



The conduit or the source

Supply management and sustainability

I AM WRITING THIS AS A FOLLOW UP TO an article found online at www.summitconnects.com on a research project under the Network for Business out of the Richard Ivey School of Business. One of the findings to come out of this research was to identify the motivating factors behind organizations adopting sustainable supply chain strategies. It appears business is increasingly linking the benefits of cost reduction, improved efficiencies, and access to overseas markets by practicing sustainability in their supply chains. Buy-in from a procurement, operational, and marketing perspective continues to drive sustainable business models.

Earlier motivational factors were focused on maintaining customers or attracting new customers, managing supply chain risks, and compliance with regulations. These latter motivators could be described as being reactive or defensive. As an organization connects their future profitability to sustainability, it will continue to affect supply chain performance. As important as supply chain management is, without the strategic direction and commitment by the business/organization ownership or shareholders, change will not occur. This is true for the public sector as well. Without the political will, there will not be the implementation of sustainable procurement practices. Supply management is the conduit for change, not necessarily the source of the power to change.

Supply management can accelerate the rate of change by being assertive in adopting international standards and leading practices which contribute to the financial success of an organization. The private sector has been embracing sustainability where it makes a strong business case affecting the bottom line. Reducing energy consumption makes for

an increase in profits. Energy is relatively easy to measure in terms of consumption and the correlation to lower costs of operations. This does not require a form of legislation for the private sector to get on board. The private sector will adopt smart metering and other innovations to drive efficiencies. Society benefits directly and indirectly for these acts. The business can be more competitive, employ people and consume fewer resources. While business is driven more by the competitive aspect as opposed to the idea of simply doing good, many private sector entities do have a philosophy of doing good for their shareholders and for shared social values.

Public sector procurement is driven in part by the sustainability principles but largely the procurement shifts are in response to political will. Until the middle of the last decade there was no push to ensure sweat shop free clothing or the sourcing of cleaning products with fewer VOCs until public policy changed. The prime motivator for the public sector to adopt sustainable practices was initially the political imperative.

Larger investments, such as the retrofitting of HVAC systems in public buildings, were a combination of economic factors and the emerging sustainability movement. The private sector identified the benefits of LEED for new design and for retrofitting from a cost/benefit perspective. Both achieve the goals of long-term cost benefits and reducing energy consumption.

The body of research shows that approximately 14 percent of sustainable supply chain initiatives in business are driven by compliance with regulation and legislation. The pending political plans for carbon cap-and-trade systems and taxation

policies could be the wild card for the future of sustainable business models. The Western Climate Initiative (WCI), which involves four provinces and seven US states, is an example of the potential pressure to adopt more aggressive energy management practices.

The WCI is four-years old and has been pushing for emission measuring, monitoring, and reduction in the larger “dirty” industries such as cement production, electricity generation, and petrochemicals. The motivation for business is to begin to do so or be forced to pay higher “consumption fees” in one form or another. The problem for the private sector is how to remain competitive where business operations outside of the WCI membership may avoid similar requirements or defer these plans based on political will.

Legislation is being passed to form regional cap-and-trade systems. Supply management in the jurisdictions that are being early adopters will respond accordingly. Emissions management, in terms of budgets, far exceeds the green cleaning products, paper products, and other discretionary items such as branded clothing. The carbon cap-and-trade systems will affect the supplier communities across the supply chain. This will also affect the cost structures of the goods and services being provided.

For the public sector, infrastructure material costs may escalate as various industry sectors internalize their costs of emission management to respond to legislation. This leads to more complex total cost of ownership decisions. Trying to calculate the objective costs for the long-term benefits that are paid out of short-term funding models will take economic, social, and political will. Should a municipality be allowed to import concrete products from a jurisdiction that does not have to meet as stringent energy management policies as local or domestic suppliers?

The ISO 50001 Energy Management System is expected to be approved in February 2011. Public sector buyers will begin to factor these international standards into their decisions. Suppliers will also need to adopt these standards of compliance which may affect short-term cost structures.

The pending legislation around emissions and the new emission standards being considered will continue to add to the complexity of public procurement. The comparatively easier decisions around ‘greener’ office products, local vegetables, and hybrid vehicle-couriers will be trumped by the larger scale emission and resource conservation strategy changes being contemplated. In turn, this will cause public organizations to re-examine their commitment to their sustainable procurement policies and practices. How far can they go with these policies when weighed against economic capabilities?

Supply management is not the driver of the change but is very instrumental in managing the changes. Public sector procurement groups will continue to support organizational goals and objectives. Doing so in the fish bowl will require more of their energy.™™

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