

A Clear and Present LEADER

By Kathleen Miller Perkins

Most global companies are actively facing the numerous and complex challenges of sustainability. Pressures for transparency come from all stakeholders, including regulators, the media, customers and investors. Transparency often translates into public sustainability reporting in the form of complex report cards. Mostly multidimensional, these report cards for sustainability performance require information on a combination of environmental, social, financial and governance factors.

Recently, such report cards have expanded from reporting overall company measures to reporting specific products with input from a collective supply chain. This trend presents new challenges for organizations, not only in technical capabilities, but also in organizational culture and leadership competencies. Leading companies are proactively assessing their cultural, skill and knowledge components to ensure they have the competencies to succeed in this complex sustainability space.

Success Key #1: Whole Systems Approach

Companies that take a systemic view of the enterprise, its stakeholders and its connection to the broader global context are more likely to win in the sustainability arena. Patrik Thollesson, operations/business excellence

director for the Americas for one of the world's largest freight managers, Geodis Wilson, located in Islen, New Jersey, notes that successfully implementing sustainability strategies requires a holistic approach.

"The fragmentation of data throughout the supply chain makes it very tough to trace," he says. "Pulling together the information customers request begins within the organizational culture through cross-functional cooperation, and extends to getting data that reside outside of the company."

For example, when Lynnette McIntire, director of global reputation management at UPS in Atlanta, developed a human rights code of conduct, she assembled representatives from several departments, including procurement, legal, public affairs, human resources, treasury and supply chain. According to



**In an increasingly
transparent world,
strong, focused
organizational
leadership and culture
determine success
with today's
sustainability
issues.**

A Clear and Present LEADER

McIntire, who is also a member of UPS' corporate sustainability committee, this work required the company to take an "inside out and outside in" approach.

"Company leaders must scan the outside world, assess how events and trends are likely to affect them, and then get the attention of the people within the company who can address the implications," states McIntire.

In terms of the "outside in" approach, many times the data requested for product-focused sustainability scorecards are held by several companies in the supply chain. As the A.T. Kearney sponsored *Carbon Disclosure Project (CDP) Supply Chain Report*, issued in February 2010, states, "Companies are finally realizing that consumers are aware they do not just buy products — they also buy the supply chains that deliver the products."

"With the proliferation of regulations, we couldn't do this any other way," Ferretti says. "However, it's a challenge because we don't have management over the people we need in order to get the job done. They don't work directly for me anymore, so it is like job sharing. My team has to influence the groups to give us what we need while they perform other jobs."

Success Key #2: Partnership Approach

A second cultural key to success is to view stakeholders as allies. "Sustainability strategies within a supply chain can only be achieved when the players relate to each other as long-term partners," says David Basson, CEO of organic apparel manufacturer Greensource Organic Clothing Company, based in Seattle. Greensource has supplied organic

And in Europe, for instance, cotton must be chemical-free for a minimum of three years to be certified organic. This means the cotton must be grown without using chemicals for three years, as it takes three years for chemical residue in the soil to dissipate.

Therefore, a large entity like Wal-Mart must take a longer-term approach in working with suppliers to ensure an ongoing stock of the organic products its customers expect. Basson says these close relationships can be tricky. "It is in everyone's best interest for all suppliers in the chain to make a profit and stay in business," he says. "At the same time, there needs to be a balance, as all parties must be acutely aware of maintaining margins that allow the products to be affordable and desirable to consumers."

Working closely across the supply chain requires partners to have faith

"Companies are finally realizing that consumers are aware they do not just buy products — they also buy the supply chains that deliver the products."

One company that has tackled that challenge is IBM. IBM requires its suppliers to implement a management system for corporate responsibility and environmental sustainability. While IBM doesn't dictate a one-size-fits-all approach, it does insist its suppliers measure performance, set goals and publicly disclose their results. Taking it further, IBM also asks its suppliers to request the same from their subcontractors. But IBM isn't asking suppliers to do anything it hasn't already done itself.

Critical to IBM's own management strategy is its Center of Excellence for Product Environmental Compliance & Supply Chain Social Responsibility (COE). Lou Ferretti, project executive for the COE, describes the Center as a highly matrixed organization with a scope that requires strong cross-boundary relationships.

cotton products to big-box stores like Wal-Mart and Kohls for the past 17 years. Basson says his customers want to achieve their sustainability goals without price increases that will affect the consumer. To achieve the price point its customers expect, Greensource must work closely and creatively across the supply chain to increase efficiencies, collaborating with its big-box customers as well as its own suppliers, such as the farm cooperatives.

To be successful, Basson notes that players across the supply chain must plan together for the long term. For example, the process of transitioning from the production of chemically grown cotton to organic cotton is lengthy. To be labeled organic, cotton must be certified as such by approved, third-party companies like Control Union, Oregon Tilth and ECOCERT.

in one another. And when partners build trusting relationships, they often serve as consultants to each other. For example, brothers Chad and Chris Cline, owners of the logistics and transportation company Corporate Traffic, located in Jacksonville, Florida, say the Fortune 500 organizations they often work with may have a range of resources available to them, but don't always have all the answers to the array of sustainability challenges that arise between a company and its suppliers. However, both Clines believe recognizing mutual goals and maintaining honest and open communication are important keys to finding common ground.

"Success comes from companies working through issues and sharing ideas with each other. One client always tells us, 'Give me honesty, not harmony,'" says Chris Cline. The

brothers agree that honesty is necessary for both parties to accomplish supply chain goals. Chris adds, "We have to take a long-term view, and all of us in the supply chain have to discuss how we can avoid situations where costs go up two years from now."

In addition, some of today's most effective collaborations to meet sustainability goals don't stop with suppliers. Many companies are also collaborating with NGOs, government agencies and even their competitors to find answers to sustainability challenges.

Knowledge and Skills That Enable Success

The keys to success require specific leadership competencies. Both the whole systems view and the partnership approach call for leaders to develop deep skills in collaboration. Leaders must know when to partner, with whom to partner and how to best establish collaborative relationships. They must build two-directional trust and engage in cross-functional, and often cross-organizational, problem-solving.

Because the power of information is almost always shared within an organization and across the stakeholders, all aspects of managing relationships become paramount to success. Today's leaders must be equipped as teachers, motivators, coaches and communicators to an unprecedented degree.

Because the success of sustainability measures is largely dependent on measurable, reportable results, explicit technical knowledge and skill are also important components to any sustainability initiative. For instance, it is no simple task to implement scorecards with important metrics specific to an organization's requirements, but without scorecards, even the most effective leaders will have difficulty meeting sustainability objectives. And the demand for skills and knowledge doesn't just affect managers; many functions, including those outside the organization, also require new skills and knowledge.



"Success comes from companies working through issues and sharing ideas with each other."

Robert Gotto, executive director of sustainable procurement for Kaiser Permanente, a managed care consortium based in Oakland, California, notes that Kaiser's initiatives are affecting its suppliers' sales forces. "Many in sales are not yet equipped to answer the questions that Kaiser Permanente is asking," he says. "Standardization of the sustainability scorecards within the medical supply chain will ease the job of ensuring the right people have the skills and knowledge they need."

Gotto also suggests training is necessary, but not just for supplier companies. Kaiser has trained 120 procurement/supply chain staff in its organization on current environmental issues, how such issues relate to the healthcare industry and how each staff member's role can contribute to solving these issues. The company also conducts training games with those staff members who often participate

in sourcing work. In training sessions, Kaiser staff are presented with common medical products they use, along with a framework of the key environmental sustainability issues; they are then asked to identify the sustainability issues and opportunities for those products. "The key learning from this game is how many issues and opportunities are associated with even the most basic product," shares Gotto.

Overall, the sustainability challenges that face companies today go beyond mere technical reporting. Success on this complex ground requires new ways of doing business. Companies must create cultures in which the boundaries across functions and organizations are fluid, rather than fixed. They also must recognize and act on the significance of new stakeholder relationships.

At this point, almost all supply management professionals are aware of the "why" of tackling sustainability. But awareness isn't enough. Now is the time to deal with the intricacies that comprise the "how." Supply chain strategies and targets are commendable, but the real and complex challenge lies in implementation. New leadership and new approaches are needed to manage relationships across traditional boundaries and successfully execute supply chain sustainability strategies.

It can be a complex journey, but the first steps involve assessing your organizational culture as well as the skills and knowledge of your leaders to make sure your company is up to the task. As noted, consumers are well-aware that companies buy the entire supply chains that deliver products. With the *Carbon Disclosure Project (CDP) Supply Chain Report* estimating that 50 percent to 70 percent of a product's value comes from suppliers, companies in almost every industry will need to devote serious attention to sustainability in their supply chains for the foreseeable future. **ISM**

Kathleen Miller Perkins is CEO for Miller Consultants in Louisville, Kentucky. For more information, send an e-mail to author@ism.ws.