The Consequences

of Mandatory Corporate Sustainability

Reporting.

CSR REPORTS

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The Consequences
of Mandatory Corporate Sustainability Reporting

We examine the effect of mandatory corporate sustainability reporting (MCSR) on several measures of social responsibility using both country and firm-level data. Using data for 58 countries, we show that after the adoption of MCSR laws and regulations, the social responsibility of business leaders increases and both sustainable development and employee training become a higher priority for companies.

Moreover, for companies in countries with MCSR, corporate governance improves and on average, companies implement more ethical practices, bribery and corruption decrease, and managerial credibility increases.

These effects are larger for countries with stronger law enforcement and more widespread assurance of sustainability reports.

We complement the country-level analysis using environmental, social and governance metrics at the firm-level in conjunction with a differences-in-differences research design and we find that for the treatment group, energy as well as waste and water consumption significantly decline, while investments in employee training significantly increase after the adoption of MCSR laws and regulations.

Why Most

Sustainability Reports "Smell like Teen Spirit"

By: Lynnette McIntire

Adolescents wave their immaturity like flags. They focus on themselves, underestimate the risks and impact of their actions, are oblivious of the consequences, and shut out voices that challenge them.

Unfortunately, a perusal of sustainability reports also "Smells like Teen Spirit" with self-indulgence writ large across the glossy and colorful pages.

Author Dr. Tim Elmore catalogued attributes of maturity in a 2012 Psychology Today article as qualities for parents to instill in their children. They also can be used to judge the maturity of sustainability reports:

A mature person is able to keep long-term commitments.

Mature sustainability programs recognize the long-term implications of their company's actions and then invest for long-lived (a.k.a. "sustainable") results. Too often, reports showcase the past year's latest and greatest achievements but fail to connect the action to future plans and commitments. Companies that have multi-year ambitious goals, like Unilever, are signaling that they are committed to sustainable action.

A mature person possesses a spirit of humility.

As Dr. Elmore says, "Humility isn't thinking less of yourself. It is thinking of yourself less." Increasingly, leading sustainability reports connect their impact and mission with others beyond their own organizations. These companies publicly recognize that their success is dependent on their customers, suppliers and communities, That is, mature reports treat their external partners as equals, giving credit where credit is due. Intel, for example, recognizes excellent suppliers based on cost, quality, availability, delivery, technology and environmental, social and governance.

A mature person's decisions are based on character not feelings.

To be credible reporters, companies have to have a formal framework of ethics, and responsible behavior to support their sustainability claims. In their reports, they find ways to tell how they reward employees for upholding their principles, and they document how violators are punished. Siemens has acknowledged a legacy of corruption and its General Counsel is now leading public efforts to address bribery and corruptions through the United Nations Global Compact.

A mature person knows how to prioritize others before themselves.

Businesses inevitably have a crowd of stakeholders clamoring for their resources. Mature companies thoughtfully and rationally set priorities. Mature reports acknowledge the inherent conflicts of multiple stakeholders and then transparently disclosure their decision-making processes. This is one of the emerging principles of international sustainability reporting frameworks such as GRI (the Global Reporting Initiative) and the IIRC (International Integrated Reporting Council).

In 2007, Australian retailer Woolworth's laid out a prioritization plan through 2015 that explained its methodology, rationale and goals – reflecting the viewpoints of both internal and external stakeholders. The document recognized the farmers that were dependent on them, the consumers who trust them, and the 180,000 employees who depend on them for their livelihood. Those goals remain intact today and progress is reported annually with new goals encompassing community contributions, suppliers and waste management, and fair trade added as they progressed.

IT's Security Metrics

and reporting problem: A
Communication failure

IT's security
metrics and reporting problem: A communication failure

By: Elden Nelson

What used to be a back room, invisible function of enterprise, IT security has been launched into the limelight with high profile data breaches with Sony as the most recently, and reoccurring, example. Enterprises are rightfully bringing IT security to the forefront of the business process, and IT teams are responsible for showing the improvement and success of security programs that are often a significant line item on the books.

Therein lies a new challenge for IT: to develop security metrics and reporting that effectively communicate the successes, failures and potential risks of a security program to business audiences in the enterprise. Wisegate, a peer-based IT advisory, conducted a member survey of hundreds of senior IT professionals to determine their top concerns in assessing security risks. Earlier this year, we shared those top concerns with CSO readers; lack of security metrics and reporting was high on the list.

Here are our findings regarding security metrics and reporting from that survey.

• Security metrics and reporting processes are immature.

While 80 percent of respondents said that their top security risks (malware, data breaches and outsider threat) are increasing in the industry, an average of 50 percent don't have reporting procedures in place to measure their existing security programs.

• Communications problems are due to a tool-centric rather than risk-centric view of security.

IT is taking a risk-based approach to securing the business, but it currently lacks the means to report the risk status to boards and internal business partners. CISOs are measuring tactical things and what metrics that exist are events-driven: how much classified data was blocked from leaving the system; how many malware hits were stopped at the firewall or by the AV software. The problem is that there remains a tool-centric rather than risk-centric view of security, and the tools that are available rarely provide metrics that can be combined into an overall metrics-based company risk report that fully communicates program performance. This leads to a failure of communication between security teams and business, and it's a major challenge for IT security.

• The volume of security products in the market make seamless metrics and reporting very difficult.

Survey respondents across the board have plans to implement various new security controls within the next three-to-five years. For example, 63 percent of respondents plan to implement endpoint-targeted security control products such as 'information protection' and 'anti-malware' (57 percent). Top mobility/IoT products were 'DLP, tracking masking and encryption' (46 percent). The sheer volume of different products makes communicating strengths and weaknesses in the corporate security profile in relation to business impact a difficult proposition. It results in a failure to communicate program impact in business terms, and a failure for business people to understand security.

• Aggregate security products for seamless metrics and better communication.

Security metrics and reporting can be improved if IT teams aggregate security point solutions to provide a seamless holistic risk rating; and then create the metrics to demonstrate the impact of security on business. As the move towards adoption of security as a service (SaaS) solutions gathers pace, security teams can start to insist on the provision of usable metrics as part of the partner agreement.

• Security has moved to the central business functions—it's no longer just an IT issue.

 The National Association of Corporate Directors published a handbook to give cyber-risk advice to members. It says, "Discussion of cyber-risks between boards and senior managers should include identification of which risks to avoid, accept, mitigate or transfer through insurance as well as specific plans associated with each approach." This point highlights the need for discussion between security teams and the board. This shows that business leaders are ready to add important security and risk to the heart of other high-level business areas, such as profitability, revenue growth and product innovation.

The Slack generation

How workplace messaging could replace other missives

By: San Francisco

STEWART BUTTERFIELD, The boss of Slack, a messaging company, has been wonderfully unlucky in certain ventures. In 2002 he and a band of colleagues created an online-video game called "Game Neverending". It never took off, but the tools they used to design it turned into Flickr, the web's first popular photo-sharing website. Yahoo bought it in 2005 for a reported $35m.

Four years later Mr Butterfield tried to create another online game, called Glitch. It flopped as well. But Mr Butterfield and his team developed an internal messaging system to collaborate on it, which became the basis for Slack. In Silicon Valley, such a change in strategy is called a "pivot"; anywhere else it is called good fortune. Today Slack is one of the fastest-rising startups around, with $540m in funding and a valuation of around $3.8 billion."I guess the lesson should be, pursue your dream and hope it fails, so you can do something else," says Cal Henderson, Slack's chief technology officer.

Its other selling-point is efficiency. A survey of users, admittedly conducted by the firm itself, suggests that team productivity increases by around a third when they start using the software, primarily by reducing internal e-mail and meetings.

Slack has decided to open itself up to other apps, becoming a platform by which employees can log into and use other software tools. Today it has 2.7m daily active users, up from 1m last June. Around 800,000 of them are paying subscribers; their firms pay around $80 or more a year for each employee using the service. The firm has $75m in annual recurring revenue and is breaking even, says Mr Butterfield.

Slack's rise points to three important changes in the workplace. First, people are completing work across different devices from wherever they are, so they need software that can work seamlessly on mobile devices. Messaging naturally lends itself to this format. Second, communication is becoming more open. Just as offices went from closed, hived-off rooms to open-plan, Slack is the virtual equivalent, fostering a collaborative work environment, says VenkateshRao of Ribbonfarm, a consultancy. Slack's default setting is to make conversations public within a firm.
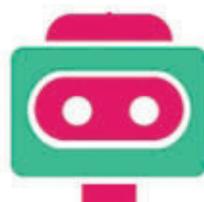
Third, software firms are trying to automate functions that used to be done by people in order to make employees more productive. Slack has made a big push into "bots", algorithms that can automate menial tasks which used to be done by humans. Slack offers bots that compile lunch orders and projects' progress reports, or generate analytics on demand. In the future employees will be able to chat with software agents to get more done, working alongside bots as well as their peers.

Dharma chameleon

In retrospect, Flickr was sold too soon. The sale marked the beginning of the technology industry's resurgence after its crash in the early 2000s. Now Mr Butterfield has a second chance. Investors do not want to see him sell Slack too early. Earlier this year there were reports that Microsoft considered bidding around $8 billion for the company. Mr Butterfield says that Slack has never received a formal offer from anyone and is planning to go public. Last year it started submitting itself to voluntary audits, in what appears to be preparation for a public debut. But it seems even more likely that a large tech giant will see the strategic value of Slack and try to snap it up first for an even splashier sum.

For another, Slack has rising competition to fend off. Already, rival products are taking aim at the market for workplace collaboration, including one, Atlassian, from an Australian software company, which is called HipChat, and bundled with its other services. There is also Symphony, a rival startup backed by several banks that specialises in highly regulated industries such as financial services, which require more compliance controls. Tech giants such as Microsoft, Oracle and Facebook have collaborative work apps, but these are only modestly successful.

Slack's greatest challenge may be people's own habits. To some, its endless stream of chatter may be worse even than e-mail, because the barriers to commenting rapidly are lower. The introverted Mr Butterfield should welcome the chance to appeal to people who do not want constant interaction, even when it comes in textual form.

Reality Check:

are young **People's Career** aspirations unrealistic?

By: Charlie Ball
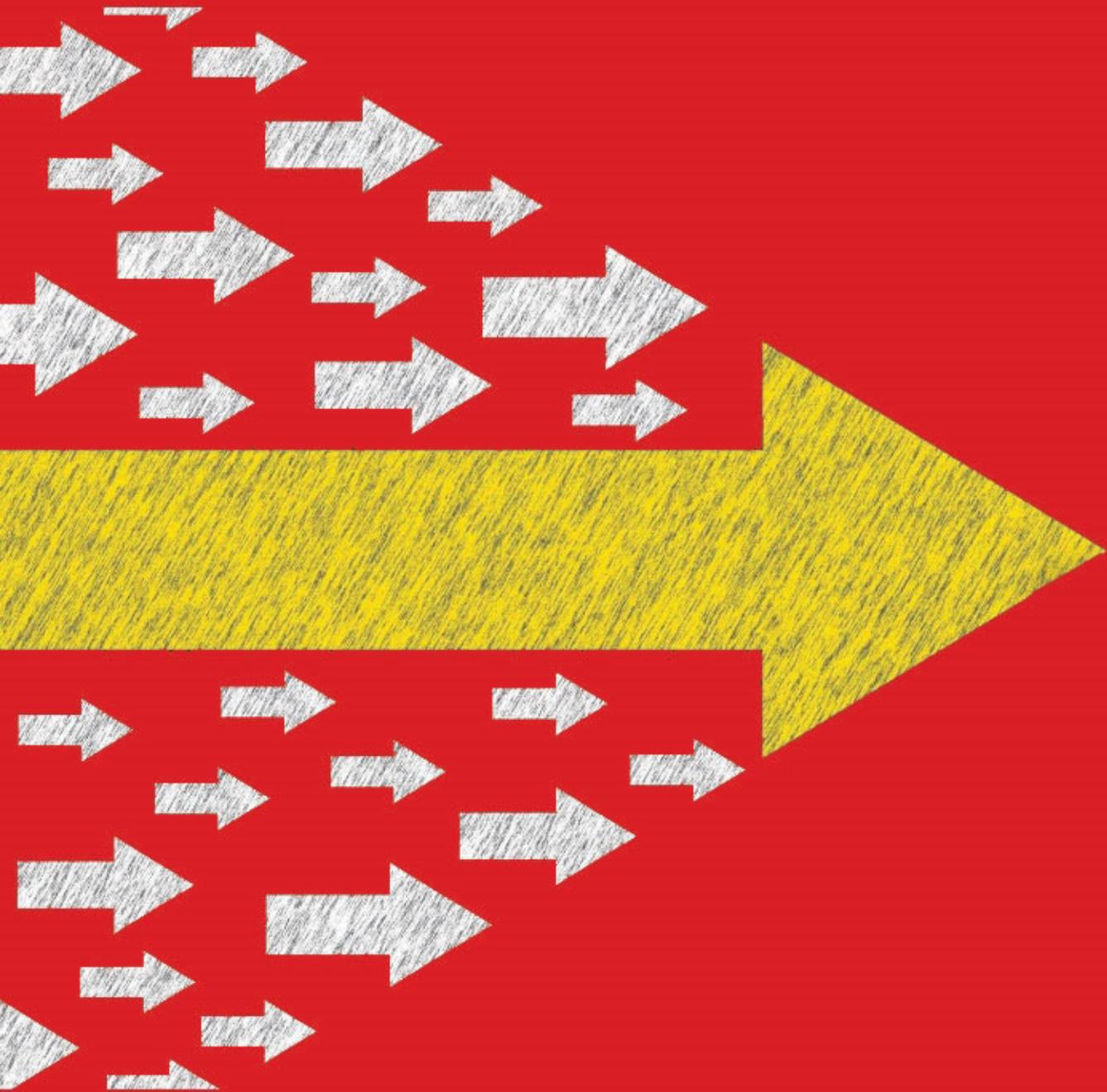
Reality check:

are young people's career aspirations unrealistic?

New research suggests young people's career aspirations aren't realistic. But are we really aiming too high?

By: Charlie Ball

Teenager's career aspirations do not match the demands of the job market, new research has suggested. The report, by the Education and Employers Taskforce, examined the ambitions of young people aged 13 to 18 and mapped them against projections for skills demands.

For example, it found that the culture, media and sport industry is over-subscribed, while others – such as building and construction – are under-subscribed.

There were some positive findings, however, about how realistic young people are when it comes to their choice of career. The most popular job among teenagers aged 13 to 14 is an actor, but this falls out of the top ten by the time teenagers reach 17-18 years old.

The results are fairly predictable but this type of research helps to ensure we don't rely on un-evidenced assumptions. That said, the report itself acknowledges that there have been other recent studies on this very topic which have reached the same conclusion.

The survey sample for the research was taken from b-live's database. b-live is a registration-based website and has links with schools, so it provides a useful way to find young people with an interest in careers. But using b-live to provide a sample also skews the results: due to the nature of the site, respondents are already engaged with the careers process and have been exposed to the careers that b-live promotes - making them more likely to be interested in those specific roles.

11,759 young people participated and were invited to click on jobs from a list of 69 occupations across a "multitude of UK industrial sectors". This is where my nerd pulse quickens. In the UK, we use a system called the Standard Occupational Classification (SOC) 2010 to distinguish different kinds of job. This is a very fine piece of work, and the researchers drew from it to create their stripped-down jobs list.

But if you collapse a range of popular and common occupations – all teachers and lecturers into one job, for example - while separating other similar occupations – advertising and PR, for instance – then your answers are partly driven by the choices you have offered. There is no perfect solution, of course – you don't want to offer every possible job, because that list doesn't exist, young people won't have heard of many of the jobs on offer and the numbers you'd get for each one would be too small to do anything with.

Then there's the question of what we're comparing the data against – labour market projections. It's important that we try to estimate future skills demand to have some level of preparedness for the future. It's also important to remember that no matter how good these estimates are – and ours are pretty good – they're always wrong. At the moment, the economic outlook is pretty uncertain and we're not sure what the rest of 2013 will bring, let alone 2023.

In the end the report finds that, as students get older, fewer of them want to be actors and TV presenters, and more of them want to be middle-class professionals. Most of the young people surveyed want a career that will require a degree.

The most popular career path for 17 to 18 year-olds was to be a teacher. This may not fit the labour market we actually have, but it does fit with society's constant exhortations to young people to be aspirational.

We have a good, flexible education system in this country, particularly in higher education. You can take a physics degree, but that doesn't mean you have to be a physicist. And while effective careers advice is a good idea, do we really want 18 year-olds to be set on a firm career path already? I'm not sure that's a good idea in a rapidly-changing jobs market, when they'll still be working 50 years from now.

We need them to be flexible and able to turn their hand to a range of jobs. This report helps show that our teenagers are still adapting their ideas about careers, and it's our job to ensure that these ideas are realistic and fit in with the world they'll be entering.
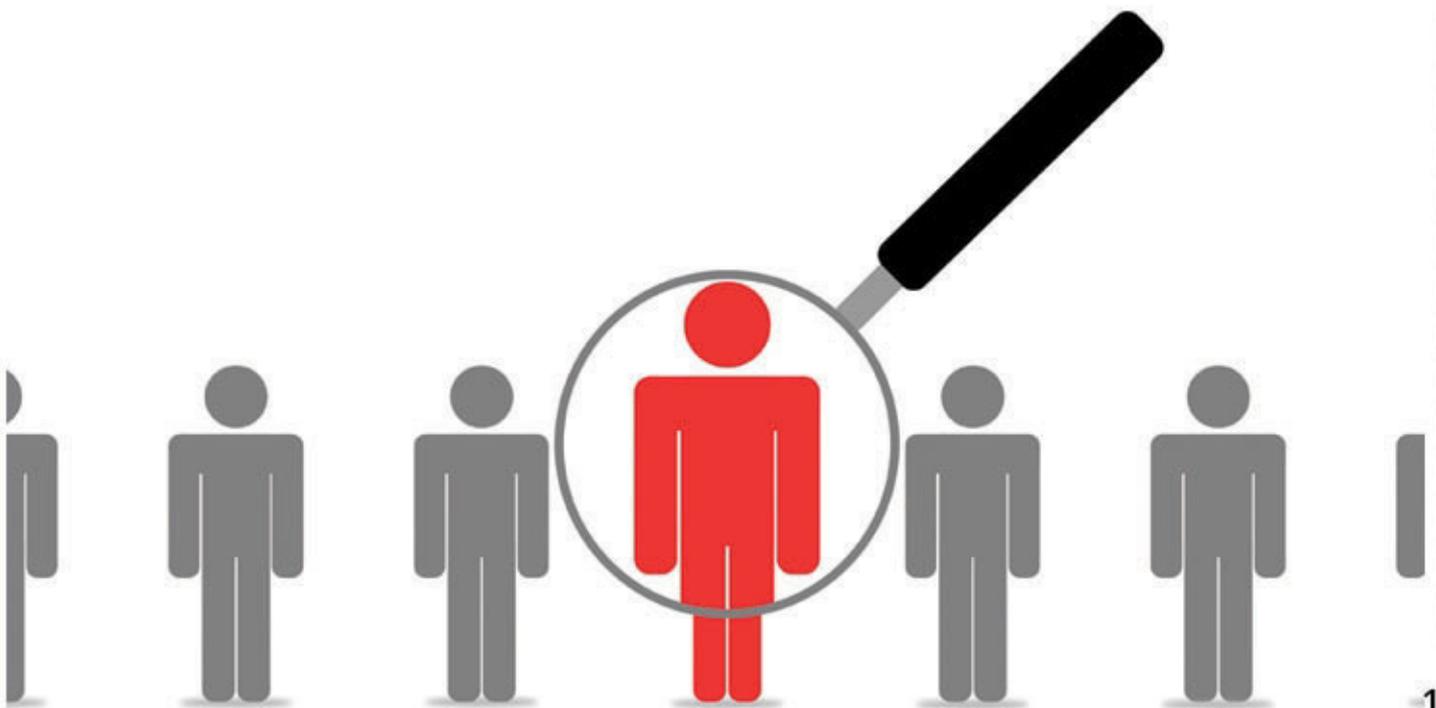
Medical Careers
for People without the Structural Visualization Aptitudes

By: Robert Nagle

A high school senior wanting to study medicine was attending a special magnet school for the sciences and had grades near the top of his class. In our testing, he scored high on Inductive Reasoning and was "nonspatial" in his visualization style (not high on structural visualization, the ability to visualize in three dimensions). The career examples for his pattern of aptitudes included law, psychology, sociology, and diplomatic work. But the young man, expecting to hear medicine, was disappointed. After all, several colleges had already accepted him into their premed program. His parents confirmed that he liked to read medical books and assist at his father's medical office. Was the Foundation really saying not to pursue medicine?

Inductive Reasoning and Structural Visualization

Of course not. Our purpose is simply to make the individual aware of fields most likely to use one's strengths. Follow-up studies have consistently identified two distinguishing traits that tend to predict success and satisfaction as a physician.

The first is a high aptitude score on Inductive Reasoning, the knack for quickly seeing connections between unlike phenomena. Inductive Reasoning helps in isolating the cause of an ailment or quickly arriving at a theory to explain the relationship between various symptoms.

The second is a high aptitude score on Structural Visualization, the knack for working with three dimensional concepts easily and quickly. It helps in visualizing the spatial relations between organs or understanding the effects of molecular chemical processes on the human anatomy.

As it happens, the student's high score on Inductive Reasoning did indicate an aptitude for diagnosing, making it no surprise he would find medical problems so interesting. His low structural score, though, suggested caution: it could spell difficulty with the long sequence of anatomy and physiology courses necessary for completing a medical degree.

Social sciences: Sigmund Freud

Other fields, however, could use his diagnostic ability without necessarily entailing a lot of three-dimensional visualizing. The social sciences, for instance, involve recognizing behavioral patterns, making hypotheses, finding underlying causes behind social problems, and prescribing appropriate remedies. In some cases, the abstract nature of the problem might prove less elusive to those less spatially-oriented.

Sigmund Freud once wrote, "I have an infamously low capability for visualizing spatial relationships which made the study of geometry and all subjects derived from it impossible to me." Though he started in neuroanatomical research, he is best known for his theories about human psychology and techniques for treating hysteria. The diseases of interest to Freud and later psychologists were those invisible to a microscope, but visible through words and behavior.

Ideaphoria and music

These sentiments were echoed in another case involving a high school student scoring low in Structural Visualization, average Inductive Reasoning, high Ideaphoria, and high scores on all three musical aptitudes. He received advertising, journalism, music education and music performance as career examples. Indeed, he went on to double major in music composition and premed. After completing medical school and starting his residency, he began to feel uneasy and scheduled a follow-up conference.

Although the musical aptitudes might conceivably be used in music therapy or in understanding auditory disorders, it seemed unlikely they would be used regularly for someone whose aim was to be a general practitioner. A partial solution might involve finding outlets for Ideaphoria. This student had already tried his hand at leading study groups at medical school and knew it to be something he could do easily and well. Perhaps he could write books, give seminars or make instructional videos. One home medical guide estimated that the typical patient carries out less than one-half of the instructions given by a physician. Often a doctor's effectiveness may hinge less on scientific expertise than the ability to teach and motivate patients about the value of diet, exercise and good hygiene.

Medical education

Many community health problems are not the result of medical incompetence but of ignorance and the medical community's failure to educate people. The recent resurgence of tuberculosis, for instance, can be attributed not to ineffective drugs or bad diagnoses, but the failure of at-risk patients to be informed of the need to take medication for the full duration of the disease. In the long run, a successful smoking cessation program or an effective anti-smoking ad may do more to fight lung cancer than any discovery in the laboratory. Whatever happens to health care reform, jobs in public health or corporate jobs stressing prevention-nutritionist, health educators and "wellness" experts-is expected to soar in the upcoming decade, and so will medical opportunities for the high ideaphoria person.

Marketing and public relations

Often an interest in medicine can later translate into careers within marketing or public relations. One college freshman wanting to study premed tested Subjective, non-spatial, high Inductive Reasoning and high Ideaphoria. Although happy with her results, she decided to switch majors only after poring over the shelves at the college bookstore and realizing that the books for English classes interested her much more than her chemistry books. She graduated with an English degree and found work she loves with a public relations firm. Most of her clients are medical firms, and she now spends most of her time writing articles and press releases on medical topics. In addition to doing volunteer publicity work for a non-profit medical association, she recently became involved in an effort to design a city anti-smoking ordinance. She attributes her success partly to her longstanding interest in medicine.

Objective with numerical abilities

A medical student came in wanting to know if he should stay in medicine. He scored low in Inductive Reasoning, low Structural Visualization, Objective personality, high Graphoria and all the numerical aptitudes. He had stellar SAT scores and graduated with honors in biology at a prestigious southern university under a full tuition scholarship. But at medical school he began to flounder. Doing medical rounds was a horror for him because it required applying classroom work into real life situations, and feeling himself slow at diagnostic work might have causes indecisiveness in situations where these diagnoses needed to be made promptly. His 99th percentile vocabulary score indicated he had already acquired a vast body of knowledge which helped him do well in classroom work.

A physician's work might demand spatial thinking, but the question of access and affordability of medical treatment does not. According to a recent U.S. News article on medical careers, "quality audits, physician report cards and other features of the Clinton reform proposals promise to expand niches for a variety of number crunchers..." How does one determine the cost-effectiveness or one treatment over another?

How does an HMO find ways to trim costs without compromising the quality of service?

These are tasks that seem more likely to use the quantitative aptitudes (Number Series, Number Facility) or administrative aptitude (Graphoria) than the Structural Visualization aptitude. How does one draft insurance policies or legislation that address the issues of fair distribution of costs or equality of care? How does one mediate the ethical obligations of the Hippocratic oath with the real need to control the growth of medical expenditures? These are knotty problems that surely would challenge any high inductive person.

As with any large industry, there will always be a need in health care for qualified managers, administrators, consultants and accountants who bring their own individual talents to the insurmountable task of delivering a quality service at the best possible price.

Nursing

Nursing is another option for the non-spatial person wishing to enter medicine. Nurses in past studies have not necessarily tended to score high in Structural Visualization. Indeed, high scores on Tweezer Dexterity and Graphoria seem to be better predictors of success in this field. Tweezer Dexterity helps in using medical instruments, administering injections and dressing wounds, while Graphoria assists in collecting accurate medical information and tracking a patient's progress over time.

Although nursing students are expected to take a fair number of courses in structural-visualizing subjects such as microbiology and physiology, these subjects are useful mainly as background for their work. For a nurse in a cancer ward, it is less important to understand the biological mechanisms of cancer than to know the right way to administer a chemotherapy drug and make the patient feel as comfortable as possible.

Nursing, though, has become such a broad and diverse field that it now seems to offer opportunities to use aptitudes not traditionally associated with the nursing aptitude pattern. The escalation of health care costs and the shortage of qualified medical workers make it inevitable that nurses will be increasingly relied upon to perform many of the functions once performed by physicians.

As nurses become more experienced and learn to master many complex medical procedures, some will choose to seek advanced training for positions involving more responsibility. Many mid-level healthcare providers (nurse practitioners, physician assistants, etc.) work independently or in association with physicians in diagnosing and treating ailments; for those tasks inductive reasoning should prove helpful.

Nurse anesthetists and other advanced positions are more likely to use Structural Visualization for their work with high-tech equipment. Nurses specializing in public health, on the other hand, are more likely to use Ideaphoria (flow of ideas) in teaching roles for community health education programs.

Nonprofit
Managers, Heads Up

Wikipedia's Wealth of Knowledge Is in More than Its Pages

By: Ruth Mccambridge

Nonprofit

Managers, Heads Up! Wikipedia's Wealth of Knowledge Is in More than Its Pages

By: Ruth Mccambridge

WIRED magazine celebrated Wikipedia's 15th birthday by acknowledging that despite its status as one very serious, era-changing entity, it's a still-maturing adolescent in some ways. It runs through the organization's journey to date toward becoming an ever more trustworthy source of knowledge, discussing the site's recent attempts to "sense" automatically when vandalism is occurring and its struggles with gender and racial imbalances.

Wikipedia is, of course, both a nonprofit dependent on volunteerism and one of the new digitally-based organizations trying to enliven democracy, and these attributes should make it of enormous interest to nonprofit managers of all kinds.

The article also references the organization's struggle with "the iron law of oligarchy," the tendency in situations where a large group of people is interested in a resource for the power over that resource to end up in the hands of the few. (Wikipedia describes the theory as coming from German sociologist Robert Michels in his 1911 book, Political Parties. "It claims that rule by an elite, or oligarchy, is inevitable as an 'iron law' within any democratic organization as part of the 'tactical and technical necessities' of organization."

That this is described as an "iron law" may provide an idea about how tough a tendency this is to resist. For Wikipedia, if it cannot be resisted, the entire effort may fail, because the site's success depends on diverse points of view.

Taking all of this into consideration, the bold experiment that is Wikipedia is worth celebrating as emblematic of the possibilities of this new era, but descriptions of its ongoing evolution should be hugely valuable to other nonprofits because however phenomenal it may be, it is an effort that knows it is flawed—and is relatively open about its attempts to evolve.

What Ails the Red
Cross Looks Like a Perfect Storm of the Very Familiar

By: Ruth Mccambridge

For the past few years, NPR and ProPublica have been conducting an investigative series on the American Red Cross. Their articles have charged that the organization has been slow to respond to major disasters such as Hurricane Sandy, that the Red Cross's claims of what it has produced and spent on Haiti's recovery don't match up with what the evidence shows, and that it has suffered from a general lack of organization, competence, and collaboration in the field. They have also charged that the organization has been consistently unwilling to answer reporters' questions.

The Red Cross's alleged lack of responsiveness has caught the attention of Senator Chuck Grassley (R-IA), who pointed out in July that the organization is congressionally chartered and if it does not want to answer reporters' questions, it would have to answer his.

The latest article in the series pointedly lays the organization's problems at the feet of American Red Cross President and CEO Gail McGovern. But many of the organization's woes may seem generally familiar to NPQ readers, though on a massive scale and with enormous potential consequences. Some of the charges include:

- The Red Cross overestimates the wonders of corporate leadership when it follows the mantra "nonprofits should act more like business," by not only hiring a CEO straight out of the corporate world, but then by allowing the CEO to hire other refugees from her corporate life at AT&T. Here is another good example of the results of such magical thinking.

- In the Red Cross's attempt to consolidate many chapters into fewer chapters, it may have become more cost effective and efficient but it also relieved long-time local leaders of their organizing roles and robbed the organization of deep local roots, which were crucial for raising money and volunteers. Such consolidation appears to be the fad in federations with local chapters, and it can particularly victimize rural areas, as this article indicates may be the case with the Red Cross. The same strategy has been used by other chapter-based organizations such as the Girl Scouts, whichexperienced a revolt complete with lawsuits when it pursued the same type of consolidation. Another local revolt, this time against Easter Seals withdrawing from a rural area, was documented here. NPQ raised a particular concern about the consolidation at the Red Cross as far back as 2011 because the lack of a body of locally organized volunteers in remote areas appeared to be a real yet unintended outcome of the strategy.

- The Red Cross's Blood operations have been consuming enormous amounts of time and effort, and it may be that a separation should finally be sought. The organization now faces more competition and has been struggling mightily with compliance and other management concerns. We have recently documented other cases where social enterprise have swallowed the sponsoring nonprofit whole, arguably destroying the whole in service of the social enterprise.

- The Red Cross suffers from the perception that its strong brand, authoritative posture, and connections to powerful people can save the Board and staff leadership from the concerns of its stakeholders. The new ProPublica article makes the case that a significant portion of the Red Cross' staff, volunteers, and community stakeholders are unhappy with the organization's performance.

As we have seen before in the cases of Susan G. Komen and Sweet Briar College among others, real change may yet be forced when the people who are invested in the Red Cross's mission demand that the organization's leadership reflect the values of the organization, and perhaps even agitate for new leadership.

Perhaps it's time for McGovern to step aside, along with some of the board members with whom she is reputed to be very close.

I hope you know CPR, because you made my heart skip a beat!

Execs Shift Focus from Sustenance

By: John Bermudez

Supply Chain

Supply Chain

Execs Shift Focus from Sustenance to Survival

By: John Bermudez

While we usually reserve 1990's nostalgia for fashion, film, and music, a glimpse back at the technology landscape is just as jarring. Many remember a time before the internet was a necessity, but what about the pre-SCM age?

For today's large manufacturers, distributors, and retailers, supply chain management (SCM) has become such an indispensable area of business management that it's difficult to imagine a time before it. Yet decades before mobility and the Internet of Things, there were no "supply chain directors"—only warehouse, transportation, and manufacturing managers, each group siloed from the others in intent and operation.

Even if a forward-thinking executive realized the need for a holistic strategy, few systems could support that goal. The visibility we now take for granted was once crudely cobbled together from faxes, spreadsheets, and phone calls.

The move away from "point-to-point" thinking happened around 1996, when companies began building teams that pooled collective knowledge and expertise around everything affecting the supply chain. These newly aligned groups drove major improvements in planning and connectivity, particularly among suppliers, customers, and nascent ERP systems.

Twenty years later, supply chain managers and executives have clearly defined responsibilities that span the flow of goods, the various systems that support it, and the human capital that keeps it all running—far beyond the brick-and-mortar mindset of the 1990s.

Omni-Channel A Necessity

In 2016, the SCM community stands at the precipice of another important shift. The digital transformation of the supply chain that industry analysts were buzzing about is here, with omni-channel capabilities emerging as a necessity for all competitive supply chains.

More customers than ever order from smartphones and expect a choice of delivery options, while enjoying the best prices and unprecedented speed and customization. If a competitor has a more convenient avenue for a customer, you'll suffer in the marketplace. Who would have thought that mobile apps such as Uber and Lyft would be able to so rapidly disrupt a service delivery system that was so taken for granted?

This incredibly competitive landscape is the reason supply chain executives must shift focus from thought leadership and being a best-in-class company to survival. In 2016, retailers are thriving or dying by their supply chain strategies.

Walmart remains the world's largest retailer due to its supercenters, hundreds of thousands of SKUs, and valuable information it makes available to suppliers, including Sony, Unilever, and Procter & Gamble. This flow of information allows every company in the network to adapt quickly to the market.

Connectivity to your entire network is no longer an option; it's a necessity. If they haven't already, supply chain executives need to immediately deploy more flexible and agile supply chain management solutions that encompass ERP.

One way to achieve this flexibility is to utilize a cloud-based supply chain network. This approach enables trading partners to collaborate around "one version of the truth" in real time. It also allows you to not only rapidly expand or contract services according to your market, it also lets your team focus on new business instead of maintenance.

Let's be honest: How much time do you have before all the top suppliers and customers are connected in a way you should be?
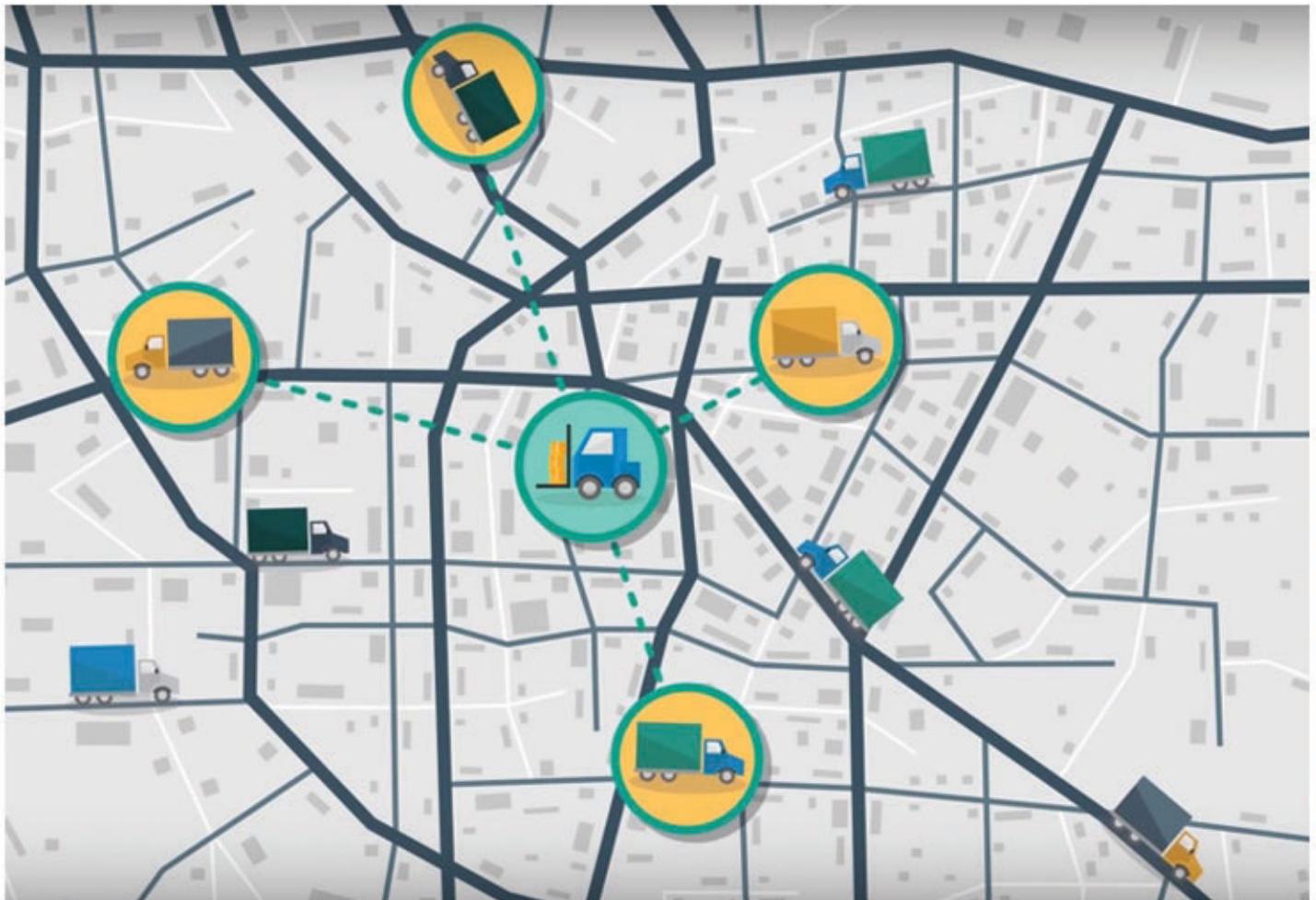
Supply Chain

News: Inventory Performance 2016

By: Dan Gilmore

Data Shows US Company Inventories Continue to Rise

Since 2005, I have been doing reporting and analysis on company and sector inventory levels based on the annual Working Capital scorecard that is compiled by REL, a division of the The Hackett Group.

It is always one of our most popular columns of the year.Once again this year, REL has been kind enough to send me the data set for some further analysis. The just released 2016 data is based on year-end 2015 financials from some 1000 US public companies.

It is great stuff, but the big value-add SCDigest performs here is to re-sort individual companies into new categories, so the categories and comparisons in our view are more usable for supply chain thinking. For example, in the original REL data, home builders like Toll Brothers are mixed in the household durables category with companies like Whirlpool. That is one of the most blatant "apples and oranges" combinations, but there were a number of others that don't jive, at least from a supply chain perspective. Metal producers such as US Steel were in the same category as miners, while "spirits" beverage companies are in the same category as soft drink companies, when the inventory dynamics of each group are dramatically different, in two of many other examples.

So, we do the (really) hard work of first eliminating sectors that aren't useful for the supply chain (e.g., bankers, etc.), and then redefining and populating the categories in a way that makes more sense for comparisons. As another example, rather than having one giant category of all specialty retail, we break that down into apparel, department stores, auto parts, etc. It really does take a lot of time.

It is far from perfect. Should Johnson & Johnson be placed in the pharma group, the medical device category, or consumer packaged goods, as it is in all those segments? Is Honeywell in the aerospace or automotive sector, or one of the "industrial conglomerates" like GE or 3M? That's where we put it again this year. There are many such examples where the call is not obvious.

In the end, we simply made choices, including looking up more details on a number of companies with which we were not familiar so they could be placed appropriately.

The other thing we do is add in companies for whatever reason are left out of the REL data set. Mysteriously, for example, retail giant Lowes is left out of the data every year. We go to Yahoo Finance, collect the data and do our own calculations for Lowes and about 30 other companies in total we think are worth adding in, including Nike, Dillard's, Conagra, Energizer and many more.

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The full report and data set looks at three components working capital, changes in which of course directly determine overall cash flow: Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), and Days Payables Outstanding (DPO). Here, we are going to focus on just the inventory component.

Until last year, REL calculated DIO relative to how many days of sales a company held in inventory. That generated many complaints from readers, as the divisor in the formula was a day's worth of revenue, not a day's worth of cost of goods sold. As I said each year, that's how REL reported the data, and that's how thus had to deal with it.

But starting last year with the data for 2014, the DIO calculation was changed to:

End of Year Inventory Level/[Total Cost of Goods Sold/365]

So, you calculate the average cost of goods sold for one day, and then see how many of those COGS days you keep in inventory (based on year end balance sheet numbers).

As such, DIO is sort of the reverse of inventory turns, in that a higher DIO, all things being equal, means poorer inventory management performance, while a lower number signals improvement. You are being more efficient with inventory versus a given level of COGS.

So, let's take an example. Nike had cost of goods sold of about $17.4 billion in 2015, and had year ending inventories of about $4.8 billion. So:

$4.8 billlion/($17.4 billion/365)=DIO of 101.4 days

Apple, by contrast, has a DIO of just 6.5, while consumer products giant Procter & Gamble has a 2015 DIO of 56.7; medical device and supplies maker Baxter Int'l had a DIO of 114.8.

That DIO of 114.8 for Nike translates into about 3.6 inventory "turns," a more common measure in the supply chain (COGS/inventory) than DIO. With the change in the REL methodology last year, I can now translate all the DIO measures into turns, which was not possible before because using revenue not COGS each company's gross margin percentages were different. Will do that turns conversion next week.

In the US economy, overall inventory levels have been ticking up in recent years. As seen in the chart below from the Commerce Dept., the "inventory to sales" ratio (inventory levels divided by a month's worth of sales) spiked in late 2008/early 2009 as the recession caught companies with way more inventory than needed versus suddenly shrinking demand. But most companies cut away at that inventory ruthlessly, so that inventory was back on the longer term trend line by early 2010.
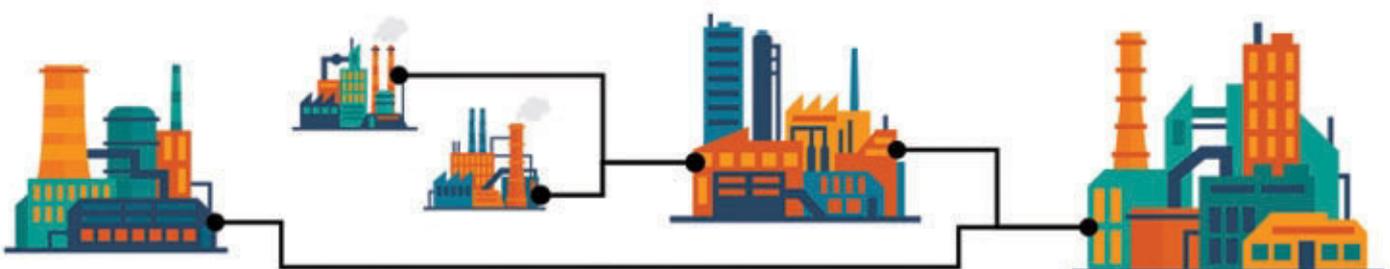
Why Lightning
Deaths Are
Up This Year

By: Laura Geggel

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Lightning has already killed as many people in the U.S. this year as in all of 2015, according to the National Weather Service (NWS).

Although it's not clear what's driving all these deaths, it's a good bet that people are taking more risks than usual, according to an expert at the NWS.

"One of the biggest problems is that people don't like to be inconvenienced by thunderstorms," said John Jensenius, an NWS lightning safety specialist. "They have plans, they want to go through with those plans, and they're willing to take the chance. And unfortunately, some people are killed or injured because they do take a chance." [Images of Lightning Unfolding, Frame by Frame]

The latest fatality happened in Carbon County, Pennsylvania, when lightning killed a 38-year-old man who was swimming in a state park during a storm on Saturday (Aug. 13), according to The Morning Call, a local newspaper.

The man's death brought the number of 2016 lightning fatalities in the U.S. to 27, Jensenius said. That's more than the average number of lightning-related deaths for the past 10 years through Aug. 13, which is 25, he said.

Like the 38-year-old-man, most lightning fatalities in the country occur when people are doing leisure activities, Jensenius said. For instance, the first person killed by lightning in the U.S. in 2016 was a 28-year-old woman who died in March in her tent at a music festival in Louisiana, he said.

Other 2016 lightning fatalities included people at family picnics, working in their yards, riding horses or simply standing outside with friends, Jensenius said. Earlier this month, lightning killed a 5-year-old boy when his family was visiting a beach in North Carolina, Live Science reported.

So far, most lightning deaths in 2016 have occurred on the East Coast and in the South, including six fatalities in Florida, four in Louisiana, three in New York and two each in Mississippi, Alabama and North Carolina, Jensenius said.

Moreover, more men than women die from lightning strikes. This year, 22 (81 percent) of the deaths were men, Jensenius said. That's partly because men are more likely to work in outdoor jobs, such as construction. But it's also likely that more men die from lightning strikes because they tend to take more risks and may be less willing than women to get to a safe place during storms, Jensenius said.

He added that in addition to this year's 27 fatalities, a vast number of people have been injured by lightning strikes. For instance, lightning gravely injured a 29-year-old man when he was on his house deck in St. Augustine, Florida on May 17,according to a GoFundMe page raising money for his medical care.

Lightning safety

During a lightning storm, people should head inside or get into a hard-topped metal vehicle, Jensenius said.

"One of the worst things to do [during a storm] is shelter under a tree" during a storm, Jensenius told Live Science. That's because even though lightning may strike the tree, a "side flash" may occur, meaning that part of the current can jump from the tree to a person standing close by, according to the NWS. [What Are the Odds of Dying from Lightning?]

"Side flashes generally occur when the victim is within a foot or two [0.3 to 0.6 meters] of the object that is struck," the NWS said.

Safety advocates also offered another compelling reason to stay away from trees and other tall outdoor structures during a lightning storm. Once lightning strikes, its ground current can be lethal, the NWS said. "Because the ground current affects a much larger area than the other causes of lightning casualties, the ground current causes the most lightning deaths and injuries," including of farm animals, the NWS said.

There's not much variation in the number of lightning storms from year to year, so the uptick in deaths from lightning in 2016 can likely be explained by differences in human behavior, Jensenius said. However, educational campaigns and advances in lifesaving technology have saved countless lives, he said. In 1995, there were 85 deaths in the U.S., in 2000 there were 51 and in 2010 there were 29, according to the NWS.

"We think a lot of that had to do with education and awareness," Jensenius said.

Road taxes in
Europe not easy being green
Why fuel taxes are the best way to encourage sales of greener cars

THE world's policymakers agreed at the Paris climate-change talks last December to try to limit greenhouse-gas emissions so global temperatures rise by no more than 2°C from pre-industrial levels. To succeed, they need, among other things, to encourage people to buy cleaner cars and lorries. Around 23% of carbon-dioxide emissions come from transport, of which three-quarters stem from road vehicles, according to the International Energy Agency.

Governments have tried to get drivers to go for greener vehicles. Some have raised the cost of driving by taxing petrol and diesel. Others have taxed the ownership of dirty cars by raising their annual registration fees, or dangled rebates on purchases of greener ones.

Which is the most efficient approach? A new paper by Anna Alberini and Markus Bareit compares policy changes in Switzerland's 26 cantons to changes in new car sales in each area between 2005 and 2011 as a natural experiment. The least efficient policy was the annual rebate for owning a green car. The authors found this was much less effective than raising the annual registration fees on dirty cars, which had the bonus of raising revenues.

But even that was inefficient. Every tonne of carbon saved by the purchase of greener cars cost the consumer SFr810 ($815), over seven times the government's estimate of the economic cost of higher emissions. Higher fuel taxes were more effective: the authors found a 16% increase in petrol duty had the same effect as a 50% increase in registration fees.

Ms Alberini says that drivers seem to see road taxes as less important than fuel efficiency, in part because refilling their cars frequently reminds them of the cost. Second, as the annual registration fee is levied regardless of distance driven, there is no incentive to drive less once it has been paid. The study mirrors other findings. In a paper published last year, Reyer Gerlagh of Tilburg University and several co-authors found higher annual road taxes on gas-guzzlers have no, or even an adverse, effect on emissions.

Higher fuel taxes are, alas, unpopular. Many European countries have preferred to subsidise the purchase of cleaner cars than tax dirty ones. Good politics is rarely good news for the environment.