

StepWise – Wise Steps. A Model for Supply Chain Management.

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ABSTRACT

In CEMIP (Centre for Efficient Dialogue on Sustainability in Product Chains), we are engaged in the development of a model for value-creating dialogue, risk management and co-operation in the supply chain. The model starts from defining important purposes for the company in the management of the supply chain. The purposes and the related decisions on how to implement efficient dialogue, relations-building and partnerships in the supply chain include both economic, environmental, social, quality and other important aspects for business performance. For practical reasons, this paper focuses on aspects in relation to sustainable development, but the principles and the structures may apply to other topics as well. The integrated and flexible concept is a key to developing a feeling of co-responsibility among the purchasers and other persons engaged in managing the supply chain.

Keywords: Corporate Social Responsibility; partnerships in Supply Chain Management; practical experiences, step-wise model, Supply Chain Management, Communication Tools

1. BACKGROUND

CEMIP (Centre for Efficient Sustainability Dialogue in Product Chains)¹ engages in communication on sustainable development in supply chains. One aspect is how to make suppliers to contribute actively to – or at least not counteract - the company's strategy for sustainable development. This is the starting point for the paper.

Supplier relations – a global challenge

For companies operating on the global marketplace, Supply Chain Management of sustainability aspects in a multinational and multicultural context is no longer a question of whether or not to engage. The question is how to do it.

Some of the main challenges are:

- Global supply chains and a multitude of cultural and practical aspects to deal with
- Multitude of stakeholders and viewpoints on what to focus on internally as well as externally
- NGO and media focus that may lead to negative stories and damage the reputation of a company if the supply chain is not managed in socially acceptable manners
- Limited resources, knowledge and capacity in the “mother” company
- Internal traditions and priorities that may not be in favour of sustainability

From a business point of view some aspects can be efficiently managed by traditional command-and-control in the supply chain. Development of relations and long-term partnerships with selected suppliers, though, offers new potentials and challenges for business development and improvement of the competitiveness.

2. STEP-WISE – WISE STEPS: A GENERIC MODEL

Companies with an ISO 14001 certificate or an EMAS registration have to deal with environmental supply chain management. But this alone will not secure a beneficial dialogue with the suppliers. Therefore, we suggest companies to specify why and in which ways the dialogue on sustainability in the supply chain is important. In other words: what are the real purposes of establishing a dialogue and where are the business potentials?

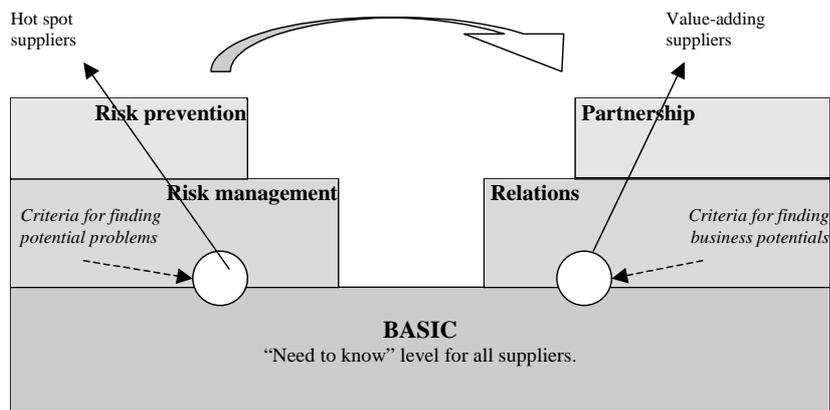
By selecting and defining the purposes, the company can make its basic needs visible in relation to information and documentation in the product chain thus separating “need to know” from “nice to know”. The basic needs are aspects like requirements from customers or authorities; product responsibility; own standards and specifications; image-related damage control; company values and priorities - or the suppliers' potentials for taking part in developing new products or markets. From a business development perspective it can add strategic value to the selected topics too.

¹ CEMIP is a formalized network intended to realize the business potential in sustainable products via a more effective communication and co-operation in the product chains. The CEMIP partners are: Brødrene Hartmann, Coloplast, Elsam, Junckers Industries, Vestas Wind Systems, Aalborg University, Copenhagen Business School and FORCE Technology

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Development of a good dialogue in the product chain is a process. In our model, we use a step-wise approach that allows the company to get started without knowing all future possibilities and challenges. Moreover, the company can, on the next steps, concentrate on the still fewer number of suppliers who are the most important to deal with according to the selected purpose(s).

The figure below exemplifies purposes for risk management and development of partnerships.



For a *risk management purpose*, the basic level could concentrate on criteria for finding potential environmental or social problems. For example the use of hazardous substances, handling of hazardous waste, use of child labour or actions to prevent corruption and bribery. Companies with a larger number of suppliers will probably need some kind of mass-screening tool on the basic level – for example a questionnaire. This should lead to careful considerations on the “political correctness” of the answers. Would you expect a supplier to answer “yes” or “no” to a question whether he employs child labour? Instead, the questionnaire could focus on drawing a risk profile of the suppliers’ priorities, thus helping the company to spot the potentially problematic areas.

Once the potentially problematic suppliers have been located, the next step should deepen the understanding of the problems and find solutions to solve them. Perhaps by including sustainability related aspects in site visits or audits at the suppliers. At the upper level, focus could be on preventing new problems by closer cooperation, capacity building or transfer of knowledge.

The higher up in level, the more resources the company is expected to spend on handling the individual supplier. Thus, considerations on how to create value from these investments will become still more important. For example, which risk prevention initiatives will have the largest potentials in creating more efficient business relations, developing new products or services - or expanding markets. The point here being that even if the initial purpose was risk management, the long-term result may end up in creating new business values.

For a *purpose of establishing partnerships*, the basic level could concentrate on criteria for finding the suppliers with the largest potential for adding values to the sustainable business process. Like the suppliers’ technical capacity; their ideas for new products, services or processes; their experiences with product development or

their understanding of potential markets. Such aspects could very well prove to be difficult to handle in general terms when screening the total supplier base. Therefore, it may be necessary with a closer selection of the suppliers to focus on – or to define a potential new product or market in advance.

In risk management the relations may have some degree of command-and-control throughout the supply chain. When establishing partnerships, it is very important to create room for mutual development. Partnerships are e.g. characterised by:

- sharing of knowledge, teamworking
- cooperation based on trust
- creation of win-win situations – e.g. shared profits
- frequent and informal communication
- partners helping each others if problems
- long-term relations

All of these characteristics are indeed relevant in sustainable development. As mentioned, building up such long-term relations may take a starting point in risk management. This implies, though, that the company in its risk management strategy is open for the potentials for cooperation and sharing of knowledge.

Finding the purposes

The specific purposes can emerge from several sources. A natural starting point would be the requirements in standards like ISO 9000, ISO 14001 or SA 8000. Legal requirements are not easily overlooked, either, nor are the company's own specifications to the products. Therefore, we would rather pull attention to market conditions, customer and stakeholder relations.

The globalisation of the supply chains increases the need for credibility and trust throughout the chain. Specialization, flexibility and ability to fast responding to new challenges and potentials are growing, too. In such cases, traditional command-and-control systems may prove insufficient. Add to this, the growing concern for protection of human and natural values expressed by NGO's, media, consumers etc.

Out of this, some relevant questions could be asked for companies who wish to include sustainable development as a competitive parameter: Apart from price and quality, what aspects are critical if we want to stay in or expand the market? Do we – and our supply chain – have to be innovative and flexible? Are we – and our supply chain – vulnerable to criticism in relation to our priorities? Are we – and our supply chain – sustainable from a resource or environmental perspective? How do we – and our supply chain – live up to national and international objectives, targets and agreements?

In practice, many different functions in the company should be involved in defining the purposes. From the purchasers who manage the contacts with the suppliers, to production people or product developers who may need specific documentation – and sales and marketing people who may benefit from a closer dialogue in the supply chain when they argue with the customers. Including all relevant people and achieving their commitment from the beginning may seem to be a hard job. But it is important to keep focus on how the effort can be of value for the company and its

customers. The sustainability department can take the role as a mediator and facilitator in this process.

The Dialogue Process

Once the purposes have been defined, the next question will be how to establish a proper dialogue to support each step in the step-wise approach. What should be the content and structure of e.g. a questionnaire to the suppliers?

Some aspects can be examined very specific, for example the use of given substances or the fulfilment of certain legal requirements. Other aspects are even more delicate – like human rights, use of child labour etc. Here, a more indirect technique may be more suitable, e.g. by asking for policies, values and management systems in place. The answers may be used for drawing a profile of the suppliers but they are subject to interpretation. The degree of credibility of the answers may be improved if the company asks the suppliers to sign a declaration that allows the company to conduct an audit at the suppliers.

Finally, it is important to bear in mind that the suppliers may have different priorities in relation to sustainable development. In some countries, environmental aspects are positive added values while in others they are considered as technical barriers to trade. In the latter case, it may be more convenient for the dialogue to include such aspects in the company's quality concept.

3. CASE: COLOPLAST

Coloplast was founded in 1957 and obtained listing on the Copenhagen Stock Exchange in 1983. Coloplast develops, manufactures and markets medical devices and services improving the quality of life of the users. More than 97% of Group revenue is generated outside Denmark, including some 81% in Europe and 13% in the Americas. Coloplast employs more than 6000 people worldwide, including around 2000 in Denmark.

Coloplast's five product areas are:

- Ostomy products for people whose intestinal outlet has been surgically rerouted through the abdominal wall
- Continence care products for people with problems controlling their bladder or bowel movements
- Dressings for treatment of chronic wounds
- Skin care products for prevention and treatment
- Breast forms and special textiles for women after breast surgery

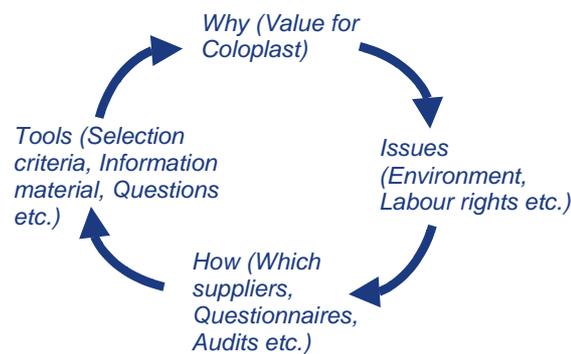
Background and purpose

Coloplast joined The Global Compact in 2002 because the principles are considered very suitable for substantiating central themes in Coloplast's Mission and Values. In Coloplast's quality system measures to select and evaluate suppliers are established. This system serves as a platform for the integration of corporate responsibility issues. The dialogue with suppliers concerning corporate responsibility issues is prioritised in order to protect a reputation as a responsible company and to live up to expectations of the surrounding society.

The internal process

The process of integrating sustainability aspects into the supplier evaluation is an ongoing process that involves purchasers, quality managers and production managers.

Through interviews and workshops, existing structures and procedures were identified, which will support the integration of the new aspects into the supply chain management – thus facilitating the purchasers’ understanding and working with the topics. The circle below illustrates the process. To develop and integrate each of the elements, the circle will be gone through several times. The process is initiated and facilitated by the Quality & Environment function together with a project group consisting of among others purchasers.



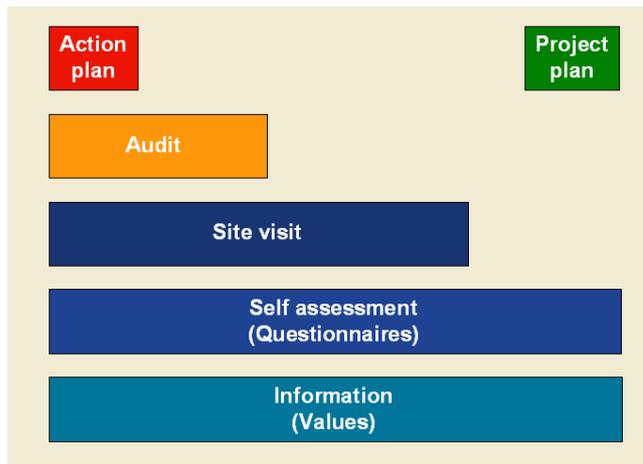
Tools for the supplier dialogue

On one hand it is not possible in advance to isolate the problem of unacceptable supplier behavior on a few companies or a few countries with special characteristics. On the other hand it is necessary to go into depth in order to validate the real situation and to make improvements.

- **Broad:** As ethical responsibility issues in the supply chain might appear almost everywhere, both in China and European countries, it is necessary to be able to reach broadly in the supplier base in order to influence and document the status of the supplier base.
- **In depth:** In order to remedy the greatest problems in the supply chain it is necessary to have a focused effort aimed at specific suppliers.

The challenge is to balance these requirements in a resource effective manner. This is done by a set of activities, where activities aimed at the broad supplier base are designed to require a minimum resources, and where activities, which require a higher degree of involvement, are targeted at a low number of suppliers, where changes are needed. The identification of these suppliers is based on criteria for materiality and risk.

The figure below describes activities which are aimed at fulfilling the above mentioned:



Information and *Self Assessment* (questionnaires) are activities, which can aim broadly, and if designed properly, with the use of minimal resources.

In case of the *Site visit* the number of suppliers is narrowed and will primarily be based on already existing visits to the suppliers.

Audit and the coherent *Action plan* (supplier agreements) are activities, where it is possible to go into depth and create value, by initiating activities to remedy where needed.

The task of making *project plans* is done on an ad hoc basis if opportunities arise.

4. CASE: BRØDRENE HARTMANN

Brødrene Hartmann A/S is an internationally expanding packaging company specialized in development, production and sale of moulded-fibre packaging based on recycled paper. Hartmann focuses on two core business areas: Egg & fruit packaging and industrial packaging e.g. for mobile phones and consumer electronics. Working with sustainable development is an integral part of the business. The Group has production sites, sales companies and offices in Europe, the Middle East, South America, North America and Asia. In 2004 Hartmann had a turnover of DKK 1,642 million and about 2,600 employees.

Background and purpose

As a part of its vision and strategies, Hartmann has defined ten principles for sustainable development (SD) based on the ILO fundamentals, UN Human Rights and UN's Global Compact that Hartmann has signed. SD is a cornerstone in the company's business concept and all ten principles are promoted throughout the supply chain thereby influencing the chain.

Hartmann has chosen to continue the development of tools for supplier evaluation and has recently updated the existing previous model.

Thus, the overall purpose of having a relevant dialogue with the suppliers is a mix of risk management in relation to the customers and suppliers, the development of relationships and the implementation and promotion of Hartmann's own principles.

The internal process

In the mid-90'es, Hartmann developed a questionnaire on environmental aspects. The questionnaire was sent to all relevant suppliers, but as times are changing, the environmental focus had to be broadened to encompass the social and ethical aspects of sustainability. Therefore, Hartmann decided for a new questionnaire to cover the basic level in the Step-Wise – Wise Steps concept. The specific purposes were defined partly from the ten sustainability principles and partly from the requirements in the standards - ISO 9001 (quality), ISO 14001 (environment) and SA 8000 (social).

Moreover, an important internal process involving purchasers, product developers and sales persons added other aspects to the questionnaire. At the end, it is important that the people working with the tools in their daily business are fully committed and can understand the value of their effort. Actually, a positive extra bonus in the process has been a greater visibility in the organisation of the tasks carried out by the purchasers who have given new, valuable arguments to be used by the sales department. The SD department functioned as facilitator, “bridge-builder” and secretary in the process.

Tools for the supplier dialogue

The new it-based questionnaire is structured to cover the ten sustainability principles. The questions clarify the suppliers' policies, strategies, management systems and action plans in the field of SD. This indirect questioning technique is assessed to be the best possible for the time being. For Hartmann, the result is a profile of all relevant suppliers where it becomes clear whether the suppliers are working actively on each of the ten Hartmann principles. In a later stage direct control might be an option.

All the suppliers will receive a copy of the overall report where they can see their own performance in relation to the other suppliers who have participated in the evaluation. For Hartmann, the next step is to follow up on the best and poorest performers respectively.

The system has been tested in a first round and will be implemented throughout the organization during 2005 and at the beginning of 2006. Each site will have the task to follow up on own suppliers. Thus, the basic level will be common for the organization, but the next steps may vary.

5. CONCLUSIONS

The Step-Wise – Wise Step's approach makes it easier to overview the process and getting started. Some advantages in specifying the exact purposes on a basic level are that the relevant functions can – and should – be involved from the very beginning to avoid the development of a desk-based system. And that it is easier for the suppliers to understand and value the process. This is essential if the relations should be developed from command-and-control structures to partnerships in the supply chain.

The internal processes should be emphasized. Cooperation across the company can create added values for example by using the knowledge and capacity in the purchasing department to create more value for the customers. Good relations in the supply chain can shorten the response time towards fulfilling customer needs, or answering questions from NGO's and other relevant stakeholders. Here, the natural role of the sustainability function is that of a facilitator more than a solely performer.