

# Value Chain

The case for investing in natural and social capital



## Value chain: the case for investing in natural and social capital

Enhancing natural capital requires investment in social capital too. So much of good natural capital management and decision making is about social capital management, and investment in supply chains, and stakeholder communities. For the Lion's share of companies, the biggest impact and dependency on natural capital is along the supply or value chain<sup>1</sup>, from material source to consumer use and return. Value chains are complex and its not easy to manage them without collaboration from stakeholders, and a reasonably clear view of what's going on up and down the supply chain.

In Autumn 2014 we carried out research<sup>2</sup> into the barriers, challenges, and steps to improvement for companies sourcing commodities and supplying products with significant impacts on deforestation at a global level. Reducing negative impacts and supporting the continuation and development of healthy and thriving ecosystems in forests is a vital component in protecting and enhancing natural capital. Subsequent analysis points the way ahead for companies and underlines the need to invest in key stakeholders and networks as part of efforts to improve natural capital related decision making.

What can help you address natural capital in your value chain more effectively? How can you direct activities towards greater engagement with partners and communities, leading to reduced risk, greater efficiencies, and increased stakeholder value?

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<sup>1</sup> Natural capital: help for mainstream reporting. A.Prosser ICAEW Rethinking Capitals (2016)

<sup>2</sup> Supply chain analysis for CDP Forests 2014 report

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### 1. Growth

Developing more sustainable products and services helps tap into growing demand. Strong and secure supply chains help build customer satisfaction and loyalty.

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| Marketing and Supply Chain Management | <ul style="list-style-type: none"> <li>• Encouraging customers to evaluate sustainability when selecting materials.</li> <li>• Generating supplier confidence that engagement will help them to grow.</li> </ul> |
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| Transparency and Traceability | <ul style="list-style-type: none"> <li>• Demonstrating clearly to business and investors the link between responsible procurement and strong financial returns.</li> <li>• Tapping into the market for customers who want to know the provenance of their products.</li> </ul> |
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| Standards and Certification | <ul style="list-style-type: none"> <li>• Developing clearer and higher standards to increase quality and customer satisfaction.</li> <li>• Higher proportions of sustainably certified products and components helping to increase sales.</li> </ul> |
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| Lobbying and Collaboration | <ul style="list-style-type: none"> <li>• Support to discriminate against unfair practices and unreliable origin imports in favour of sustainable products.</li> </ul> |
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### 2. Productivity

Operational efficiencies, resulting in cost savings and/or cost avoidance from better use of resources, reduced wastes and/or finding better alternative materials with lower costs and impacts.

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| Marketing and Supply Chain Management | <ul style="list-style-type: none"> <li>• Margin improvement, increasing price and volumes from customer perception of enhanced value from sustainable products.</li> <li>• Buyer power from strong relationships with supply chain and productivity improvements from facilitating the dissemination of good practice.</li> </ul> |
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| Transparency and Traceability | <ul style="list-style-type: none"> <li>• Improved traceability and multi-tier visibility through rollout of new tools and resources.</li> <li>• Better information on material substitutions and industry collaboration to provide and pass-on relevant information along with materials.</li> </ul> |
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| Standards and Certification | <ul style="list-style-type: none"> <li>• Common, standardised and credible reporting systems and metrics.</li> <li>• Simpler and mutually recognised chain of custody schemes, and clarity on "good" and "less good" suppliers.</li> </ul> |
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| Lobbying and Collaboration | <ul style="list-style-type: none"> <li>• Improved cross-sector traceability and policy compliance systems and tools.</li> <li>• Better alignment between governmental and voluntary standards, and compatibility of existing standards.</li> </ul> |
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### 3. Risk

Engage with supply chain to manage and understand how organisation is impacting on critical resources, and to identify risks and opportunities impacting on productivity, reputation, growth.

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| Marketing and Supply Chain Management | <ul style="list-style-type: none"> <li>• Stronger demonstration that the risk associated with not pursuing more sustainable sources could hurt market share.</li> <li>• Access to constrained raw materials.</li> </ul> |
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| Transparency and Traceability | <ul style="list-style-type: none"> <li>• Building stronger, longer-term supplier relationships to increase transparency and collaboration.</li> <li>• Improved systems to map the supply chain beyond the first tier.</li> </ul> |
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| Standards and Certification | <ul style="list-style-type: none"> <li>• Clear indication of standards required; incorporating new criteria into quality management systems to ensure that products are pre-screened for compliance.</li> <li>• Certification schemes to provide consistent definitions of vulnerable areas and resources.</li> </ul> |
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| Lobbying and Collaboration | <ul style="list-style-type: none"> <li>• Integrated and participatory approach based on dialogue and partnership with suppliers, NGOs and local communities.</li> <li>• All supply chain players to act quickly where standards may have been infringed.</li> </ul> |
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### 4. Brand and Reputation

The reach of global media has amplified demands for more corporate accountability and responsible behaviour. Branding and reputation can be a vital competitive advantage in terms of attracting and retaining customers, staff and suppliers.

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| Marketing and Supply Chain Management | <ul style="list-style-type: none"> <li>• Pushing and encouraging customers to evaluate sustainability.</li> <li>• Supportive, participatory approach, improving industry standing.</li> </ul> |
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| Transparency and Traceability | <ul style="list-style-type: none"> <li>• Enabling transparency and traceability, helping to enhance trust and industry standing.</li> <li>• Transparency in business operations and efforts to manage supply chain enhances reputation.</li> </ul> |
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| Standards and Certification | <ul style="list-style-type: none"> <li>• Clearer definition and communication of what sustainability actually means and why it is the right thing to do.</li> <li>• Association with brands that enhance customer and industry standing.</li> </ul> |
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| Lobbying and Collaboration | <ul style="list-style-type: none"> <li>• Integrated and participatory approach based on dialogue and partnership with suppliers, NGOs and local communities.</li> <li>• Engagement in activity of benefit to wider society and environment.</li> </ul> |
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