



***“Creating Value for Business and Society Through  
More Sustainable Supply Chains:***

***Lessons Learned From Emerging Market Countries”***

***Remarks by***

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For the discussion of sustainable procurement and expanding the green supply chain, I'm going to discuss three inter-related topics. First, why is there such a large and growing focus on greening the supply chain? Second, what are some Key Factors to Success in aligning the interests of global companies and their suppliers? And third, how does one achieve scale in green supply chain management so that the results truly make a difference around the world.

Many of my observations are based on projects implemented by the World Environment Center (WEC) in the past five years in such sectors as aluminum, automobiles, beverage and food, chemicals, hotels and lodging, pharmaceuticals and retail businesses. These projects have been conducted in Australia, Brazil, China, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua and Romania. They have been supported by funding provided by global companies and national governments.

### What Explains the Growing Interest and Momentum in Greening the Supply Chain?

It's important to begin by explaining what is meant by "greening the supply chain." I believe the term encompasses two elements: 1) efforts by global companies to improve the operational rigor, control and sustainability performance of the many firms that are their business partners in the development and marketing of products and services; and 2) strengthening the competitive performance and organizational capacities of these business partners to perform more sustainably over time.

The expanding interest in greening the supply chains of global companies stems from several developments. They include:

- ***As companies have outsourced and decentralized a variety of business functions around the world, they have also redistributed and changed the nature of the risks to their business.*** As a result, a greater magnitude of the environmental footprints are now located outside of their own manufacturing and distribution locations. Well publicized examples of risks such as defective medical supplies and devices, contaminated building materials, pet food and toys all illustrate the fact that many companies currently do not have adequate controls over their own supply chains.
- ***Greening the supply chain initiatives provide large opportunities for cost reductions coupled with better business performance.*** The World Environment Center's own experience in managing projects in developing nations across a number of business sectors has yielded significant cost savings to small and medium sized enterprises due to improved energy efficiency, reduced use of natural resources and raw materials, and improved use of alternative technologies. Such savings provide a source of capital that

can be reinvested by suppliers to improve their productivity, the working environment and other benefits.

- ***Market expectations and dynamics, shaped by decisions by a few market leaders, are transforming sustainability from the periphery to the core of business strategy.***

Evidence of this development is occurring in such business sectors as automobiles, beverage and food companies, high technology companies and the retail business.

### ***Key Factors to Success in Expanding Green Supply Chains***

There are a number of factors that can promote the advancement of sustainability across the supply chain. These factors include:

- ***Green supply chain initiatives must be managed as business projects and must be driven by business objectives.*** This is essential to migrating sustainability into core business processes that penetrates the DNA of how a company thinks and behaves as it advances its business success.
- ***Supply chain projects must be managed to achieve specific actions and goals linked to the accountability of managers and employees.*** Absent such specific commitments, measures of success will be more aspirational than real and will not attain long lasting successes.
- ***Value must be generated for both the global company and its suppliers.*** Both parties must benefit by greening the supply chain initiatives. The identification of such benefits should be part of the process defining and implementing their business relationship. Senior management on both sides should establish clear goals and expectations of better performance and value before beginning any projects, and they should commit to a reporting process that provides transparency about actual results achieved.
- ***There needs to be on-the-ground capabilities to provide technical support and other forms of assistance to suppliers in their facilities.*** It is not feasible to provide such support on a sustained basis by parachuting in experts from western countries; rather, companies and their suppliers should work with in-country experts or partner with organizations that know how to operate in-country with relevant experts.

### ***Achieving Scale By Greening the Supply Chain***

Many green supply chain initiatives begin as pilot or demonstration projects involving a specific plant and a few suppliers. Success in these smaller scale projects can generate both confidence and momentum for expanding them to achieve greater scale in a multi-year process. At a certain point in the evolution of the process, however, the ability to achieve greater business scale will be shaped by several important issues. These include:

- ***Integrating sustainability/green supply chain actions and goals more directly into company-wide procurement, manufacturing and product development processes.*** In short, greening the supply chain to scale requires the transition from one-off projects to their integration into daily business practices.
- ***Finding appropriate partners.*** Most global companies lack adequate staffing and expertise in many of the countries where they operate. Developing appropriate partnerships with NGOs, or building coalitions with other peer companies who share common suppliers, represent options for generating greater scale.
- ***Financing supply chain improvements.*** While cost savings from individual supply chain projects can finance some limited-scale performance improvements, neither the global company nor its suppliers are likely to possess the financing capabilities necessary to undertake larger scale capital investments. This represents an opportunity for the private sector to work with regional and global development banks, private lending institutions or government agencies to attain greater scale in greening the supply chain.
- ***Changing the culture of business decision making*** to acknowledge that returns on sustainability-related projects represent legitimate forms of investment and innovation. At present, too many financial managers regard the return on capital from sustainability investments as less “real,” as if energy efficiency improvements or the development of more sustainable products were less subject to calculations of value.

***Expanding the greening of the supply chain ultimately leads to business strategies to make sustainability part of the customer experience.*** Both global companies and their suppliers operate in rapidly changing markets in which the rules of the game can be redefined by their business customers or consumers in the marketplace. Their ability to implement sustainability practices in their own operations and product offering can better enable them to adapt to the needs of a changing marketplace, and provide them with important branding and product differentiation attributes compared to those of competing companies.