

Working CSR into the supply chain

What skills will practice leaders in Asia need as corporate social responsibility comes to the fore?

Introduction

High-profile environmental and safety crises in recent years—including the factory collapse in Bangladesh, the deadly labor protests in Cambodia, and multiple global product recalls—have brought corporate social responsibility (CSR) into the spotlight for most international corporations. CSR, which comprises all facets of how companies should do business in a sustainable manner, is now broader than ever, concerned not just with natural resources, but also human rights, labor practices, environmental impact, business ethics, and corporate governance.

These new developments have significant implications for businesses' supply chain—particularly in Asia Pacific—and for independent CSR leaders who are driving sustainability programs across the entire supply chain. To learn more about the demands being placed on these leaders, Korn Ferry spoke with top executives in global sourcing, quality, compliance, and sustainability management at leading organizations with a sizable investment and/or operations in Asia Pacific. It's clear that this new generation of leaders will need not only specific technical skills, but distinct leadership attributes if they are to succeed in improving the sustainability of the global supply chain.

A proactive stance.

CSR has gone beyond the early day-to-day routines of simple record checking, regular and repetitive audits on workplace safety, and emergency planning. It has been transformed into a more proactive approach rather than simply a response to stringent global regulatory requirements and safety concerns. This shift means a stronger emphasis on issue resolution, risk reduction, and nimble reaction to problems, accompanied by innovation (e.g., green materials, carbon footprint optimization), capacity building, stakeholder engagement (internal and external), crisis management, and media relations. The transformation has affected most global organizations and their talent strategies. “We let go 30% of our operating workforce in the global ethical sourcing function during the recent transformation—a smaller team with stronger emphasis on proactive capacity building is needed instead of being too audit focused,” a sustainability leader at one of the world’s largest retailers reports.

More importantly, “sustainability” is no longer a stand-alone function or gatekeeper. It is an essential “business partner” that upholds a company’s brand value and protects its reputation, thus helping to solidify the enterprise’s future.

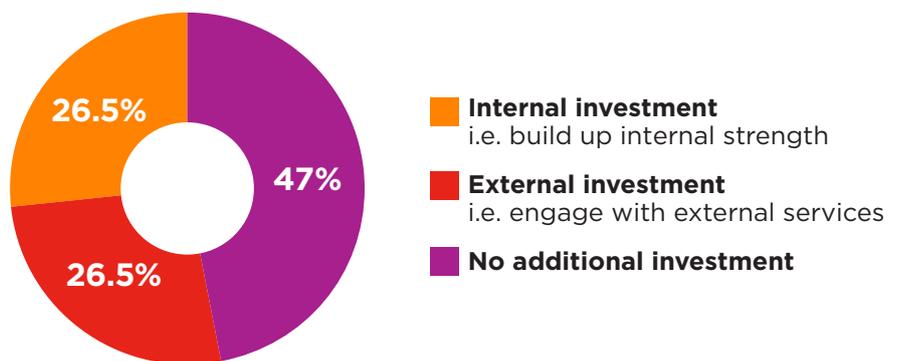
Most modern day production activity (especially in labor-intensive sectors such as textiles, apparel and footwear, and consumer electronics) occurs in low-cost countries (e.g., China, Vietnam and Bangladesh) where working conditions, compliance standards, and human rights enforcement are far from advanced. Emerging economies such as those in Cambodia, Laos and Myanmar offer even cheaper labor, and an even weaker regulatory and compliance environment; these countries attract foreign investment through favorable conditions for production while trading off occupational health and safety. With multinational companies so heavily reliant on Asia-based exports, more traction and dedicated resources are required to make the supply chain more sustainable in this region.

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Fifty-three percent of interviewed executives confirmed that their companies will have additional investment in sustainability efforts in the next 12-18 months. Half of them will expand their internal strength, and half will engage with external parties such as Testing, Inspection, and Certification (TIC) operators and advisory services houses (factory capacity building and compliance works). “We would expect additional responsibilities and technical expertise to be developed within the same group of people,” said Reiner Hengstmann of World Cat/Puma (a subsidiary of Kering Group). “They have to go extra miles to help vendors in building their capacity and developing their own sustainability practice to achieve better efficiency and compliance enforcement.”

Figure 1

Supply chain sustainability investment in the next 12 to 18 months.



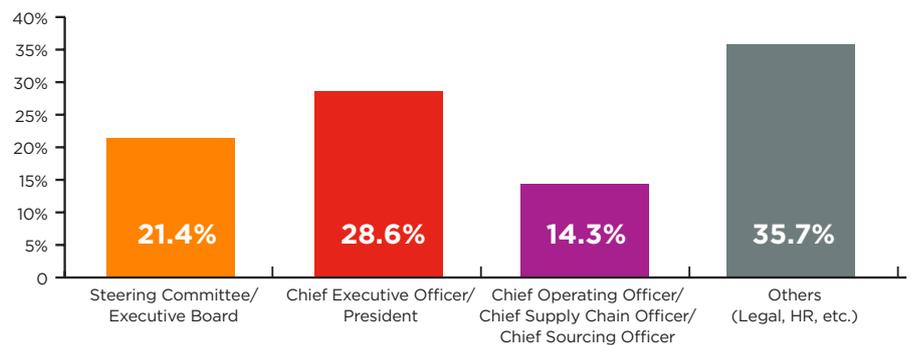
A new chain of command.

There has been ongoing debate on the reporting structure of sustainability executives. Having recognized the role's importance, many international companies have shifted its reporting to a "neutral" division with stronger control/management discipline, instead of operating under the jurisdiction of sourcing or operations. Thirty-six percent of the executives we interviewed have CSR reporting into legal, corporate governance, or human resources and about 50% of their organizations have that function reporting to the C-suite and above (e.g., CEO, board of directors, or steering committee). Although a sustainability approach is a vital factor in the end-to-end supply chain, the two are not necessarily under the same leadership hierarchy.

Historically, supply chain sustainability has come under the sourcing and/or operations portfolio, and its role has been to enforce control and compliance processes at the factory level. The global market has since expanded enormously, with low cost country sourcing becoming ubiquitous, and a host of serious, often life threatening irregularities have been discovered. Increasingly, there is a strong demand for more fully developed methods that exert better checks and balances on sourcing and manufacturing. There is also heightened pressure to be more proactive in developing sustainable practices and policies within the supply base.

Traditional sourcing leaders may not understand the various compliance requirements (both social and environmental) and may be conflicted at times about enforcing CSR standards. Reporting to sourcing can be fraught with risks and even undermine effective sustainability practices.

Figure 2

Sustainability leader reporting relationships.

All that said, sustainability and sourcing functions must remain well connected, as they drive toward a mutually agreed upon destination. As a result, a CSR leader needs strong influencing skills, business savvy, and courage to make advancements without jeopardizing the overall company mission.

The public may have a certain view on potential conflicts of interest between sourcing and CSR, but sourcing practitioners likely have a different perspective. “There should not be any conflict of interest or discrepancy on business objectives, as both teams should be working closely with a common goal—good products from sustainable sources,” Shirley Justice of World Cat/Puma commented.

Business impact.

Nike, Levi Strauss, Walt Disney, and a handful of other companies are viewed as industry pioneers in incorporating sustainability into their corporate culture. Today, numerous others are also providing relevant guiding principles on how organizations can manage their business while contributing to the social and economic development of the communities they serve. This evolving strategy around corporate sustainability integrates actions throughout the entire supply chain, including suppliers, contract and internal manufacturing, logistics and distribution operations, and end customers. Some companies are also driving sustainability initiatives in the office space. For instance, Puma implemented a Sustainability Charter for Offices, measuring sustainability achievement on a performance matrix for CO₂, energy, water, waste, and paper.

End consumers increasingly scrutinize companies' approaches and demand higher social and environmental standards. Thus, multinationals are taking more systematic and aggressive steps to expedite sustainability integration within their organizations, and governments are also working on process enhancement to strengthen their social and labor rights as well as law enforcement.

After a deadly building collapse at a Dhaka garment factory complex in early 2013, European retailer groups formed the Bangladesh Safety Accord. More than 100 companies have signed on to the agreement, including Adidas, C&A, Esprit, H&M, Marks & Spencer, Puma, and Tesco. These enterprises have agreed to underwrite the costs of safety enhancements, and suppliers that refuse to implement remedial actions face repercussions. North American retailers including Gap, Wal-Mart, Kohl's, Target, and Macy's have formed the Alliance for Bangladesh Worker Safety to tackle similar problems.

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As a result of its mounting importance and emphasis, sustainability costs have escalated significantly. These include the additional investment required to improve working conditions and ramp up labor oversight (e.g., enforcement of minimum wages, standard working hours, insurance protection) in the lowest-cost countries, resulting in an erosion of operating margin of 3-10% (depending on the extent and complexity of change initiatives). Some premium brands are well positioned to absorb these costs or simply pass them on to customers, but the mass market players face intense pressure to deal with these costs and maintain their price competitiveness.

Although taking a sustainable supply chain approach can require additional spending to meet social compliance regulations, it can help generate savings through alternative energy, resource recycling, cleanup avoidance, and overall business risk reduction, as well as potentially enhance a company's public image.

While the main beneficiary of CSR and sustainable supply chain methods is the production labor force, others are well-positioned to reap the rewards of this global transformation as well: the Testing, Inspection, and Certification sector and external advisory houses. "Traditional audit service is not as effective at making business impacts; a lot of our clients are displaying a stronger demand for comprehensive CSR programs which help uplift productivity and energy efficiency as well as other factors at the factory level," an executive of an advisory services house confirmed. Another stated, "Companies would prefer to outsource the CSR practice as it is more cost effective to leverage local expertise in various locations given the pooling of resources. We have a group of professionals to help mitigate operating risks by sharing the liability with other customers and pulling the best team together."

Surfacing trends.

Green material sourcing. One of the key elements of sustainability methods is green material sourcing. Raw materials are the main cost component of eco-friendly labels, but the high cost of green materials can be offset by optimizing other aspects such as their development life cycle, lighter weight (which in turn lowers logistics costs), and how they enhance the perceived brand value. The increasing focus on environmental sustainability and regulatory enforcement compels companies to strike a balance between creating innovative products and remaining environmentally friendly. For example, Kingfisher's annual timber consumption is as much as the total forest scale of Switzerland. As a result, the company must pay extra attention to reforestation capability and material recycling. More than 80% of the timber products Kingfisher sources are supply certified by the Forest Stewardship Council (FSC) and Rainforest Alliance.

By making necessary adjustments to the product life cycle, manufacturers are able to create greener products that meet environmental obligations but are also affordable, profitable, and timely. There is a strong demand for innovative materials, and sustainability leaders are emphasizing the identification and development of new materials and applications to reduce overall environmental impact without compromising the operating margin. As Amit Chakraborty, a global CSR committee member at Hasbro and its senior vice president of global sourcing, explained, "We have 25% of global sourcing volume coming from packaging-related materials, and we have launched a new operational initiative to drive primitive design and to use more recycled materials in order to cope with ever growing e-commerce sales. Less fancy design is expected from the end customers nowadays."

Growing awareness about the potential negative environmental impacts of manufacturing and the need to comply with regulatory mandates have made it imperative for businesses to follow a green strategy.

Environmental compliance. In addition to social compliance requirements, leaders face challenges regarding environmental management in such areas as emissions control (CO₂ and VOC emissions); discharge of hazardous/nonhazardous waste; energy efficiency; introduction of alternative energy; and resource recycling. Juggling the goals of promoting throwaway fashion and electronic devices with short life cycles and advocating eco-friendly methods presents an ethical dilemma.

Given the supply chain's technical complexities and talent scarcity, companies generally do not have a dedicated, built-in environmental team and must partner with external parties. Building an integral environmental function to tighten up controls and implement procedures presents a small but growing trend.

Some companies have aggressive environmental strategies. A case in point is Kingfisher Group, which has declared its long-term intention and commitment to being "net positive" in the areas of timber, energy, innovation, and communities, has also adopted the strategy.

Media communication. Media management is becoming a key task for sustainability leaders as the major newspapers and television channels increasingly feature human rights, activists, scandals, and protests. A well-rounded manager is expected to be instrumental in transforming and strengthening brand reputation through media and government relations as well as stakeholder management, resulting in positive exposure and stronger support from industrial associations and/or trade bodies. More importantly, the leader needs to be able to prevent concerns from becoming scandals.

The leader also will need to act as the company's ambassador, protecting its interests and representing it at round-table discussions, global conferences on regulatory impacts, and conducting outreach to organizations that support the sustainability mission.

"We have a proactive approach engaging multiple NGOs," said Franck Moreno of Kingfisher, the largest home improvement retailer in Europe. "For instance, we have joined WWF's Low-Carbon Office Operations Program (LOOP), which offers tools to help reduce the carbon emissions in the workplace."

The sustainability leader.

Little can be achieved without strong leadership and drive at the top level; it is no different for sustainability efforts. To live up to the public's expectation that they be the guardians and police of manufacturing activities, supply chain sustainability executives need to exhibit the following leadership characteristics and skills:

Passion and courage. In general, sustainability practitioners are not the best liked group of people in an organization. Being meticulous and strict about various procedures and principles earn them little appreciation from co-workers. Consequently, they must be self-motivated and determined that the work they are doing is important. "Strong passion about CSR and human welfare is the key. People should have a strong sense of ownership and responsibility that they are doing the right thing for our people and the planet," concluded Rene Frei of Coach International. It can be easy to know what is the right thing to do, but it takes motivation and courage to actually do it.

Broad knowledge. CSR plays an important role along the supply chain, all the way from material sourcing to production and global transportation; a strong sense of the flow is needed to identify the pitfalls and deficiencies. Effective leaders need to know how to mitigate the emerging risks to the key value drivers of the supply chain, propose remedial measures addressing crucial issues, and respond to requests while maintaining independence and objectivity. "I would hire experienced people with mixed operational background," one executive explained. "A sense of sustainability is key, but someone should have a broader view and exposure to a holistic supply chain/manufacturing operation."

Strong business acumen. Embedding social and environmental concepts into the business operation is very important, yet this must be done without jeopardizing the commercial intent. After all, businesses have to make a profit to satisfy their shareholders and stakeholders. The ability to understand various business models—not only the visible/physical operations but how companies can make money off sustainable products and services—is key. Companies are seeking the best opportunities for top-line growth and operational cost savings; good leaders are those who are skilled enough to spot and seize both.

CSR leaders must live up to the public's expectation that they will be the guardians and police of manufacturing.

Vision and forward focus. “Someone should have the ability to anticipate the longer term development,” Puma’s Justice noted. “They should understand the trends and being innovative, e.g., where the water source will be, what the better way to drive value-added process is.” In a rapidly changing world, sustainability leaders need to keep challenging the status quo, relying on new ways of thinking to envision solutions.

Influencing and engagement capability. Sustainability leaders must balance the needs of a large number of stakeholders, including upstream suppliers, manufacturing partners, NGOs, and labor unions, as well as operating groups within their own organization. Getting people on board with new procedures that may push them out of their comfort zone requires leaders to have robust selling and influencing skills. The technical implementation of new routines may be rather simple, but more crucial for a successful rollout is that leaders effectively engage key stakeholders so that they buy in to the changes. If executives fail at that, the modifications will remain purely theoretical and without any business value.

Understanding the vital importance of these traits goes a long way toward helping identify people suited to the role. Opportunities abound for well-rounded, business savvy operational leaders with a passion for sustainability and a desire to drive positive environmental changes. However, such innovative troubleshooters with the level of sophistication and experience required are scarce.

Looking forward.

Supply chain sustainability methods are still in the developmental stage in Asia, yet they are advancing. Achieving success as a leader in the past required a strong focus on operational issues, but today's executives are expected to also be strong business partners and influencers. They have to make a lot of crucial decisions on behalf of the board and CEO while dealing with operational incidents and crises. Sustainability leaders are now empowered to cut off a supplier for serious violations, manage stakeholder relations, and deal with regulatory bodies all while showing grace in the face of media inquiries. The tragedies in Bangladesh and Cambodia demonstrate that companies should remain vigilant at all times and invest the right resources to ensure safety compliance. It is not simply about business sustainability, but a real matter of life and death.

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