

Supply Chain Management

Viewpoint

Sustainable Supply Chain Management

A tool for reinforcing shareholder value



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By Axel Franck

These days, a company's economic success is intertwined not only with its social and environmental actions but with those of its suppliers. That's why businesses must develop and refine sustainable supply chain management (SSCM) disciplines.

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When a large producer of toys and games recently recalled millions of toys because they were found to contain lead-based paint, it was not the first to be reminded that a company's reputation is easily sullied by the errors and transgressions of its suppliers.

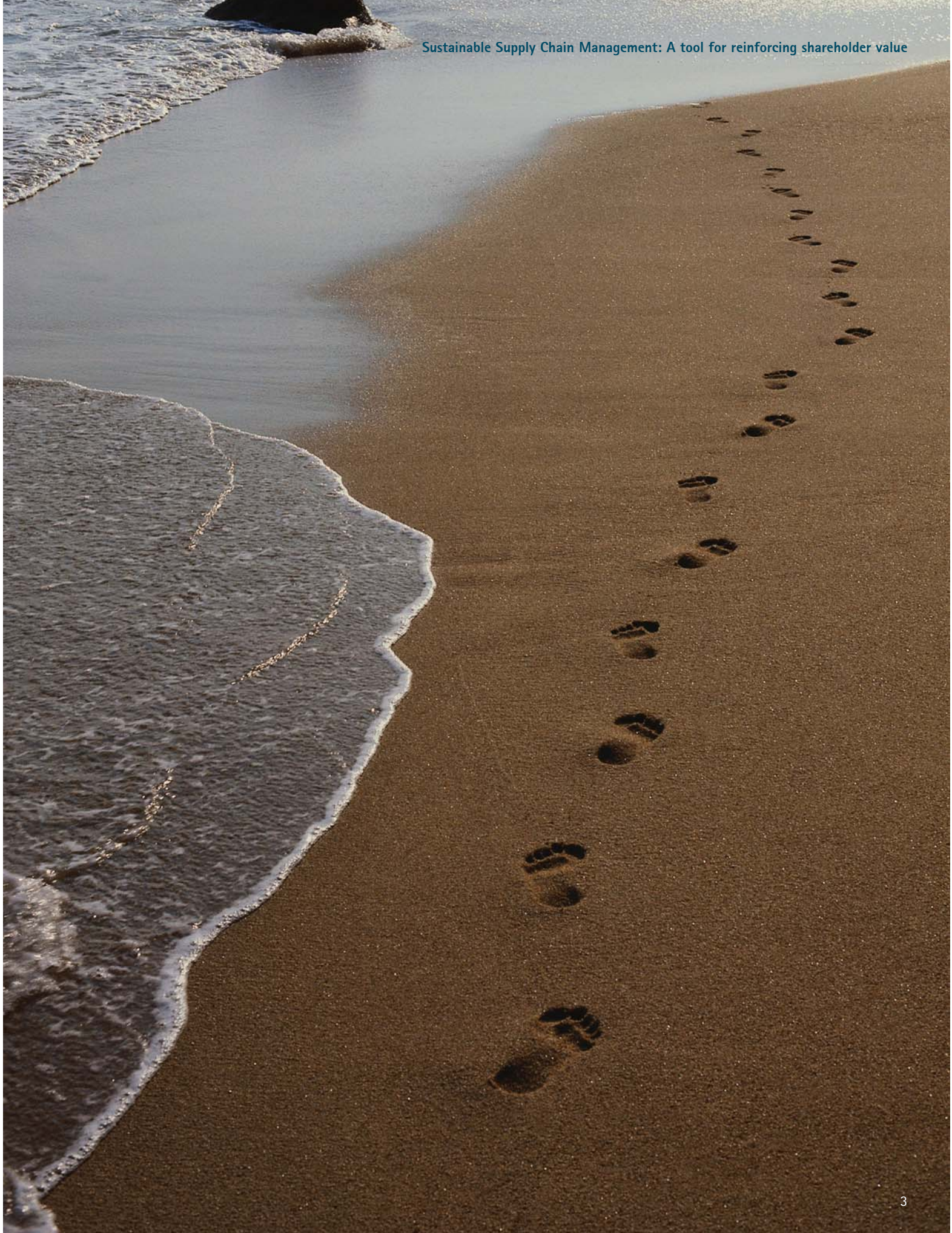
During the 1990s, a leading sportswear company hit the headlines because of the intense scrutiny it attracted over the treatment of workers in its suppliers' Asian factories. Not long after that, several large U.S. retailers drew unwelcome attention to themselves over similar allegations of labor exploitation.

The case for a sustainable supply chain management (SSCM) discipline has never been stronger. In recent years, academics and industry leaders have reached a broad consensus that social and environmental issues are inseparable from economic success. It is now generally accepted that a close connection between financial goals and social and environmental goals is a prerequisite for success over the long term.

More than ever, it is essential that business leaders understand the many types of risks that their companies'

suppliers present in terms of reputation damage, consumer boycotts, a drop in share value, or tort litigation. It is no longer simply about the financial risks incurred because of late deliveries or substandard product quality. And it is not a function of the strength of the supplier-customer relationship; the risks can be just as great if a company has no legal ties to a supplier other than the production contract or the license agreement itself.

Despite the growing volume of discussions about the "greening" of the supply chain and the impact of corporate social responsibility initiatives on supply chain activities, companies continue to fall foul of actions and decisions made far back and often far away along their supply lines. Before we discuss the outlines of an improved SSCM approach, it's useful to look at what's raising the stakes these days.



Procurement still manages sourcing and supplier relations much as it did 50 years ago, when suppliers were local and production operations were on-site. It's rare for there to be a single corporate group with responsibility for ensuring that suppliers adhere to standards of environmental health and safety.

Factors forcing change

There are many reasons why companies need to pay greater attention to the social and environmental aspects of their extended supply chains. These include the continued outsourcing of manufacturing facilities, growing pressure from non-governmental organizations (NGOs) and activists, increased scrutiny by investors, and the instantaneous nature of information-sharing via the Internet.

On the whole, the outsourcing movement has been effective in reducing inventory carrying costs, shortening product development cycles, increasing product variety, and linking forecasting and planning with manufacturing and supply in much more cogent ways. This dramatic shift of responsibility to external parties has been effective in streamlining processes, breaking down corporate bureaucracy and reducing the company "footprint" considerably during the past decade. At the same time, it has resulted in two important strategic changes.¹

First, effective sourcing from and relationship management of suppliers have become issues of strategic importance for the modern corporation because its suppliers' performance has such an impact on the bottom line. For the average manufacturing or distribution company, purchased materials account for between 40 and 60 percent of total revenues.

Second: That dependency means that companies are now more vulnerable than ever to charges of "guilt by association" when suppliers are found guilty of poor environmental, product safety or employment practices. Despite the effort to shift more and more responsibility for manufacturing to business partners, companies have

been surprised to find they have not been able to rid themselves of the attendant legal, ethical and quality responsibilities, even when their suppliers are geographically very distant.

Part of the challenge at most companies is that procurement has changed very little in the past few decades. In many organizations, the supplier management function is still handled largely by mid-level procurement officers. Criteria for supplier selection, though possibly reviewed by the chief operating officer, are usually high-level and flexible, left mainly to the discretion of the purchasing department. Strategic sourcing techniques still tend to focus almost exclusively on supplier performance in terms of quality, price and delivery. That emphasis helps little in developing more collaborative relationships—or in ensuring that suppliers are not at risk of endangering the company's reputation.

In short, procurement still manages sourcing and supplier relations much as it did 50 years ago, when suppliers were local and production operations were on-site. It's rare for there to be a single corporate group with responsibility for ensuring that suppliers adhere to standards of environmental health and safety.

At the same time, watchdog organizations are looking more closely at supply chain activities. Just one example: the UK's Carbon Disclosure Project (CDP). The CDP recently announced the formation of the Supply Chain Leadership Collaboration. The CDP is working with Tesco, Unilever, Cadbury Schweppes, Imperial Tobacco, Procter & Gamble and Nestle to engage these companies' supply chains to report carbon footprints and information relevant to climate change, such as greenhouse gas emissions data, emissions reduction targets and

climate change strategy. "By engaging their supply chains in the CDP process, companies will encourage suppliers to measure and manage their greenhouse gas emissions, and ultimately reduce the total carbon footprint of their indirect emissions," said CDP chief executive Paul Dickinson.²

Meanwhile, the Internet has opened up many more ways for consumers to agitate for responsible supply chain activity—and to vote with their wallets. These days, many shoppers are well aware that they are supporting the supply chains that deliver the products they buy. They have no shortage of data to help them. Customers can (and do) compare carbon footprints of companies' supply chains as easily as they compare nutrition values and price. Co-Op America is a good example of a group whose Web site provides consumers with powerful tools for making purchasing and investing choices that promote social justice and environmental sustainability, and for demanding corporate responsibility through collective economic action.³

Challenges for supply chain managers

Four key challenges stand out for supply chain managers who are considering SSCM approaches:

1. Ecological challenge

In many areas, the ecological challenge for businesses is greater than only a few years ago. Consumers are increasingly sensitive to news of environmental violations. Governments and public authorities are placing tighter limits on pollution. Furthermore, the intense global competition for natural resources is forcing companies to improve the eco-effectiveness of their supply chains. Properly structured, an SSCM approach gives a company

the opportunity to influence its suppliers and its customers. Environmental protection measures are important here. By means of scheduling and planning at the supra-company level, for example, it is possible to minimize storage quantities and empty trips by freight carriers.

2. Social challenge

SSCM can also contribute to social effectiveness. If the entire supply chain is organized, control of the social aspects at all points in the supply chain is made considerably easier, especially where long distances are involved. What an individual company is unable to do for lack of human and financial resources, it is easier to achieve within the integrated perspective of SSCM (i.e., effective control of minimum pay or avoidance of child labor) which covers the supply chain end-to-end.

3. Economic challenge

SCM came about with economic efficiency in mind. Just-in-time delivery and avoidance of surplus inventories and lengthy shipment times are typical of its conventional economic payback. But SCM may also have a positive ecological and social impact—by consolidating freight transportation capacity, for instance.

4. Integration challenge

Since SCM is not confined to any specialized function, it offers opportunities for integrating ecological, economic and social aspects of the supply chain. Companies that have less developed supply chains are in a perfect position to start with SSCM approaches in mind, taking in all the dimensions of sustainability and thinking in terms of systems above the level of the individual company.

Supply chain leaders should make more use of tools that can help to determine the "breaking strain" of the various links in the supply chain—tools such as checklists, substance flow analyses or material flow cost accounting.

Tools for assessing and operating SSCM

So what can supply chain leaders do to begin building robust SSCM disciplines? They can start making more use of tools that can help to determine the "breaking strain" of the various links in the supply chain—tools such as checklists, substance flow analyses or material flow cost accounting, for example. And they can begin expanding their views of the applicable standards. Each area is worth a closer look:

Self-assessment tools can help to benchmark the company's current state against its stated goals, the performance indicators selected and its stakeholders' expectations. These tools help the company's leaders see the gaps between policy and reality in areas such as:

- Levels of employee "buy-in" to high standards of ethical behavior
- Board and senior management perceptions and degrees of support
- Stakeholder expectations
- The information-gathering capabilities and general "risk awareness" of the company
- Potential areas of concern throughout the extended supply chain, including supplier behavior.

Checklists can be a good way to build the initial inventory of a company's environmental features. They are also used to check compliance with minimum social standards such as Social Accountability 8000 (SA 8000) developed by the International Standards Organization (ISO). As such, they are a good first step on the path to establishing an environmental or social management system whose objective is basic identification of weaknesses and opportunities.

Checklists can be function-related (noting environmental impacts of specific functional areas, such as procurement) or product-related, and may be applied to specific aspects such as hazardous substances. Checklists also become the basis of audit processes (see sidebar, "IKEA's Smart SSCM Move.").

An important consideration when using a checklist is the logical and objective compilation of the criteria used. There is a risk that the checklist's impact may be watered down by subjective choices of criteria or by overloading with large numbers of less relevant criteria. Figure 1 gives a sample of a checklist done right.

Standards are another route to building an effective SSCM discipline. "Whether you sell clothing, chocolate, garden furniture, or diamonds, the chances are that your company will have received requests to commit to one of the codes offered by third parties," said Sarah Roberts, a strategic sustainability consultant at the UK's National Centre for Business and Sustainability. "With outsourcing the norm, all major companies are going to have to find ways to influence the sustainability of their supply networks . . ."4 She adds: "Establishing standards along the value chain, and the monitoring and verification of these standards, is an increasingly important part of supply chain management."⁵

A new set of detailed social and environmental standards has emerged recently. The new standards promise to transform the way companies manage their (and their suppliers') social and environmental practices. These standards—SA 8000, EMAS, ISO 14001, the Ethical Trading Initiative, AA 1000—are rapidly becoming integral to the ethical supply chain framework of progressive companies worldwide.

IKEA's Smart SSCM Move

The IKEA Way on Purchasing Home Furnishing Products (IWAY) is a code of conduct that helps define the household goods retailer's relations with its suppliers. It is based on the eight core conventions defined in the Fundamental Principles of Rights at Work, ILO declaration June 1998 and the Rio Declaration on Sustainable Development 1992. IWAY covers IKEA's minimum requirements in the following three areas; outside environment, social and working conditions (including child labor) and wooden merchandise.

IWAY specifies IKEA's minimum requirements for suppliers and what they can expect from IKEA. Suppliers are responsible for communicating the content of the IKEA code of conduct to co-workers and sub-contractors and ensuring that all measures required are implemented. Since 2006, the IWAY requirements also include that suppliers must conduct their own audits and have a health and safety committee with half its members being employees. This is in line with IKEA supporting and motivating the suppliers themselves to implement and maintain the requirements stated in IWAY.

In order to ensure compliance with IWAY, IKEA conducts unannounced audits or inspections to verify that the IWAY requirements are fulfilled. Audits are executed by internal and external auditors using detailed checklists for different categories.

1. Legal compliance
2. Emissions
3. Ground contamination
4. Chemicals
5. Waste, hazardous waste
6. Fire prevention
7. Workers' health and safety
8. Dormitories
9. Wages, overtime
10. Child labor
11. Forced and bonded labor
12. Discrimination
13. Freedom of association and collective bargaining
14. Harassment and abuse
15. Continuous improvement
16. Forestry, routines for procurement of wood
17. Forestry, fulfillment of IKEA and legal demands

Figure 1. Example of a checklist for energy management

System issues

What ongoing measures are taken to ensure that as little energy as possible is needed? How is this monitored?

What measures are taken to ensure that energy sources are selected and used on the basis of environment-related criteria and how is this monitored?

What criteria are used to judge "environmentally friendly" aspects?

Answers

- Checking compliance with all legal and internal requirements by means of monitoring measures by operator (job descriptions, procedural instructions) e.g., by measuring quantities
- Consideration of energy aspects for new and existing processes (in line with investment guidelines, research guidelines)
- Checking general requirements such as environmental guidelines, manuals
- Control by means of internal audits (audit guidelines, possibly check for energy sources)

- Compliance with general requirements found in guidelines, given concrete form through procedural instructions (responsibility with chief engineer, for example; research guidelines, investment guidelines)
- Monitoring by central function
- Control by means of internal audits (audit guidelines, possibly checklist for energy sources)

Compliance issues

Description by department/unit

- Documentation
- Procedural/implementation rules
- Definition of competence/responsibilities, description of interface
- Was check actually performed?

Are there opportunities for energy management, energy saving or selection of energy sources?

- Are investigations into efficient use of energy performed?
- Are energy supply alternatives investigated (e.g., renewables)?
- Are the results accounted for?
- Are investigations conducted with a view to saving energy?
- Are practical tests performed where energy-saving opportunities appear to be suitable?

However, the development of these standards has not been without problems. As with other quality certification movements such as ISO 9000 or Lean Six Sigma, there has been plenty of vigorous debate as protagonists have tried to agree on the procedures and the measurements that constitute international social and environmental process and performance norms. As pressure to support the standards and reporting movement has grown, various options have emerged, ranging from simple if unenforceable pledges of good behavior to more stringent and specific performance standards.

Just as with ISO 9000 and other quality and performance standards, several bodies, including the ISO itself, have developed more robust sets of environmental and social standards that allow companies, after being inspected and qualifying, to be certified at a higher level of performance in these areas. Some, such as SA 8000 or the ISO 14000 series, are focused broadly on either labor or environmental issues.

The Working Group on social responsibility created in ISO is now developing what will be ISO 26000, the International Standard giving guidance on social responsibility. Experts from six well-defined stakeholder categories, from 72 countries and more than 30 international and regional IGOs and NGOs are at work to produce the standard by 2009.

Of course there are many other predominantly environmental standards such as the European EMAS (European Community's Eco-Management and Audit Scheme) or the FSC (Forest Stewardship Council). Although clearly industry-specific, the FSC offers a model for other industries. It sets clear performance standards and a certification scheme for good

environmental and economic forest management. FSC was one of the first organizations to develop the concept of the "chain of custody." The FSC-accredited certification system requires forest products to be labeled and monitored throughout the supply chain, from cutting down the timber through manufacturing and to the point-of-sale by retailers. FSC is supported by most of the large environmental NGOs such as Greenpeace and the World Wildlife Fund.

Of course, some supply chain managers will observe that it costs money to put standards in place, and even more to ensure that they are regularly complied with. However, standards advocates respond by asserting that social and environmental performance monitoring and reporting is no more costly—in terms of employee numbers or investment—than financial reporting, and in fact, usually involves much less investment in everything from auditors and accounting staff to monitoring and report production costs than standard financial reporting requires of companies today. And given that an ethics, human rights, employment, or environmental scandal can mean a precipitous drop in share value, investors need the information and protection that such non-financial reporting provides.

Proponents of standards contend that the two standards areas—financial and non-financial—should now be seen as very much equivalent; both necessary to provide monitoring agencies and investors with a more rounded picture of a company's performance.

Standards advocates assert that social and environmental performance monitoring and reporting is no more costly—in terms of employee numbers or investment—than financial reporting, and in fact, usually involves much less investment.

It is essential to build a coherent but detailed implementation plan that highlights key objectives, success criteria and any necessary changes to management systems and processes.

Setting the stage for SSCM implementation

Sustainable SCM is too complex to be approached in an ad hoc fashion. It is essential to build a coherent but detailed implementation plan that highlights key objectives, success criteria and any necessary changes to management systems and processes. The plan should detail who is accountable for successful implementation. It should also lay the groundwork for incentives to be incorporated into managers' and employees' reward systems—and for accountability to be woven into employee job descriptions. The SSCM implementation plan should address items such as:

- The case for action
- The company's sustainable supply chain strategy
- Results of the self-assessment tool (such as a checklist)
- Proposed new policy, standards, operations and activities tied to specific timelines and milestones
- Immediate and medium-term resources required
- Changes to current procedures and likely implications of those changes
- Key performance and success indicators
- Reward and incentive program requirements
- A proposed process for monitoring and assessing success
- Training and education needs and budget
- Expected total costs and benefits assessment

Such an implementation plan works best if it is developed on two levels: a long-term strategic plan (3 – 5 years) and a short-term (yearly) plan based on key-date milestones. Each plan should be approved and reviewed regularly by senior executives and board members as part of a formal, ongoing risk management process.

Accenture believes that SSCM approaches can contribute significantly to the overall business case of sustainability. At a minimum, a sustainability management approach requires suppliers to accept higher social and environmental standards and requires companies to adopt new non-financial reporting practices.

It is only through formal, standardized monitoring of suppliers and by using generally accepted social and environmental reporting processes that companies can hope to remain fully aware of the actions of their suppliers, satisfy the needs of investors and the demands of activists, and ultimately protect their own reputations.

Notes

¹ Neef, D. (AMACOM 2004): "The Supply Chain Imperative: How to Ensure Ethical Behavior in Your Global Suppliers."

² "Carbon Disclosure Project Launches UK Annual Report and Announces Supply Chain Initiative," press release, 9 October 2007, Carbon Disclosure Project, <http://www.cdproject.net/viewrelease.asp?id=12>.

³ <http://www.coopamerica.org/about/whatwedo/>.

⁴ Roberts, S. Ethical Corporation (2002): "Analysis: Ethical Sourcing Codes—The Answer to Supply Chain Sustainability Concerns?"

⁵ Blowfield, M. The World Bank Group: "Fundamentals of Ethical Trading/Sourcing in Poorer Countries."

About Accenture Supply Chain Management

The Accenture Supply Chain Management service line works with clients across a broad range of industries to develop and execute operational strategies that enable profitable growth in new and existing markets. Committed to helping clients achieve high performance through supply chain mastery, we combine global industry expertise and skills in supply chain strategy, sourcing and procurement, supply chain planning, manufacturing and design, fulfillment, and service management to help organizations transform their supply chain capabilities.

We collaborate with clients to implement innovative consulting and outsourcing solutions that align operating models to support business strategies, optimize global operations, enable profitable product launches, and enhance the skills and capabilities of the supply chain workforce. For more information, visit www.accenture.com/supplychain.

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