Sustainability risks drive businesses and government to target the supply chain

Material Handling Industry of America

A recent report by Ernst & Young LLP identifies five climate change and sustainability risks that executives should consider as they respond to growing demand to eliminate waste from their supply chains and to report on these initiatives.

The demand comes from a proliferation of large corporate supplier qualification and scorecard programs that are employed to examine carbon footprints and resource use at every step of the product and service lifecycle - from the sourcing of raw materials to waste disposal by customers. In addition to commercial customers, consumers, investors, analysts and other stakeholders are demanding transparent information about the lifecycle of products and services.
Government engagement is also motivating corporate focus on greening the supply chain.

In November, the US government – the largest supply chain in the country – announced its GreenGov Supply Chain Partnership, a pilot program to cut waste and pollution in the federal supply chain by measuring greenhouse gas emissions (GHG). Following this pilot, the General Services Administration intends to develop an incentive-based approach to contracting to favor companies that track and disclose their GHGs.

“Supply chain and environmental professionals share a common goal: to reduce waste. While these supplier programs could be seen as a burden, they are actually great opportunities to cut costs while reducing an organization’s environmental footprint. The risks –- once identified and managed for an individual organization –- can help foster customer relationships and yield competitive advantages,” explained Steve Starbuck, Americas Leader, Climate Change and Sustainability Services, Ernst & Young LLP.

The five highly charged climate change and sustainability risks to supply chain operations include:
1) Strategic – The supply chain, for many companies, increasingly provides an opportunity to improve competitive advantage and reduce cost and waste. Leading companies understand this link, particularly as stakeholders become more interested in social and environmental costs.

2) Compliance – Organizations that are required to comply with green supplier programs now need to track data on energy use and make the information available for audits. On the flip side, if an organization has instituted a green supplier program, it will need new processes to track and monitor supplier compliance and to use the data to drive decision-making.

3) Financial - Supply chain issues impact an organization's financial strategy in multiple ways, such as: opportunities to cut costs, potential cash management and liquidity implications as a price for carbon is set in different jurisdictions, and new due diligence requirements for acquisitions. Additionally, as companies increase public disclosures in non-financial reports, CFOs and audit committees are exercising more oversight.

4) Reputational - Many companies are implementing supplier qualification programs to ensure they do business with suppliers that share their values, which helps them manage brand and reputational risk. As such, these companies may conduct regular audits of suppliers, which might include compliance with emissions, waste and safety guidelines.

5) Operational – Spare parts inventory management, manufacturing equipment utilization, and planned maintenance are just a few areas where the level of efficiency could be improved. Other operational areas to assess include: unplanned downtime, reduction and innovative uses for manufacturing waste, transportation, logistics and facilities.

"As organizations across the public and private sector decrease their environmental footprints by focusing on supply chain operations, many find they need to influence operations that fall outside the direct control of a single business unit or enterprise. As a result, supply chain leaders need up-to-date sustainability information that meets the growing demand for transparency and accuracy from customers and suppliers alike. Many companies are already taking a full lifecycle approach to improve the environmental impact of their products and services." explained Eric Olson, Ernst & Young's Climate Change and Sustainability Supply Chain Leader, Ernst & Young LLP.

Recommended actions that supply chain operations professionals can take include:
1) Assess climate change and sustainability reporting needs, including evaluating the integrity and alignment of data across the supply chain.
2) Monitor and assess existing or potential government regulations on the entirety of the supply chain.
3) Review the corporate risk register and risk management policies for appropriate inclusion of climate change and sustainability risks associated with the supply chain.

To learn more about supply chain sustainability, plan now to attend the ProMat 2011 Educational Track: *Sustainability, the supply chain and their future together.* [1]

Click here [2]to access the full report, *The five highly charged climate change and sustainability risks for supply chains*.

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[1] http://www.promatshow.com/education/tracks.aspx?ref=attendees
[2] http://www.ey.com/Publication/vwLUAssets/Five_areas_of_highly_charged_risk_for-supply-chain-operations/$FILE/Climate change and sustinability_Five areas of highly charged risk for supply chain operations.pdf
[3] http://www.mhia.org/news/industry/10228/sustainability-risks-drive-businesses-and-government-to-target-the-supply-chain