Climate-Friendly Supply Chains: Driven by Business Value Not Regulations

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Focusing on Business Value: Why?

> *"…when there are no government regulations, the trick is how do you encourage the suppliers to improve their environmental performance, particularly the suppliers who do not have that mind frame of reducing CO2 emission…. what we do here is, we don't put CO2 reduction as our main theme, but we put it as the cost reduction activity for the company, because eventually if they can reduce CO2 they are also reducing the operating cost, so if we try to encourage them to look at that as a cost reduction activity, CO2 reduction comes hand in hand with that….".*

The above anonymous excerpt was said by the environmental manager of an international automotive manufacturer in an emerging economy in an interview discussing the drivers and barriers of green supply chain management (GSCM) practices. What is clear from this statement is that the shift from reactive and compliance-based to proactive and strategic adoption of green practices happens only when organisations realise the benefits such practices can bring to their businesses. While environmental laws and regulations such as carbon pricing can be an effective tool to mitigate climate change, it is not enough to meet required climate targets.

In the 1990s, the prevailing view was that there is a trade-off between ecology and economy. In this respect, at that time, the companies were considering the question of "whether or not it pays to be green". However, the extensive theoretical and empirical research conducted in the past few years, which confirmed the crucial need to adopt environmental strategies to gain competitive advantage, ended the dilemma concerning ecology versus economy. Still, practitioners remain concerned about the adverse impact of environmental policies and practices on competitiveness. Given such concerns, focusing on the values that climate-friendly practices can bring to the organisations that adopt them is the key to incentivising companies to be engaged in creating a low-carbon economy.

What Benefits Can We Expect?

Lower costs, reputation and legitimacy, future positioning, and long-term growth are the sustainable competitive benefits that green practices can bring to the organisations that adopt them. According to the theory of Natural-Resource-Based View, depending on what competitive benefits they are looking for, organisations can decide on strategic options available for improving their environmental performance.

To gain cost advantage, companies can adopt a pollution prevention strategy. The pollution prevention strategy refers to incremental and continuous environmental improvement that reduce waste and emissions from the company's current operations through incremental improvement of the company's existing products and processes. A product stewardship strategy extends the responsibility for environmental impact beyond the organizational borders including suppliers, distributors, and customers, and brings reputation and legitimacy to the supply chains.

While pollution prevention and product stewardship strategies focus on incremental improvement, the clean technology strategy refers to innovations that make radical changes in standard routines and knowledge. Clean technology extends beyond a company's existing products and business models. Companies adopting this approach try to use innovative technologies and make a disruptive change in their product and process design for the elimination of waste and emissions, so that they can gain benefits from future market opportunities.

How to Do Value-Based Planning?

During the past few years, managers and executives have been overwhelmed by the models, standards, and schemes presenting environmental best practices. However, little effort has been made to provide them with a basis from which they can prioritise these practices. To answer the question "what should they do first, and why?", managers are recommended to start with environmental benefits mapping and building a business case.

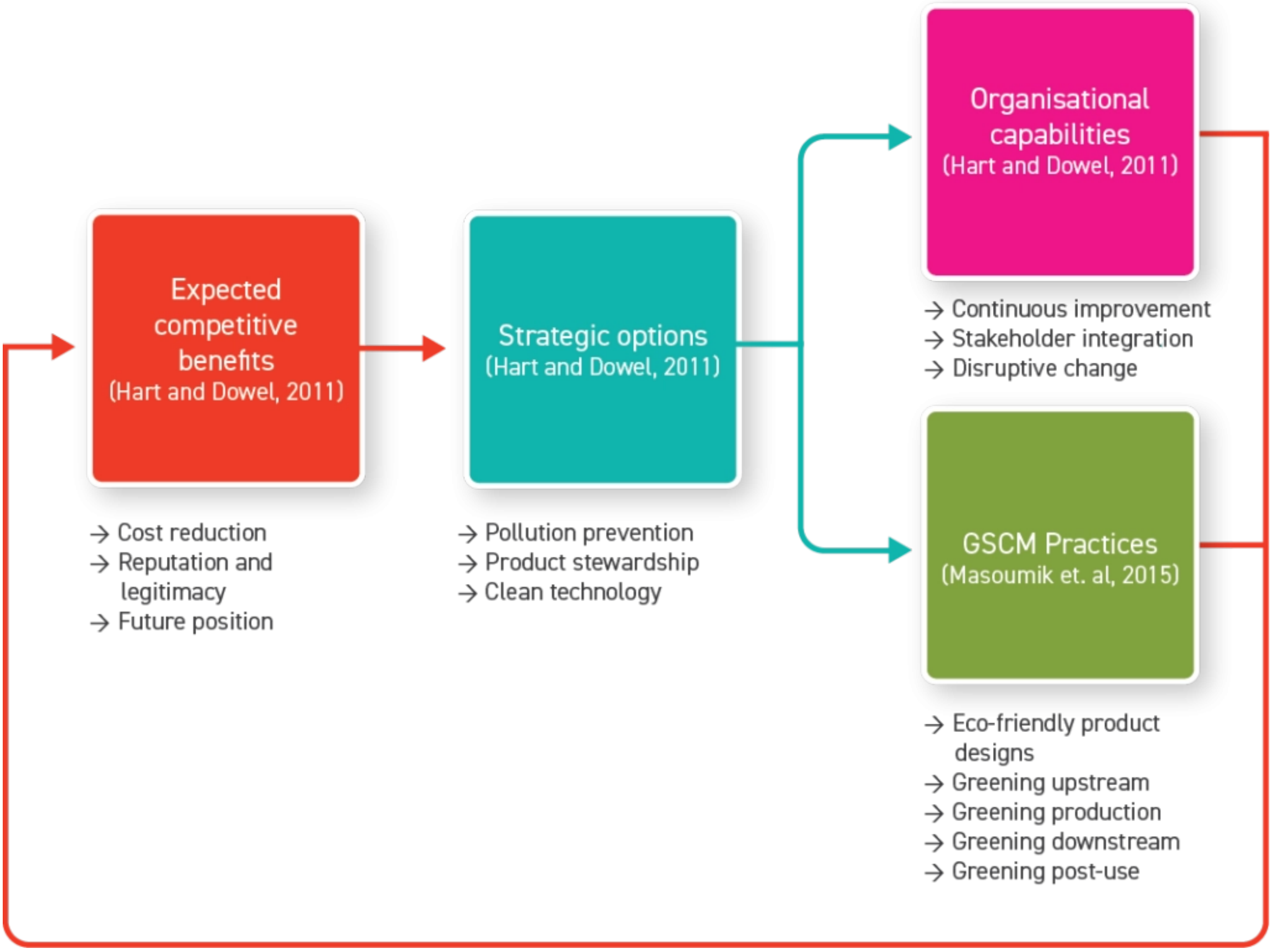

Figure 1. Building the business case for a climate-friendly supply chain management

As can be seen from Figure 1, to build the business case for a climate-friendly supply chain, organisations first need to prioritise their expected competitive benefits and the values that they are planning to generate for their shareholders in line with their business strategy. Given the benefits they are aiming to achieve, the strategic options for improving their environmental performance can then be prioritised. To successfully adopt a green strategy, they can develop the required organisational capabilities. Finally, given their preferred strategic option, organisations can decide on green practices that they need to implement at every stage of their product's life cycle and across their supply chains.

For example, a company's business strategy might be to compete for the future. This can happen by building new capabilities and resources, instead of reproducing the cost and quality advantages of using the existing recourses that are already available for the present competitors. Such a company can adopt a "clean technology" strategy to remove the source of pollution from its production process using renewable energy or produce zero-emission products to capture future market opportunity. To implement the strategy of clean technology, the company could develop a "disruptive change" capability to deal with areas of knowledge that are uncertain, constantly evolving, and dynamically complex Subsequently, amongst the different categories of GSCM practices, "eco-friendly product designs" could be the focus, involving initiatives relating to the design of products for reuse, recycling, or recovery, or the design of products for reducing emissions and other environmental design objectives.

The business case is recommended to be built and managed in collaboration with suppliers, customers, and other key stakeholders to increase the level of engagement in creating a low-carbon supply chain.

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Maryam has over 15 years' experience as a Business Analyst and Management Consultant, and over nine years' experience as a Lecturer and Researcher. Maryam has successfully completed several business consulting projects, and assisted companies in aligning their operations with their business strategies, and bridging the gap between strategy and execution.