Outsourcing is an accepted part of the business landscape but new sensitivities arise when it comes to global sourcing or offshoring.
We know that customers are concerned about privacy and data security when operations and IT are sent offshore. And we know that our customers want to talk to local staff about their financial needs.

On the other hand we have to be able to compete on a level playing field in terms of access to best practice and lower cost resources, wherever they may be.

So whilst offshoring is a real outsourcing option, we have a responsibility to tread carefully. That’s why we have set down clear principles to guide any offshoring we may consider (set out on page 63).

Any initiatives would be evolutionary, not revolutionary. Keeping employees properly informed is paramount, as is retraining and redeploying our people wherever possible. And, there must be no slippage in our labour standards.

Overall offshoring must make sense for our customers and shareholders before we will consider it.

“Keeping employees properly informed is paramount.”
What’s the future for our suppliers?

WHAT DO WE BELIEVE?
We believe that the actions of our suppliers are increasingly important factors in our own performance.

WHY DO WE DO IT?
We don’t have factories but we do have 10,000 suppliers.

Air travel, utilities, IT, recruitment services, from multinationals to SMEs and everything in between, it takes an awful lot of stuff to keep Westpac going.

This means that the supply chain is a surprisingly significant part of our social, ethical and environmental impact - alongside our corporate footprint and the impact of our lending and investment.

Our response is to choose our suppliers on the basis of their social, environmental and ethical credentials, alongside the traditional criteria of quality, cost and so on.

On the one hand we can have a major impact on our mutual social, ethical and environmental outcomes. At the same time we take both risks and costs out of the supply chain, which goes straight to the bottomline.

“The supply chain is a surprisingly significant part of our social, ethical and environmental impact.”
We award business on merit and aim to secure products and services on the most appropriate terms. Our Request for Proposal (RFP) process considers organisational sustainability, price, quality, delivery and other pre-established criteria, variously weighed depending on the nature of the goods, service or solution being sourced.

We seek to ensure that our suppliers:
- are aware of their specific environmental, social and ethical issues;
- have management systems in place to address these issues, risks and opportunities; and
- have systems that are delivering effective performance management and improvement.

Westpac’s Principles for Offshoring

1. We will not move call centres in Australia or New Zealand offshore.
   • Only staff based in Australia or New Zealand will talk to Australian or New Zealand customers.
2. We will always do the right thing for affected employees.
   • We will support every affected person to find a role at Westpac or assist with other career options.
   • We will protect salary levels for any people redeployed as a result of offshoring.
3. We will always protect our customers’ privacy.
   • We will insist that offshoring suppliers fully adhere to the privacy laws that apply to Westpac and to Westpac’s privacy policies.
4. We will keep Australia or New Zealand critical customer data and related computer systems and servers in Australia and New Zealand.
5. We will insist that security and access controls in offshore suppliers are as good as or better than Westpac’s internal security and access controls.
   • We will monitor security standards in all offshore supplier locations.
6. We will insist that all of our offshoring suppliers respect and support international conventions on human rights and labour standards.
7. We will keep our employees informed of our decisions.
When we developed a sustainable supply chain management (SSCM) process in 2003, there were few benchmarks or models to go by as it was ground-breaking for the banking sector.

This year we commissioned an independent and external review of the policy and process - to tell us what was working and what needs improvement.

The report and recommendations are under review and will be made publicly available, but these are the top-line observations:

1 **Changes to the policy and process are significant**
   Before making any changes we will engage with suppliers, NGOs, government and the other stakeholders who co-developed the initial process.

2 **Streamline supplier assessment**
   The use of the full questionnaire with all suppliers and for all Request for Proposals may not be the best use of resources. We will look at restricting the full process to higher value and higher risk industry sector suppliers.

3 **Does one size fit all?**
   Suppliers are sometimes critical of our ‘one size fits all’ approach. We need to set out more clearly that we do understand the differences between suppliers - and that this is taken into account within the scoring process.

4 **Aim for a clearer policy**
   We agree that our policy and supporting documentation can be shortened and clarified.

5 **A Supplier Code of Conduct**
   We will consider a Supplier Code of Conduct as one way of introducing corporate responsibility performance into our supply relationships as a contractual requirement for suppliers not subject to the full SSCM process.

6 **Keep corporate responsibility on the table**
   We will consider a Balanced Scorecard or other mechanism to ensure that corporate responsibility performance is built into supplier relationship management - and not just considered at the time of new or renewed contracts.

7 **Continuing internal engagement**
   We need to communicate better internally - outside of the Strategic Sourcing specialists - to build understanding of our SSCM intent and processes.

8 **Supplier assurance**
   We need to accelerate the assurance of suppliers’ performance.

9 **Small and Medium Enterprises (SMEs)**
   We should clarify how SMEs fit within our sourcing strategy to be clearer about the supply opportunities for SMEs.

“Anecdotal evidence from the review suggests that sustainable supply chain management has driven change in corporate responsibility and sustainability among Westpac suppliers.”
Corporate social responsibility has changed the nature of commercial relationships. It produces a ripple effect that begins within each organisation and flows beyond.

By the time Westpac implemented its sustainable supply chain management (SSCM) Minter Ellison had already taken the first steps on our corporate social responsibility (CSR) journey. We looked at our performance and, on the whole, we liked what we saw: a proud record of contributing to the community through pro bono legal services and donations to worthy causes; we are not a major polluter; and we look after our people. Not a bad start – or so we thought.

The 2003 Corporate Responsibility Index was a sign of the ripple heading our way. We were on the back foot when it came to our own supplier relationships – and then Westpac asked us very similar questions. And we quickly realised that the self-satisfaction that comes from not being a major polluter did not equate to good CSR performance. We needed processes: to measure our environmental impacts, to set targets, to report our performance.

This was all new for us. When it comes to CSR, professional services firms differ from publicly listed companies in key aspects. As a business-to-business operation we do not have a mass customer base shaping our CSR agenda. As a private partnership we do not have the public reporting requirements. And our community role with no expectation of reward or reputational benefit pre-dated the CSR movement.

Westpac’s SSCM strategy has taken this client influence to a new level. When we first responded to Westpac’s SSCM survey in 2004 we were faced with gaps across environmental performance, public reporting and marketplace management. By 2005 we had measures in place: joining the Australian Government’s Greenhouse Challenge; new processes to collect and analyse data across the CSR agenda; and better reporting of CSR principles and performance on our website.

In short – it worked. In Westpac’s 2005 survey our performance exceeded the professional services average.

Back in 2003 we took our own steps to commence our CSR journey – and we remain the only law firm to participate in the Corporate Responsibility Index in Australia, NZ and the UK. Westpac’s SSCM strategy took us further and faster down this path.

Significantly the drivers for change are not just our corporate services team but, in fact, the firm’s partners and senior lawyers. They happen to give a damn about paper recycling, clean energy and water consumption – but now there’s also a business case. And surely that’s what CSR is all about.

Anton Hermann National Director Pro Bono & Community Investment, Minter Ellison Lawyers

“In recent years the tendering process has gone beyond technical expertise and price to examine non-financial performance and cultural fit.”

But there are similarities also. Our most important asset is our people – and our people tell us that they expect to be involved in the community; and that they want to work in an office that uses less and recycles more natural resources. So there are still market forces to guide our CSR journey.

The same applies to our clients. In recent years the tendering process has gone beyond technical expertise and price to examine non-financial performance and cultural fit. This has had a major positive influence on the CSR agenda of professional services firms – including Minter Ellison.
## HOW DID WE DO?

<table>
<thead>
<tr>
<th>2006 OBJECTIVE</th>
<th>PROGRESS TO DATE</th>
<th>2007 OBJECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>To ensure top 100 suppliers are screened at all times for their social, ethical and environmental performance.</td>
<td>Approximately 75% of rolling top 100 suppliers (87% of the top 100 procurement spend) have been assessed.</td>
<td>Develop and implement a Supplier Code of Conduct.</td>
</tr>
<tr>
<td>Continue to strengthen the engagement of suppliers with forums, resources and education.</td>
<td>Supplier Forum held in March 2006.</td>
<td>Review and refresh the SSCM policy, assessment tools and supporting materials.</td>
</tr>
<tr>
<td>Increase continuous improvement agreements to 75% of those deemed required, and strengthen monitoring and reporting processes against those agreements.</td>
<td>Continuous improvement agreements continue to grow. Reporting and staff resources have been improved to ensure closer monitoring.</td>
<td>Refine implementation of the SSCM assessment and continuous improvement processes to ensure high spend and higher risk suppliers are appropriately monitored.</td>
</tr>
<tr>
<td>Expand into the New Zealand supply chain, working with Westpac New Zealand to assess their key suppliers.</td>
<td>Sustainable supply chain management launched in NZ, with most key suppliers assessed.</td>
<td>Improve SSCM assessment and support materials for SMEs.</td>
</tr>
<tr>
<td>Formalise training and assessment in sustainability in the supply chain through Westpac’s induction training and Learning Management System.</td>
<td>Learning modules launched for the Sourcing Team with all designated staff progressing well towards full completion. Broad-based sustainability e-learning launched - includes supply chain.</td>
<td>Convene a supplier representative group to inform SSCM policy and practice.</td>
</tr>
</tbody>
</table>

*In progress*
WHAT ARE WE DOING?

Supplier wrap-up

Performance

Our supply chain involves approximately 10,000 suppliers in all industries, and our supply chain delivers goods and services with an annual value of around $2.5 billion. It is also highly concentrated, with approximately 71% of annual spending absorbed by the ‘top 100’ suppliers. Our focus for SSCM is on suppliers that account most significantly for spend.

During the year, we conducted a review of our Transactions and Unsecured Lending Operations (TULO), in Concord NSW, to determine if some of its business functions can be done more efficiently by external partners. This was solely focused on back-office processing and did not cover any call centre staff, or customer-facing staff in any capacity.

This review raised some concern among our people and the broader community around the question of ‘offshoring’ and the potential impact on the services we provide. In November 2006, we decided not to proceed with the offshoring option for these functions.

Sustainable Supply Chain Management (SSCM)

We look for suppliers who demonstrate a commitment to take account of their responsibilities, and work with our suppliers to promote mutually improved social, ethical and environmental performance.

Our Sustainable Supply Chain Management (SSCM) Policy and Guidance Notes sets out our approach and process for identifying and mitigating social, environmental and governance risks within our supply chain. It applies through all Request For Proposal (RFP) and Request For Tender (RFT) processes.

Our supply chain process is overseen by the SSCM Steering Committee, which meets on a quarterly basis. Issues for review in 2006 included embedding SSCM in independent sourcing across the business and the need to conduct a review of the SSCM process, incorporating a qualitative risk assessment overlay. The SSCM Steering Committee will undertake this review in 2007.

Our full Sustainable Supply Chain Management Policy and Guidance Notes are available on our website at www.westpac.com.au under the ‘Westpac info’ tab.

Accounting for supplier performance

We aim to ensure that 100% of our top 100 suppliers are assessed against SSCM at any given time. This is a challenging target because membership of our top...
suppliers changes from year to year. Over 350 suppliers have been assessed under SSCM to date.

As at 30 September 2006, 75% of our top 100 suppliers have been assessed against SSCM, up from 69% last year. This accounts for 87% of procurement spend within the Top 100. In addition, new suppliers to Westpac continue to be assessed against SSCM, as well as existing suppliers extending their contract. This allows us to capture the smaller enterprises and suppliers who may not otherwise have been assessed.

The policy in practice
Our approach is to work with our suppliers to identify risks and opportunities with the potential to add value to the relationship. We focus on establishing reasonable and effective Remedial Action Plans (RAPs), whereby we agree on the most meaningful area for potential improvement for their business.

This can include anything from Emergency Response Planning to eco-efficiency to establishing an effective community involvement program. Increasingly we find suppliers are keen to understand and address their environmental impacts and we are always happy to share our experience tackling our own sustainability performance.

Within the reporting period, we finalised ten RAPs, had twelve agreed to and in progress and a further nine are pending. In addition, many suppliers choose to address identified gaps and apply for re-assessment under the SSCM process.

A continuing challenge for the SSCM assessment process lies in the interpretation of public reporting requirements, particularly for private companies. The review of tools and processes planned for next year will address this issue.

During the year, we have introduced a learning module on SSCM for designated people within Sourcing. We have also incorporated a suppliers component into a new e-learning module on corporate responsibility, which is currently being rolled out across the organisation.

Strengthening relationships
We have found that the application of SSCM has provided an excellent avenue for broadening the dialogue with our suppliers.

In March 2006, we held our second Supplier Forum at which 49 supplier representatives attended. The forum focused on communicating our objectives and some key results on our performance and provided an update on where we are going with SSCM. In 2007, we will be convening a supplier representative group to inform SSCM policy and practice at Westpac on an ongoing basis.

We recognise that within Australia many suppliers face similar sustainability assessment processes for a number of organisations in the financial services market. So we have begun preliminary discussions with other major banks in our market to explore the potential for streamlining sustainability assessment processes, or alternately recognising standardised processes between comparable institutions. There remains a fair way to go in agreeing on this process, but it is an issue that we acknowledge and have begun to look at.

We source feedback from our suppliers on ad hoc issues through our organisation-wide stakeholder engagement mechanisms. In 2006, a number of suppliers provided feedback on our stakeholder impact report and participated in engagement workshops. We also sought specific feedback on improving our paper procurement policy.

Next steps
We recognise that it has now been three years since we first developed our SSCM policy and methodology. The sustainability agenda has moved forward considerably in that time.

So in 2007, we will be conducting a complete examination of SSCM to review, streamline and refresh the policy, assessment tools and supporting materials. This review will be especially focused on ensuring that high risk and high spend suppliers are appropriately assessed through the SSCM process and assessing the impact of SSCM on small business.
NOW FOR THE NUMBER CRUNCHING...

### Market performance (%) all assessments under SSCM

<table>
<thead>
<tr>
<th>Category</th>
<th>2005-06</th>
<th>2004-05</th>
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<tbody>
<tr>
<td>Professional services</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Travel &amp; logistics</td>
<td>60</td>
<td>41</td>
</tr>
<tr>
<td>It &amp; T</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Marketing, outsource and staff expenses</td>
<td>49</td>
<td>52</td>
</tr>
<tr>
<td>Property services</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Westpac</td>
<td>95</td>
<td>95</td>
</tr>
</tbody>
</table>

Mean score (relative weightings vary by category) Number of suppliers per category exceeds 50

### Total supply chain spend ($bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>$bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$2,000</td>
</tr>
<tr>
<td>2005</td>
<td>$2,200</td>
</tr>
<tr>
<td>2006</td>
<td>$2,500</td>
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</table>

### Assessment of suppliers against SSCM (% of top 100 suppliers)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>81%</td>
<td>69%</td>
<td>75%</td>
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</table>

### Assessment of suppliers against SSCM (% of top 100 by spend)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>62%</td>
<td>86%</td>
<td>87%</td>
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</table>

### Remedial Action Plans (RAPs)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Number completed</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Number agreed to and in progress</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Number pending</td>
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<td>25</td>
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