

CONFERENCE: Socially and Environmentally Responsible Supply Chains: A Source for Innovation

April 22, 2008 ---- Stanford Graduate School of Business

Panel: Innovative Partnership Models: Harnessing the Power of Your Network

Session Moderator: Professor Andrea Larson, Darden Graduate School of Business Administration

Panelists:

Larry Coburn, Director of the Lean Learning Center at Nike and responsible for the supply chain innovations with partner manufacturing factories in Nike's southeast Asia operations.

Karl Walk, Chairman of the World Cocoa Foundation and Director of the Cocoa Department at Blommer Chocolate Company

David Munnikhuysen, an operations expert and Vice President of Best Practices at Manheim

Kevin Bice, a Senior Technical Consultant at Ashland, a water chemist and a key figure involved with innovation breakthroughs through collaborations with Mannheim

NETWORK INNOVATIONS

Supply chain innovation is constrained by a common mindset bias. Business people often are relying on information or assumptions that are out of date and lag behind the development and dissemination of new knowledge. Consequently, the management of supply chains in socially and environmentally responsible ways in many firms remains associated in executives' minds with higher costs and reduced quality. Consequently it is a significant leap of faith to imagine social and environmental considerations driving innovation, or business solutions resulting in strategic and financial gains **AND** social and ecological benefits concurrently.

Yet this is what our panelists consistently described. In sharp contrast to received wisdom, our speakers provided compelling stories of collaborative processes within networks of players that generated financial, strategic and brand enhancement gains simultaneous with social, health, ecological, and community benefits.

This set of presentations and subsequent Q&A discussion with audience members added to the growing empirical evidence about innovations that arise from close working relationships built with suppliers and

other stakeholders. The evidence suggests collaborative supply chain networks are a relatively untapped source of innovation that can yield strategic, financial, social, health, and environmental benefits for companies and communities. In fact, the panelists' testimony argues strongly that it is the conscious crafting of these types of innovative solutions that can enhance a firm's financial value and differentiate the firm from competition while serving the larger common good.

Key Takeaways

1. **SUPPLY CHAIN AND STAKEHOLDER COLLABORATIONS GENERATE INNOVATIONS** – The panelists consistently delivered the message that cooperative problem solving can be cultivated that improves quality AND lowers costs while simultaneously addressing environmental and social concerns. Common to each participant's account was that firms should never underestimate the breadth of expertise available from their supply chain partners, particularly when there is a convergence of demands for social and environmental responsibility *and* revenue growth. Their experience from a wide range of industries and geographies reveal that suppliers can, and will, initiate creative innovations that help the business IF given the opportunity.

“The key to change and generation of new ideas was open dialogue” was Karl Walk's overview statement on his successful efforts to engage farmers and non-governmental organizations (NGOs) to help ensure wholesale chocolate supplies. By listening to local farmers, supporting the farmer's businesses, and improving local technology applications and production methods, a stakeholder network enhanced business, environmental and social outcomes. A small Korean footwear supplier for Nike was the unlikely source of innovative improvements to vendors' manufacturing operations. Larry Coburn of Nike made the following observation, “Nike typically has had the answers for suppliers. We have the expertise, and we tell them what we want. This new process was good for us. It challenged our way of thinking. In this case the Korean supplier developed the new ideas, came to us, and then offered to work with us to extend those innovations to the broader supplier network. The benefits have been extraordinary. Everyone wins.”

2. **INNOVATION REQUIRES NEW PROBLEM-SOLVING PROCESSES** - Innovation is less about technical fixes than problem-solving processes. Innovation process needs to be guided by principles of mutual trust and support. The stories of breakthrough innovation were consistent: Be transparent; get everyone on board, openness, honesty, no surprises, expectation and tolerance for mistakes, an understanding that everyone is learning, talking about what is not working, the expectation that it will not go smoothly, a willingness to

work together through the inevitable ups and downs, and a commitment to seeing it through – all of these phrases were used by the panelists to describe the processes that yielded success.

Larry Coburn of Nike described the process as “the bedrock for change” for his work with 17 suppliers in 40 locations across Korea, Thailand, Indonesia, and Taiwan. When Nike realized 30% cost reductions, they were shared equally across Nike, the suppliers, and the line operators who contributed significantly to creating and implementing the new practices. As Larry Coburn stated, “Don’t underestimate the creative potential of your partners. There is lots of untapped knowledge and problem-solving ability out there.” Building trust can take time, but Kevin Bice of Ashland who, along with David Munnikheysen, participated in devising a lower cost and unique technology solution to a hazardous waste and waste water treatment problem described the shift: “We moved to a new level of partnership – away from the isolationist ‘what’s in this for us’ approach to find new solutions, much better solutions, and at less than half the cost!” For Mannheim and Ashland, the problem-solving collaboration resulted in an unprecedented and innovative financing mechanism in addition to the technology breakthrough.

- 3. LEADERSHIP SUPPORT IS KEY** – A consistent message from the panelists was the critical contribution of top leadership support. This might involve resources, but in addition, new stakeholder and supply chain innovation processes require participants to step outside their comfort zones. Leadership at the top of the organization is pivotal to encouraging participants to take this risk and stay with the effort over time.

David Munnikheysen of Mannheim observed that the remarkable innovations Mannheim and Ashland achieved, “would not have been possible without the visionary leadership at the senior level.” He went on to say, “Naysayers raised their voices to oppose change, or to propose the no risk, no change solution. We would not have had the willingness to keep trying, to keep working together through the ups and downs. You can’t do it without that [senior level support].” Karl Walk had the support of his company and the industry participants in the World Cocoa Foundation, “all of which was essential to our success.”

- 4. ENGAGE UNCONVENTIONAL STAKEHOLDERS** - Innovations and performance benefits come not only from open-minded and collaborative suppliers but also from stakeholder organizations committed to broad socio-economic goals such as economic development, job creation, and social justice. This includes regulatory agencies, NGOs and private foundations, many of which want to help and have developed constructive working relationships with corporations to advance common goals. These organizations can become unexpected sources of creative ideas and market support when companies seek common ground goals rather than view them as adversaries.

Given the worldwide growing demand for chocolate, Karl Walk's job is to be concerned about the future productivity of small scale chocolate producers. Tapping into the ingenuity of local farmers and combining forces with an NGO, the foundation has trained 200,000 farmers with resulting increased yields, improved quality, use of technology that uses 60% less water, and leveling yearly sales, hence expanding and stabilizing farmers' businesses. The source of this change? Karl commented, "The farmers were the sources of innovations that resulted in better processing techniques, lower fuel costs, and faster time to market, and an NGO active in coffee production was our partner in adapting the technology" – this highlights the new possibilities when open discussions with partners are encouraged and cultivated. David Munnikheysen and Kevin Bice worked with local water and wastewater treatment government agencies as well as with additional suppliers to find the solution to the hazardous wastewater disposal challenge. David's observation was, "It is only through understanding the perspectives of different participants and being willing to work closely with them that you can work through the hard issues to generate new solutions."