Ladder does not discuss the specific issues on which companies should focus and/or disclose as companies need to do their own work to determine this, and the focus will be informed by their company context, industry, supply chain profile, and an assessment of their respective supply chain risks and opportunities. Other frameworks have developed industry or sector-specific guidance, which can be referenced as well.

The main similarities and differences among the Leadership Ladder and these other frameworks are outlined in the table below.

Similarities	Differences
<ul style="list-style-type: none"> <li>• General philosophies of the frameworks are all the same: Companies must manage the sustainability risks and impacts in their global supply chains</li> <li>• Expectation for companies to take a risk-based approach to due diligence and prioritization of issues and actions</li> <li>• Expectation for companies to increase transparency and report on their supply chain and sustainability challenges, opportunities, and activities</li> <li>• Integration of sustainability priorities into supply chain and broader business strategy is critical</li> <li>• Senior management oversight of supply chain sustainability is a mandate for any company taking this issue seriously</li> <li>• Encouragement of companies to go beyond compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership Ladder is intentionally less prescriptive, offering less specific detail and examples on specific issues, or recommendations of specific processes or measurement systems</li> <li>• Leadership Ladder does not make tactical recommendations on managing supplier relationships (e.g. on discontinuing a relationship with a supplier)</li> <li>• Leadership Ladder is not industry specific, thus we do not include industry/sector-specific guidance</li> </ul>

## 6. The Leadership Ladder 2.0 in Detail

We're pleased to present the Supply Chain Leadership Ladder 2.0, with its eight dimensions (four internal and four external) and four levels.

### DEFINING STATEMENTS: INTERNAL DIMENSIONS

LEVEL	Supply Chain Knowledge & Understanding	Supply Chain Strategies & Processes	Commercial Terms & Buying Practices	Governance & Management
	<i>To what extent do we know our supply chain and its risks and impacts? What tiers and categories of the supply chain are in scope? What is our level of visibility and responsibility?</i>	<i>How integrated is sustainability into our supply chain and procurement strategies and processes?</i>	<i>How aware are we of the influence of our commercial terms and buying practices on the performance of suppliers? To what extent are we acting on that knowledge?</i>	<i>How well is our approach to sustainability governed and managed in our business? Do we provide enough resources and hold ourselves to account?</i>
<b>4. Driving Impact</b>	We believe that our supply chain at all tiers is a part of our responsibility and state our leadership vision. We have full visibility of tier 1, reasonable visibility at tier 2 and beyond, and we are actively pushing for more visibility. We have a strategy to deal with emerging supply chain risks.	Our clear and robust supply chain strategy has sustainability firmly integrated throughout the whole of our procurement lifecycle. Our supply chain strategy is aligned with business goals and incentives, and focuses on our greatest risks and opportunities to generate positive business, social, and environmental impacts.	Our payment terms are exemplary. We practice transparent and open buying practices and regularly engage our suppliers to ensure we have good practices.  Our commercial terms and buying practices explicitly reinforce and reward our sustainability expectations	Governance of our supplier sustainability program is at the highest level of the organization. Our strategic approach is enabled through integrated action and participation of senior management, and we have applied appropriate human resources to take our actions firmly beyond compliance to meet our stated vision.
<b>3. Managing Priorities</b>	We evaluate the sustainability risks and opportunities across our supply chain, including those that occur beyond tier 1 from both a business and stakeholder perspective. We capture information about all of our tier 1 suppliers, and have good visibility to our supply chain further upstream. We focus our efforts where risk and responsibility are the greatest.	We have sustainability integrated at key points in our procurement lifecycle, and we use the information we gain from our supply chain to formulate our strategy.	Our commercial terms are fair for our suppliers, and suppliers consider us to be a fair business partner.	Governance of our supplier compliance program is at the highest level of the organization. Sustainability and compliance leadership report to C-suite. Sustainability is integrated into all procurement team responsibilities (just like with quality and safety etc.) and is integrated into individual performance goals for relevant staff.
<b>2. Assuring Compliance</b>	Procurement and supply chain responsibilities are defined. We have a database that captures information about our tier 1 suppliers and we have a high-level understanding of tier 2+ procurement, including raw material procurement (e.g. to the farm, mine).	Sustainability is somewhat integrated into our procurement strategies. We are tracking the performance of our suppliers using an internal or external system for compliance purposes.	Our awareness that our commercial terms and buying practices have some impact on the performance of our suppliers is reflected in our policies. We take some action, like basic training, to raise awareness among our buying team around key sustainability issues and the impacts of their buying practices.	We have designated responsibility in all relevant teams (procurement, compliance, sustainability) to reinforce and operationalize our supply chain sustainability expectations.  Supplier identification, vetting, remediation, and follow up have clearly defined responsible parties and associated roles, with an escalation hierarchy which allows for decision making.
<b>1. Building Awareness</b>	We have visibility to all tier 1 vendors and a high-level understanding of tier 2+ procurement, including raw material procurement (e.g. to the farm, mine).	Other than having some basic high-level statements or requirements, we do not have sustainability integrated into our procurement strategies, category strategies, or our processes.	We have some awareness that our buying practices have some impact on the performance of our suppliers.	Our minimum expectations for suppliers are understood within some supply chain and procurement-related groups and functions in our company.

## DEFINING STATEMENTS: EXTERNAL DIMENSIONS

LEVEL	Supplier Engagement	Supply Chain Worker Engagement	Collaboration	Reporting
	<i>To what extent are we empowering our suppliers to act in accordance with our values and our vision for positive impact?</i>	<i>To what extent are we empowering our suppliers to engage with their workers, ensuring their well-being and respecting their human rights?</i>	<i>To what extent do we collaborate to ensure supplier, industry, and community improvements?</i>	<i>How do we report on our supply chain, and to what extent does that reporting enable collaboration and accountability, by both ourselves and our industry?</i>
<b>4. Driving Impact</b>	Our supplier engagement approach reflects our vision of the supply chain as a force for business success and positive social impact. We recognize our suppliers as a valuable source of innovation, and we partner with them to create the impact we seek.	Worker engagement and empowerment is of critical importance to us and to our suppliers. We recognize and enable workforce participation, and lead our industry in pushing for worker representation as a part of our and our suppliers' business models. Workers have a voice in key decision making, and there is diversity and inclusion among our senior leaders and union/worker committee leaders. Dispute resolution systems are appropriate to protecting the rights of workers and finding remedies where necessary.	We understand resolving root causes of key issue in our supply chain requires both engagement at the local community level and at the regional or global level, and that collaboration is key to increasing our leverage and impact. We participate appropriately based on our strategy.	Our supply chain is transparent to the level we understand it. The challenges in our supply chain are laid out, as is the vision and strategies to be undertaken with the associated key performance indicators (KPIs).  We report using metrics and are continuously looking for better ways to capture impact of our supply chain and our sustainability program.
<b>3. Managing Priorities</b>	We invite our suppliers to participate and engage in our sustainability vision. We expect our suppliers to take responsibility for outstanding issues and to cascade our vision to their supply chains.	Our suppliers invest in worker skills, knowledge, and abilities. Inclusion (e.g. gender, indigenous populations, persons with disabilities, and other underrepresented groups) may be a particular focus as relevant.	We understand our broader supply chain work impacts global goals (e.g., SDGs) as well as local communities and individuals. Our engagement in collaborations demonstrates our commitment and alignment.	We report on the most material issues in our supply chain and connect them to global priorities and initiatives. We report data associated with these relevant issues and do so through global initiatives intended to drive industry improvement.
<b>2. Assuring Compliance</b>	Our approach to supplier engagement reflects a holistic view of social and environmental issues, and we provide capability building to support suppliers in achieving at least compliance.	Our supplier engagement processes hold all suppliers to directly fulfilling all international norms and legal obligations due to workers.	We understand collaboration requires give and take, commitments, and participation. We actively engage in the collaborative initiatives that we participate in, adopt collaborative processes internally, and help hold others to account.	We provide an overview of our supply chain and report on results from our supply chain sustainability and compliance processes, such as number of audits and key issues encountered at an aggregate level.
<b>1. Building Awareness</b>	Our suppliers understand our standards and expectations, and provide us with basic information.	Our standards and policies are inclusive of ILO core conventions, plus other relevant labor law and industry practices, to directly speak to the rights and needs of workers producing the products/services we procure through our supply chain.	We understand we need to collaborate and learn from and with others.	We provide a high-level overview of sustainability activities in our supply chain and our policies are in the public domain.

## 7. An Evolving Vision: So, What's Changed?

We have made four main changes to the Leadership Ladder for this 2.0 update:

- » **Eight dimensions instead of four:** There are now 4 internal and 4 external dimensions, in order to create more clarity among the different dimensions. For example, the separation of “collaboration” and “reporting” was critical to be able to provide an assessment of company practices in these two rather different areas.
- » **Updated all defining statements and common elements:** For each dimension and each level of the ladder, we have updated the defining statements and the common elements which sit behind them to better describe what a company has in place at that level. As with the previous version, companies can be at different levels for different dimensions; for example, a company that is Level 2 for Supply Chain Strategies and Processes could be at Level 3 for Supplier Engagement.
- » **Commercial Terms & Buying Practices has been added:** It is imperative that sustainability is integrated into commercial terms and buying practices. Previously, this important dimension was grouped in with Scope and Structure, which was limiting. In this updated Ladder, we have broken it out as its own dimension. In addition, we should note that we have heavily referenced [Better Buying](#), an initiative that works specifically on this issue.
- » **Worker Engagement is broken out as a dedicated section:** Supply chain workers are a critical part of the success of the supply chain. Due to the profound impact that BSR has seen through the worker engagement programs that companies have put in place, it was important to separate out this critical dimension to give it its due and to allow companies to measure their performance in this area alone.

## 8. Conclusion: How to Leverage BSR's Supply Chain Leadership Ladder

The Leadership Ladder can be used in multiple ways to help a company build and evolve its approach to supply chain sustainability.

A company can use it as a starting point of reflection, conducting a **self-assessment** using the defining statements in the Ladder, as outlined on pages 12-13. At this time, BSR does not reveal the “common elements” behind each of the defining statements, but we believe that a company can at least start to get a sense of their performance from this simple exercise.

BSR can partner with a company to use the ladder in two ways.

- » First, BSR can conduct an **assessment** of current practices, reviewing the company's practices against the defining statement and common elements at each level. This process includes a **gap analysis** and an **ambition-setting** workshop to ensure that the BSR recommendations for how to improve will reflect the company's ambition and current situation.

- » Secondly, either separately or in addition to the assessment, BSR can conduct a **benchmark** of peer companies against the Ladder to show the company's competitive advantages or gaps vis-a-vis peer practices. In some instances, there is good rationale to include not only companies in the same sector, but also some sustainability leaders to highlight best practice.

In both cases, BSR provides **concrete recommendations** for how to close gaps or achieve the stated ambition.

## 9. Contact

For companies looking to build or advance their approaches to supply chain sustainability, the Supply Chain Leadership Ladder is a useful tool to assess practices and the opportunity to progress.

Please don't hesitate to contact our team to discuss how we can work together.

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## About BSR

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