The Journey to Responsible Sourcing: Key Elements for Success

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As stakeholder expectations evolve, companies are under pressure to report not only on the impact of their operations but also on the impact from their value chains. This report outlines the elements that chief procurement officers should incorporate as they design a responsible sourcing strategy.

Overview

Key Findings

- Ninety-three percent of organizations are planning to invest in responsible sourcing initiatives. However, procurement leaders often struggle to identify what environmental, social and governance (ESG) issues they should incorporate into their responsible sourcing strategy.

- Failure to integrate responsible sourcing priorities into buying decision making and supplier performance metrics will hamper the effectiveness of the strategy.

- Procurement leaders have limited resources for responsible sourcing and often miss opportunities to amplify their effectiveness by engaging with third-party organizations.

Recommendations

Chief procurement officers looking to build a responsible sourcing strategy should:

- Define the scope of the responsible sourcing strategy by identifying the desired outcome. Outcomes can range from a compliance-focused approach (not doing harm) to one that serves as a market differentiator (improving company impact) or enables collaboration across the partner ecosystem (driving collective impact).
Introduction

“To deny people their human rights is to challenge their very humanity.”

— Nelson Mandela (see Note 1)

Increasingly complex globalized supply chains mean that responsible sourcing risks, such as labor exploitation, environmental pollution and unsafe working conditions, can go undetected. Procurement leaders have a crucial role to play in implementing a responsible sourcing strategy to identify and correct these poor practices while encouraging suppliers to limit environmental impacts, such as greenhouse gas emissions.

Gartner research shows that 93% of organizations are planning to invest in responsible sourcing in the next 18 months. Unfortunately, some of these efforts will vary in effectiveness. Companies that focus on simply sending policies to suppliers will have a limited impact. Leaders should undertake a comprehensive approach that includes comprehensive data collection, on-site audits and supplier upskilling efforts, which will prove much more effective at managing risks and delivering stakeholder value.

Here, we assess how procurement organizations can improve the effectiveness of their responsible sourcing strategy by defining the scope and objective they want to achieve, assessing opportunities for third-party collaboration and embedding responsible sourcing into supplier life cycle management. Figure 1 highlights the key elements that procurement leaders must take into account when defining their responsible sourcing strategy.
Figure 1: Key Elements of a Responsible Sourcing Strategy

**Key Elements of a Responsible Sourcing Strategy**

1. **Scope**
   What should we focus on?

2. **Due Diligence**
   How far will we go?

3. **Supplier Focus**
   Which suppliers should be included?

4. **Governance**
   How will we make this relevant?

5. **External Engagement**
   How to leverage external partners?

Source: Gartner

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**Analysis**

Define the Scope of Your Responsible Sourcing Strategy by Focusing on the Intended Outcome

There are many reasons why companies might consider implementing a responsible sourcing strategy. For some, responsible sourcing practices are required to protect their brand’s reputation. For others, responsible sourcing is used as a market differentiator and key to a company’s competitive advantage. When looking to design a responsible sourcing strategy, the first question procurement leaders should ask is: What are we trying to accomplish? Most organizations will start their journey by taking a compliance-focused approach, but as their ambitions grow, some will evolve their goals to support their brand’s market differentiation strategy or enable collaboration across their ecosystem (see Figure 2).
Figure 2: Different Outcomes of a Responsible Sourcing Strategy

Procurement leaders must define the scope of their responsible sourcing strategy by defining the outcome and level of ambition they are pursuing as described below:
Compliance: Regulatory compliance is a catalyst for a foundational responsible sourcing strategy. Regulations that may spark responsible sourcing activities include the conflict minerals legislation (Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1502 [U.S.]), Conflict Minerals Regulation (EU) or Modern Slavery Acts (United Kingdom and Australia). Foundational responsible sourcing programs usually address supplier-employee labor issues, environmental compliance with state-issued permits, and minimum ethics, health and safety expectations. These requirements are based on legal requirements and international norms, such as the ILO’s Declaration on Fundamental Principles and Rights at Work, and are usually communicated to suppliers through a code of conduct.

The outcome of a compliance-focused strategy is to gain a “license to operate,” ensuring that suppliers are not prosecuted and closed by the state for legal compliance failures. The shortcoming of this approach is that it provides no significant differentiation to customers or stakeholders. The focus of these programs is on detecting poor practices and correcting them, or “doing less harm.” It is a basic requirement associated with doing business.

Market Differentiation: Some organizations will seek to move beyond “doing less harm” to having a positive impact in society and the environment. To do so, they will seek to exceed minimum legislative requirements and reflect the expectations of other stakeholders, such as nongovernmental organizations (NGOs), customers and shareholders, in their responsible sourcing strategy. For example, Fairphone, a social enterprise developing smartphones, worked with its manufacturing partners in Suzhou, China, to benchmark the impact of paying a minimum wage. The company found that workers wanted to increase their overtime to raise their income to cover the cost of living. To address this, Fairphone now requires suppliers to pay their workers a living wage instead of a minimum wage.
A living wage is defined as “remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, healthcare, transportation, clothing and other essential needs, including provision for unexpected events.” It exceeds minimum wage requirements.

— Global Living Wage Coalition

Another example commonly observed is companies working with their suppliers to reduce their greenhouse gas emissions. The Paris Agreement (see Note 2) has been a catalyst for some companies to set science-based targets, which often go beyond the boundaries of the organization to include the value chain. This approach helps demonstrate to stakeholders how pressing climate change concerns are being addressed. Retailer Walmart's science-based target is to avoid a gigaton of greenhouse gas emissions from its supply chain by 2030, compared to a 2017 baseline. Project Gigaton is a three-step program where suppliers are asked to set emission reduction goals, sign up to Walmart Sustainability Hub and bank their progress each year. 

The outcome of responsible sourcing strategies at this level is to differentiate the product and supply chain by demonstrating to stakeholders, including customers, how their purchasing choices are linked to positive social and environmental impacts. Activities to include will depend on a company's materiality assessment (see Ignition Guide to Conducting a Materiality Assessment and Note 3):
Ecosystem Enablement: Some sustainability goals require that organizations join forces with other ecosystem partners — including competitors — to amplify their impact in addressing a common issue that may threaten their long-term ability to operate. For example, in the soft drinks industry, PepsiCo, The Coca-Cola Co., Red Bull and others are coming together to develop a circular packaging vision for 2030 in the EU. There are some organizations that are taking a broader view of environmental, social and economic costs — such as deforestation — that are typically unaccounted for in supply chains, often referred to as externalities. Examples of these externalities include biodiversity loss, land-use change, climate change and freshwater use, among others. While companies focused on market differentiation and compliance seek to address key externalities, those focused on ecosystem enablement go a step further by working in partnership to amplify or unlock impact on the most intractable issues. A few examples of organizations taking action on some of these issues are:

- **Nitrogen and phosphorus cycles:** General Mills, a multinational manufacturer of consumer foods, has committed to advance regenerative agriculture on 1 million acres of farmland by 2030. This will improve soil health and pull greenhouse gas emission out of the atmosphere.

- **Land-use change:** Consumer goods company Unilever is aiming for a deforestation-free supply chain by 2023, by increasing traceability and transparency through the application of digital technology — including satellite monitoring, geolocation tracking and blockchain.

- **Water use:** Clothing company Levi Strauss & Co.’s Water<Less program is focused on engaging with suppliers to reduce water consumption. They are also going beyond the boundaries of the organization to promote watershed improvements and access to clean water.

This approach is suitable for organizations whose supply chain has a significant and material impact on the environment, such as those connected to agricultural, manufacturing and extractives industries. The benefits of this approach are to build up rather than draw down natural capital, investing in resources that will enable the long-term sustainability of supply chains. However, this activity cannot be done in isolation; it often requires collaboration across competing organizations, with NGOs, academia and other partners. The need for collaboration comes from externalities being shared, for one organization improving wastewater treatment and quality will have limited impact if neighboring manufacturing plants are not doing the same. When industries come together, positive impacts are amplified.
Strategy Due Diligence

Once the scope of the responsible sourcing strategy has been defined, the second step is to define the level of process rigor the supply chain will apply to suppliers (see Figure 3).

**Figure 3: Responsible Sourcing Strategy Depth**

The first step organizations should take is to define and communicate its expectations of the supply base; this is usually done through a responsible sourcing policy (see Toolkit: Responsible Sourcing Policy). When focusing on environmental issues, such as emissions or broader externalities, suppliers are usually asked to contribute to specific goals, such as greenhouse gas emissions reduction.

Defining the requirements and expectations of the supply base is not enough to ensure suppliers are supporting and adhering to such requirements. Once the requirements have been defined, the second step is to define the suppliers that are the most relevant in supporting these expectations. When the scope of the strategy is compliance, this is typically done as a supplier risk assessment that is used to prioritize suppliers with the highest likelihood of exposure to poor practices (see Toolkit: Responsible Sourcing Policy).

Supplier data needs to be collected via a self-assessment to understand current performance and gain deeper insight into potential risks (see Toolkit: Responsible Sourcing — Supplier Self-Assessment). Software platforms may be used to collect this information and the goal is to understand the suppliers’ ability or willingness to adhere to the expectations of the supplier code of conduct.

If concerns are identified through the self-assessment, a supplier audit may take place to verify the data collected. These audits can be undertaken by competent individuals within the organization or outsourced to a third party. Audits themselves vary in terms of their approach. Two broad types of audits are listed below:
Once the audit has been completed, corrective actions will be issued to suppliers where performance fell below expectation. If significant failures against compliance requirements are identified, the supplier relationship may be suspended while remediation action takes place. In some cases, supplier capability development will be necessary, depending on the scope of the strategy. For example, it is not uncommon to find suppliers that are unable to assess, allocate their greenhouse gas emissions, and therefore, buying organizations must assign resources to develop these supplier capabilities.

Responsible sourcing expectations have increased over time, with more demands for transparency and performance data. Procurement organizations need to work with suppliers to develop their capabilities to meet new requirements. In addition, responsible sourcing objectives are only effective if built into the procurement and supplier life cycle management process.

Incorporate Responsible Sourcing Into Key Procurement Processes

As procurement leaders begin designing their responsible sourcing strategy, they must ask themselves how they will incorporate responsible sourcing goals into the decision-making process of the function. Without this, the responsible sourcing strategy will likely be relegated to the background and considered optional with other short-term objectives, such as cost savings, taking precedence over it. For a responsible sourcing strategy to be effective, it must be elevated to the same level as how companies think about business development: an expected medium-term strategy.

- **Management systems audit**: A management systems audit tends to focus on policy and processes that will ensure compliance. It may be followed by a site tour to observe operations, and make health and safety checks. The shortcomings of this approach is that unscrupulous suppliers may have “double books,” to bluff auditors into positively assessing compliance.

- **Holistic audit**: A holistic audit builds on the management systems approach but also includes engagement with the supplier’s employees. This is usually done by asking the supplier’s employees to complete anonymized questionnaires; it may also include group interviews and a review of living conditions where workers are living on-site. Caution must be exercised when engaging with workers to ensure that participation in the audit process does not result in any discriminatory action by the supplier.
The goals of the responsible sourcing strategy should be reflected along the entire supplier life cycle management, influencing how supplier relationships are contracted, managed and phased out (see Figure 4).

**Figure 4: Supplier Life Cycle Management**

Starting at the earliest stage of the supplier life cycle, organizations should reflect their requirements in the bidding process, supplier selection and onboarding processes for new and prospective suppliers. For established suppliers, responsible sourcing requirements should be embedded into different areas, such as contracting, segmentation, performance management and the supplier collaboration agenda. Changes to these processes, or inclusion of responsible sourcing criteria, will vary greatly depending on the scope of the strategy. Consider the following scenarios, which highlight some of the aspects to incorporate depending on the scope of the strategy:

**Scenario 1: Responsible sourcing for regulatory compliance.**

Companies focused on compliance will first need to define what are their expectations of the supply base by creating a supplier code of conduct (see Toolkit: Responsible Sourcing Policy). Since the goal of this strategy is to ensure basic compliance, this strategy affects all suppliers regardless of location or goods and services provided.
For prospective suppliers, companies should ensure suppliers are aware and in agreement with the supplier code of conduct. Starting with the bidding process, companies should incorporate the code of conduct into all bidding materials and request that suppliers acknowledge it as part of their proposal and quote submissions. Basic compliance will not be a differentiating factor in supplier selection; however, during supplier onboarding, adherence to the code of conduct should be verified.

For existing suppliers, terms and conditions included in supplier contracts and purchase orders should include a provision referencing the supplier code of conduct. The criteria used in the segmentation process, which helps classify suppliers according to their importance to the business, will remain unchanged as basic compliance is a minimum expectation of all suppliers and not a differentiating factor. When assessing supplier performance, only violations to the code of conduct and the ability to address it promptly will be relevant. Basic compliance is typically not part of the broader supplier collaboration agenda (see Follow Gartner’s 4-Step Framework to Implement an Effective Supplier Collaboration Strategy). Supplier development plans might incorporate basic compliance considerations in specific occasions, such as when working to develop diverse suppliers with limited capabilities.

**Scenario 2: Responsible sourcing for market differentiation: greenhouse gas emissions.**

When looking to launch a responsible sourcing strategy to reduce greenhouse gas emissions, known as Scope 3 carbon emissions, companies will often establish a goal for their own operations followed by a goal for their upstream supply chain. For example, global beverage company Diageo recently set a goal to be carbon-neutral by 2030 for its direct operations and, in addition, aims to reduce by 50% the carbon footprint of its supply base. 14 Commonly, this type of goal will be achieved by focusing on a subset of the supply base, specifically those suppliers with a larger emissions footprint.

For prospective suppliers during the bidding process, companies should include carbon disclosure requirements so that suppliers can take that into consideration as they submit their proposals. The supplier selection evaluation should incorporate the prospective suppliers’ impact for the emissions reduction goals alongside other common factors, such as price, payment terms and others. For example, telecommunications company Vodafone recently announced that 20% of the evaluation criteria used to award new business will be linked to the suppliers’ diversity and environmental performance. 15 Lastly, during the supplier onboarding process, companies should validate supplier-provided information on emissions and include it as part of the supplier capability assessment.
For existing suppliers, companies should focus on addressing suppliers whose operations have a higher emissions footprint. Procurement organizations must assess if contracts should include clauses committing suppliers to emissions reduction. Based on the relevance of the responsible sourcing strategy for the company as a whole, the supplier segmentation criteria used to identify key suppliers might need to incorporate its ability to support the emissions goals. Supplier performance assessment should incorporate the supplier's ability to meet the company's expectations in terms of emissions alongside other operational and nonoperational metrics. For example, at Intel, a semiconductor and technology multinational company, sustainability factors account for 15% of the overall supplier performance ratings.  

The agenda for supplier collaboration and innovation should incorporate emissions reduction as one of the goals for suppliers to work on, individually or collectively, with the organization or other suppliers. At AB InBev, a multinational drink and brewing company, collaboration with and between suppliers on sustainability goals is enabled by its Eclipse digital platform. This platform allows suppliers and partners to share best practices and co-innovate to deliver on sustainability commitments, which include 25% CO₂ emission reduction from its supply base by 2025.  

Lastly, when looking to terminate a supplier relationship, companies should assess the supplier's impact to their emission goals during the phaseout assessment.

**Identify Responsible Sourcing Partners by Assessing Available Groups, by Industry and Category**

Procurement organizations can positively amplify their impact by collaborating with third-party organizations. There are two main types of third-party organizations: Industry associations and category-focused groups and certifications. The benefits and pitfalls of working with each group are as follows:
**Industry associations:** This type of partnership is where companies in the same industry, or cross-industry, come together to focus on responsible sourcing for their sector. These groups predominantly focus on responsible sourcing for regulatory compliance and are membership-based, usually with common responsible sourcing policies, assessment and audit approaches. Organizations are often asked to contribute a quota of supplier audits into the system each year so that members collectively benefit from this insight. Caution must be exercised in selecting an NGO partner, as some take the role of holding business to account by publicizing poor practices, whereas others take a more collaborative role by working with the business on improvements. Three examples of industry partnerships include:

- **TfS:** TfS is a network for 26 chemical companies delivering responsible sourcing supply chain activities based on the U.N. Global Compact and Responsible Care Principles.  

- **Responsible Business Alliance (RBA):** The RBA, formally the Electronic Industry Citizenship Coalition, is a nonprofit organization focused on electronic, retail and automotive organizations. The purpose of the RBA is to improve the rights and welfare of workers and communities affected by global supply chains. RBA members are held accountable to a common code of conduct.

- **Slave-Free Alliance:** Slave-Free Alliance is a social enterprise set up by the global nonprofit organization Hope for Justice in April 2018 and is represented on a number of U.K. and international steering committees and policy coordinating groups. The Alliance's goal is to help organizations identify potential vulnerabilities and aid in mitigating them (see Responsible Sourcing — How Far Will You Go to Protect Your Supply Chain From Slavery and Human Trafficking?).

**Category-focused groups and certifications:** There are a number of groups seeking to improve supply chain conditions for specific materials or categories. These are predominantly oriented toward agriculture. Many of these NGOs review responsible sourcing practices in the supply chain and some have developed certification labels that can be used to certify suppliers with acceptable practices. Buyers purchase with confidence based on these certification schedules. Examples of these organizations include:
Ethical Trading Initiative (ETI): The ETI is an alliance of companies, trade unions and NGOs focused on improving working conditions globally. Members of the ETI agree to their base code on labor practice, putting ethical trade at the core of their business and reporting performance. This organization also provides training on labor issues.  

Rainforest Alliance: This organization provides sustainable agricultural standards to enable farmers to protect the environments they work in and supply chains to increase transparency of how products are produced.

Marine Stewardship Council (MSC): MSC certification confirms that fish has been sourced from well-managed and sustainable fishing groups. The MSC fisheries standard is based on the United Nations Food and Agriculture Organization's code of conduct for responsible fishing.

Roundtable on Sustainable Palm Oil (RSPO): This is a not-for-profit organization that brings together the palm oil industry to improve environmental and social standards through certification. RSPO consists of 4,000 members globally.

This is by no means an exhaustive list of responsible sourcing organizations by category. Note 4 contains a table of additional organizations by commodity. Collaborations enable procurement organizations to enhance their impact as common codes of conduct are in place and audit outcomes are shared between members, reducing the burden on suppliers.

New technology solutions are being launched to support responsible sourcing efforts, ranging from survey-based and ESG risk monitoring solutions to worker engagement tools and traceability applications. These tools help with the collection, centralization and analysis of supplier data and some can help organizations assess suppliers deep in their supply chain (see Market Guide for Supplier Sustainability Applications). Supply chain leaders will have to learn to evaluate these solutions and plan ahead how different solutions will have to be used, as depending on the scope of their strategy multiple tools may be needed.

**Evidence**

Gartner Procurement’s Value Contribution in Supply Chain study.

Question: “What are your organization's top three priorities for sourcing and procurement function?” (n = 264).
Results presented are based on a Gartner study to understand the business outcomes procurement is most focused on supporting, the primary levers it is using to achieve these business outcomes, and the technology enablers required to operate these levers effectively. The primary research was conducted online from July through August 2019, among 264 respondents in North America, Latin America, Western Europe and Asia/Pacific. Companies from retail, manufacturing, healthcare and natural resources were screened for having annual revenue of less than $1 billion. Respondents were required to be at a manager level or above and should have primary involvement in and responsibility for the sourcing and procurement function in their organization.

The study was developed collaboratively by Gartner analysts and the Primary Research team that follows supply operations. Disclaimer: Results do not represent “global” findings or the market as a whole, but rather reflect the sentiment of the respondents and companies surveyed.

1 Future of Supply Chain Survey 2020 — n = 1,217.

2 Dodd-Frank Implementation, SEC.

3 A New EU Law to Stem the Trade in Conflict Minerals, European Commission.

4 Modern Slavery Act 2015, The National Archives.

5 Criminal Justice, The Department of Home Affairs.

6 ILO Declaration on Fundamental Principles and Rights at Work, ILO.

7 What Is a Living Wage?, Global Living Wage Coalition.

8 Paying Living Wage in the Electronics Supply Chain, Fairphone.

9 Project Gigaton, Walmart.

10 Circular Packaging Vision 2030, UNESDA.

11 Regenerative Agriculture, General Mills.

12 Zero Deforestation, Unilever.


15 Vodafone Embeds Purpose Commitments in Its Supply Chain, Vodafone.

16 Video: Procurement’s Critical Role in Driving the CSR and Sustainability Agenda at Intel

17 Eclipse Supplier Collaboration Platform to Advance Progress on Sustainable Development, AB InBev.

18 What Is TfS?, TfS.

19 About the RBA, Responsible Business Alliance (RBA).

20 About Slave-Free Alliance, Slave-Free Alliance.

21 Ethical Trade During Coronavirus, Ethical Trading Initiative (ETI).

22 2020 Certification Program, Rainforest Alliance.

23 Why Get Your Fishery MSC Certified?, Marine Stewardship Council (MSC).

24 About, Roundtable on Sustainable Palm Oil (RSPO).

**Note 1: Nelson Mandela**

Nelson Mandela (1918-2013), was the first black president of South Africa, from 1994 to 1999. He was involved in the anti-apartheid movement, joining the African National Congress (ANC) in 1942. In 1962, Mandela was imprisoned for life for political offenses. After serving 27 years, he was released. In 1993, Mandela and South African President F.W. de Klerk were jointly awarded the Nobel Peace Prize for their work to end the apartheid system.

**Note 2: Paris Agreement**

On 21 December 2015, at the Conference of the Parties (COP 21) in Paris, the United Nations Framework Convention on Climate Change (UNFCCC) reached an agreement to combat climate change and accelerate actions and investment to move toward a sustainable low-carbon future. The premise of the Paris Agreement is to keep global temperature rise this century below 2 degrees Celsius (above preindustrial levels) and to pursue actions to limit temperature increase to 1.5 degrees Celsius.
Note 3: Materiality

Materiality is a critical principle to any sustainability strategy or program. Using materiality to guide the sustainability strategy means focusing on those things that first are significant in terms of the enterprise's impact on the environment, economy and/or society, and second are “important” to the enterprise's stakeholders. Those stakeholders might include customers, investors, employees, regulators and the communities in which the enterprise operates (see Define Sustainability and Leverage Materiality to Drive More Effective Strategy).

Note 4: Responsible Sourcing Organized by Commodity

Table 1: Responsible Sourcing Organizations by Commodity

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<td>Programme for the Endorsement of Forest</td>
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Toolkit: Responsible Sourcing Policy
Tool: Responsible Sourcing — Supplier Risk Assessment
Toolkit: Responsible Sourcing — Supplier Self-Assessment
Toolkit: Responsible Sourcing — Supplier Audit
Market Guide for Supplier Sustainability Applications
Quick Answer: How to Select a Supplier Sustainability Application

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