

Sustainable Sourcing

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The way we organize ourselves to meet our objectives as individuals, families, communities and countries has evolved. We create organizations to achieve objectives that we could not achieve individually, and, in turn, these objectives have transitioned from the need to generate profits to a much more responsible approach, which considers the importance of economic improvement not putting others at risk. aspects of society and the environment.

This awareness of economic, social and environmental balance has diverse groups of origin according to their own needs: consumers, investors, competitors, governments and the organization itself.

Consumers

Consumers are increasingly aware of the impact they have on the environment every time they make a purchasing decision. They ask themselves before choosing: Is this packaging recyclable? Where does the raw material for this product come from? How far did this product travel to reach my hands?

To the extent that the purchasing decision-making process is determined by factors additional to the characteristics of the product or its price, a cascade effect is generated that causes the companies that produce it to have to adjust their processes. of supply, production and distribution, so that they can offer products and services that satisfy their consumers.

Investors

More and more investors are seeking to place their capital in businesses that contribute to sustainable development, in turn generating better financing opportunities for those organizations that have a sustainability strategy.

In the financial world, the terms “Responsible Investment” or “Sustainable Investment” are increasingly heard to refer to the fact that the selection criteria that should be used to determine the destination of the funds of investing companies have to include aspects of protection of the environment, social responsibility, among others.

In Mexico there is a Banking Sustainability Protocol that formalizes the banking sector's commitment to the Sustainable Development of Mexico and promotes the country's transition towards the conscious and responsible use of its resources. These types of initiatives will allow those companies that are aligned with these principles to have tangible benefits that allow them to be more competitive.

Competitors

Sustainability is already a differentiating element for many organizations and will increasingly be an essential element to guarantee the viability of businesses. Perhaps today this is not a requirement in all markets, but we know that sooner or later, Clients will prefer to do business with companies that can incorporate into their processes practices that avoid or mitigate negative impacts on the environment.

Today we can find cases of large retail chains that are already beginning to require their suppliers to demonstrate their commitment to sustainable development, regardless of whether the specific consumer market of a country demands it. Simply the corporate standards of these large companies are established globally and then begin to be enforced locally.

As more companies commit to sustainable development, there will be a cascading effect that will require all participants in that supply chain to align and share the same values and principles.

Governments

Increasingly, governments are implementing new regulations in the markets in which the organization operates. Companies must ensure compliance with all laws and regulations that apply to their industrial sector in terms of impacts on the environment, labor aspects, human rights, among others.

What has been seen in recent years is that the speed at which Laws and other regulations associated with sustainability are created and approved has increased and this means that companies must create mechanisms to adopt them quickly and thus avoid putting the business at risk. business.

Sometimes these standards can also come through Non-Governmental Organizations that, although they do not establish them as part of a public administration process, require compliance with certain practices that allow them to achieve their cause. It is important to listen to what these organizations have to say, because they reflect the needs of a group of people who should be considered a relevant interest group.

The organization itself

Regardless of the external pressures that an organization may have to adopt practices that promote sustainable development, the company's own culture, purpose and values create a favorable environment for adopting best practices.

In a recent survey carried out by Sphera and the University of Esslingen, it was determined that 51% of companies have a clear commitment to sustainability, but only 21% of them have taken concrete actions to achieve them.

It is important to be consistent between what is said and what is done. If companies make a commitment to be increasingly sustainable, they must ensure that they make the necessary changes in their product design, operations, marketing and distribution processes so that a positive impact is truly generated on the environment, society and the economy.

Whatever the origin of the need to be more sustainable, the future viability of organizations is determined by their ability to adopt practices that reduce the impact on the environment, contribute to society while ensuring the profitability of their businesses.

People play a fundamental role in the success of projects and initiatives and the commitment of an organization is directly related to the desire of each of its members to be better citizens and contribute to the achievement of a better future for all.

A common ground

For several years now, companies have adopted sustainable practices. Let us remember that the concept of Sustainable Development appeared in 1987 with the publication of the Brundtland Report, which warned of the negative environmental impacts that industrialization, population growth and globalization were generating and proposed a series of solutions to these problems.

Starting in 2015, as part of the 2030 Agenda for Sustainable Development, all UN member countries committed to achieving seventeen Goals (SDGs) that are defined as “a call to action to end poverty”, protect the planet and improve the lives and prospects of people around the world.”

This type of global commitment allows all entities worldwide (governments, companies, non-governmental organizations) to align, join forces and have common ground on which to work.

Thanks to the SDGs, organizations have a clear guide that allows them to identify where a positive impact can be generated and define an action plan to achieve it.

Each company will have to make its decision as to which Sustainable Development Goals it should support, they should be those where we consider that we have the greatest impact and capacity to influence various interest groups to contribute with actions, projects and resources to achieve them.

The sustainability strategy

Once the organization assumes these commitments, it must align the efforts of each of its areas, departments, divisions or business units. The definition of a single strategy is key to generating a common language and ensuring that each of the business processes makes the necessary adjustments to incorporate new practices, new decision criteria, even a new work culture.

An important step in defining the strategy is to consider the needs of the organization's different interest groups. An interest group is a “group of people who are involved with an organization and therefore have responsibilities and interest in its success.”

Once these interests are known, we proceed to define the objectives that we must meet to satisfy them. Due to the variety of interest groups that an organization has, including Shareholders, Employees, Customers, Suppliers and Non-Governmental Organizations, the execution of the strategy will surely depend on the support of various areas of the organization. For example, the Supply area will have greater influence to achieve the objectives where the support of Suppliers is required and similarly the Sales area with Customers, Human Resources with Employees, etc.

Sustainable Supply

Suppliers play a key role in achieving these results. It is not enough for an organization to do its best to meet its sustainability objectives if its suppliers are not committed to meeting them.

Consumers are not going to judge our product only based on what its manufacturer has managed to do to make it as sustainable as possible, they are going to look at everything that has happened throughout the supply chain to determine and judge whether a Product really delivers what it promises. For example, a container can be designed with 100% recycled material, but if it traveled 14,000 kilometers to reach the consumer's hands, it surely generated a negative effect on the environment due to the emission of CO2 by means of transportation, even so much that It could nullify the benefit we generate by making it with recycled material.

In this situation someone could say "but it is difficult for the consumer to have information about the impacts that the product generated on the environment to decide whether to buy it or not." Certainly today it is not easy to have all this information at hand, but if we analyze the trend of standards and laws related to sustainability we will realize that it is very likely that in the coming years companies will begin to be required to provide information detailed information about these impacts to the consumer, either through their Web pages or even on product labels.

The Supply areas have the responsibility of supporting the organization in the execution of the sustainability strategy. There is a lot to do in the Supply "field" itself, some of these actions are:

- Generate relationships with suppliers capable of supporting the sustainability strategy
- Include sustainability criteria in purchasing decisions for products and services
- Support the design of products using materials with lower environmental impact
- Support social programs that strengthen less favored communities

Strategic suppliers

Organizations have different types of suppliers, and it is important to be able to classify them in some way that allows us to focus resources to improve the relationship with those who are most committed to meeting our objectives. These types of suppliers are known as Strategic Suppliers.

There are many criteria by which an organization could define its strategic suppliers. We could use purely economic criteria and say that they are those that represent most of the purchasing expense or some operational risk criteria and determine that they are those that can stop a production line if they do not deliver their product or service or we could use a combination of factors.

Until now, these "filters" that we can use to determine which supplier is strategic and which does not have to do with what we are able to measure. To the extent that we can measure purchasing spend or operational risk, to that extent we can determine which supplier qualifies or does not qualify as strategic.

If we want to use sustainability criteria to determine which suppliers can accompany us on the sustainability journey, we must be able to measure their commitment and willingness to help achieve our objectives. To do this we have to start by being able to measure what it means to be a Sustainable Supplier.

Sustainable Suppliers

The first step to identify the current situation is to carry out a Sustainable Supplier Assessment. Based on the company's code of conduct and/or objectives of the sustainability strategy, information must be collected from suppliers. The result of this analysis will give visibility to the current situation of each supplier in terms of sustainability and will allow projects to be designed together to improve the most critical aspects that have been identified.

It is important that in these initial efforts a variety of companies be selected so that the analysis can identify the groups with the highest compliance risk and focus efforts to support them. If we only evaluate the suppliers that represent the highest purchasing expense, which will surely be large companies, multinationals and corporations, the results are likely to be positive, since these types of companies already have sustainability programs. However, we know that the greatest risk is in those companies that do not have sufficient resources or do not have the requirement to have sustainability programs with the required scope. It is precisely these companies that we want to identify to direct efforts and create joint programs that allow them to develop and improve.

Regardless of whether an organization has initiated this type of project, there are surely already suppliers who, on their own initiative, are executing a sustainability strategy. It is important that the Supply areas can identify these cases because they can define joint projects that create synergies and enhance the impact of their actions.

Purchasing decisions

To increase the benefits generated by the execution of the sustainability strategy, organizations have to modify their purchasing decision processes. Companies with more traditional processes decide who to buy from based on criteria such as: price, quality, delivery time. Companies with modern purchasing processes are already beginning to incorporate sustainability criteria into their decision-making process. That is, a supplier that has a good rating in its sustainability evaluation has a preference over another that has a lower score. In this way, incentives are generated that encourage suppliers to implement programs to improve their sustainable practices.

Today sustainability is a desirable criterion for suppliers, but there will come a time when it will be an essential element to be part of the supply chain of the most competitive companies.

Product design

To ensure that the company's products generate the least possible environmental impact, it is necessary that a life cycle analysis of its ingredients and materials be carried out from the product design phase. If the product incorporates an ingredient whose origin is from another country, we will have to consider, for example, the impact generated by all the means of transportation that will be used to get the material to the production plant and additionally the impact that will generate in the rest of the supply chain to get it to the consumer.

The Supply area must support it by executing different activities that ensure that the necessary information is available to make the best decision. Some of them are:

- Quote the different scenarios of origin of ingredients or packaging materials so that a decision can be made based on the price/environmental impact relationship
- Create relationships with suppliers that could innovate and incorporate materials with less environmental impact

To carry out Sustainable Sourcing, organizations must design a strategy that begins by understanding the needs of their interest groups; this includes analyzing which Sustainable Development Goals have the greatest impact. Subsequently, the Supply area must identify what current capabilities, specific to the organization and suppliers, allow us to meet those needs and what new processes, structures and resources must be created throughout the supply chain. Finally, it is key to define and measure performance indicators to know whether we are meeting the objectives and to make any adjustment in the execution.


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