Deploying Sustainability at Solea

The following conversation transpired in 2010 during a pilot of Solea's sustainability performance measurement tool (See Exhibit 1), which was being developed into a web-based performance dashboard for site managers and client representatives. At the time, Solea management believed the new dashboard would be a critical component to the implementation of the company's sustainability strategy.

> Maria Porcayo, manager of Solea's Lakeshore Hospital Account, greeted the two visiting sustainability auditors, Heather and Rishi. "It's good to meet you," Maria began. "I'm a little nervous that you guys are here to audit our sustainability, but it'll be worth it if we get some suggestions about how we can contribute to our client's performance. My District Manager (DM) and I support Solea's sustainability initiative and are excited that you've picked my site to visit. We'll be meeting with Tom Sullivan at 10 am. He is the hospital's Vice President for Facilities Management and my main client liaison. He'll spend the day with us and wants a copy of your report when you draft it."
>
> "Thanks, Maria, for picking us up at the airport and arranging our visit. It's great to finally meet you in person after our email conversations. " Heather replied.
>
> Maria continued, "Hopefully we'll look pretty good in your report, and you'll make suggestions that Tom will find valuable. He wants to know what sustainability products and services exist for hospitals. Health and wellness issues are important to him, but the environment is also a concern. Some of the hospital staff recently set up a committee to develop ways to reduce Lakeshore's carbon footprint."
>
> Rishi interjected, "I hope you volunteered to be on that staff committee."
>
> "Yes," Maria replied, "I'm on it, but I need some cool new ideas to offer, so I'm counting on you guys. Our supplier gave us a machine that recycles foam, so at least I've had that input."
>
> "Recycling foam, huh? Not sure I believe that's possible, so I have to see that machine! But you're on the right track to be concerned with foam." Heather interjected, "Thanks for agreeing to participate in our pilot test, but I don't want to get your hopes up about new products that we can offer your client today. We're here to get baseline metrics on your site's sustainability. Our approach is to see if you are using environmentally friendly cleaning products, to make suggestions about how to improve performance in the kitchen and other spaces we operate and

to make you aware of best practices. We focus on things like nutrition and wellness, recycling, equipment selection, and the use of water and utilities. We get a read on where you are on sustainability metrics; make suggestions for next steps, and over time measure improvement."

Rishi added, a little defensively, "I know everyone wants products and services to sell, but right now we're working hard to develop and implement this measurement tool and train internal sustainability experts."

Maria replied, "Did you know that we participated in the pilot of the Good Citizen offer? You're going to see people today refilling their Good Citizen mugs. I'm personally disappointed that we discontinued Good Citizen, because I haven't had anything to offer Tom since then and he's been asking for something. Right now the hospital's customers want the option of locally sourced products; that seems to be really popular."

Heather countered, "Maria, do you know what local means to your customers? Does it mean the state of Illinois or within 50 or 100 miles of where the food is served? I ask because there isn't a shared standard for local. We're working with the folks from Supply Management and Risk Management to define local and to assure that if we label it local, we know that it is local. That means that our distributors have to develop standards so they can guarantee food source, safety and quality from local growers."

"What's that going to do to food prices and are our prime vendors going to participate?" asked Maria. "My District Manager gets discounts that increase his gross margin if I purchase through large vendors, so he really watches my purchases and talks to me about it. Those discounts impact his bottom line but not mine. I'm evaluated on increasing sales and on the profit made on the hospital contract. I've got to do what it takes to keep my client happy. But, I don't want my DM to lose out on the rewards from purchasing from prime vendors because he evaluates me too."

"I hear you, Maria, and we're aware of the challenges that site managers face. What do you say you show me the machine that allegedly recycles foam and we meet up with Tom and get this day started? We promise to help you with your client the best we can." replied Rishi.

Company Background -- Solea, Inc.

Solea, Inc., originated as a small on-site food services company in Spain in the late 1960s. In 1975, its founders, Carl Soltan and Ned Arrea, expanded the company's scope to include facilities management services and simultaneously initiated an aggressive international marketing campaign. Within two decades, Solea was operating in 60 countries, with over 30,000 corporate, education, and government clients.

From its corporate headquarters based in Madrid, the senior executive team focused primarily on strategy and public and investor relations while providing general oversight of all company operations. Divisional presidents, vice presidents, and area managers responsible for regional operations were based in their assigned market regions, which were further divided into districts and sites. Within divisions, each market (commercial, education, and government) had a vice president responsible for return on assets. District and site managers were responsible for profits and budgeted contribution, respectively. Functional area managers served at the division level. They supported managers across all markets and reported to both the division president and the appropriate functional executive vice president at headquarters in Madrid. This approach constituted a matrix structure (See Exhibit 2). Decision making, loosely guided by strategic plans, was decentralized.

Supply Management Group

Solea's geographically-diverse clients required products from more than 3,500 suppliers, so the Supply Management Group (SMG) was a key factor for success. SMG managed customers' purchase orders and arranged delivery to customer sites using a network of distributors. Solea used major distributors for most of its purchases, but also relied on regional suppliers. The group was also responsible for developing and maintaining reliable long-term relationships with suppliers to guarantee quality and availability of products.

SMG contributed to Solea's profitability in two major ways. First, the group arranged vendor discounts by aggregating orders from worldwide clients. These vendor discounts were added directly to Solea’s gross margin, with an increase of as much as 20 percent annually in some regions. This profit was added to each district manager’s gross margin based on how much their respective site managers had purchased from the company’s major vendors. Second, SMG encouraged the purchase of specific products (e.g., foam cups, bottled water) -- by demonstrating to clients that these products reduced costs and/or led to client site sales revenue. Taken together, these actions had a positive influence on both client satisfaction and retention. And as a result, SMG had a significant role in the Solea’s approach to doing business.

A team of supply management managers acted as liaisons between the Supply Management department and site managers. Through regular business calls, these managers made site managers aware of approved vendors and favored products so purchases would yield large vendor allowances and low prices to their clients. These managers were considered “promoters” of Supply Management’s business model.

Within North America, SMG developed a procurement process based on Solea’s five step strategic sourcing process:

Step 1 – Outline the Category

Step 2 – Develop Category Sourcing Strategy

Step 3 – Create the Value Proposition

Step 4 – Finalize Contract

Step 5 – Implement & Execute

SMG received a purchasing history directly from its regionally contracted suppliers while its major distributors provided reports that aggregated Solea’s purchase volume by SKU level. By having knowledge of its aggregate volume across clients, Supply Management North America was able to negotiate competitive pricing, stringent food safety programs, indemnity and insurance programs, and support and data management.

SMG routinely scanned the market for vendors that might be willing to provide favorable pricing. After pre-qualifying potential suppliers, SMG evaluated bids based on numerous factors, including innovation; scope of services; availability of product; ability to meet demand; price; service level; and ability to meet Solea's Quality Assurance requirements. All selected suppliers were required to sign a Supplier Code of Conduct (See Exhibit 3). Solea’s procedures obliged food vendors to be regularly inspected by a professional third party firm. These inspections ensured that:

- Manufacturing facilities were able to produce safe, high quality products.
- Product manufacturing followed regulatory requirements and specifications.
- Effective control measures were applied for consistent performance.
- Management was dedicated to food safety and high quality.

Toward Sustainability

In the early 2000s, corporate interest in environmentally and socially sustainable activities grew as Solea was inundated with requests for information on the company’s sustainability practices. In response, Solea assigned sustainability to Executive Vice President J. Thomas Allen, under whose leadership the first corporate social responsibility report was published in 2004. In this report, Solea made a public commitment to sustainable, profitable performance, which management defined as “doing business in a way that protects and restores the environment and the health and well-being of our clients, their customers, and the global community in which we operate.” To this end, Solea declared its intention to incorporate new sustainable processes into its daily operational decisions while improving profitability.

The North American region became the testing ground for Solea’s commitment to sustainability. Immediately following the release of the 2004 corporate social responsibility report, Allen organized a task force to develop a product line called “Good Citizen” in response to the growing client demand for sustainable products. “Good Citizen” was met with excitement by Solea’s district and site managers, but the division president quickly became aware that the products were poorly designed and eliminated the product line shortly after its highly-touted introduction to clients. As a result of this experience, Allen set up the Office of Sustainability (OS) within Solea’s North America Division. He hired Harold Rothenberg, a sustainability expert, to head the new office. Rothenberg spent his first year working with Allen and a subcommittee of Solea’s North American President’s Council to develop a strategy for North America.

The outcome of Rothenberg’s year of planning was an ambitious strategy: Rather than providing sustainable products only to interested clients willing to pay a premium, Solea North America would make sustainability a part of normal service offerings by providing expert advice on sustainability issues and sharing innovations across its markets; measuring its clients’ performance improvements; and engaging actively with stakeholder groups, NGOs, and trade associations to prioritize sustainability issues by region. “Our hope is that by providing sustainability-oriented practices and services, we’ll strengthen our relationship with our clients as they see the positive growth that comes from making sustainable choices,” Rothenberg told a gathering of stakeholders. “Their success is our success.”

By presenting clients with new practices, services and expanded food options, Solea North America expected to make its clients more successful – particularly as they would be better able to anticipate and respond to the needs of their own customers. Through these actions and through engagement with stakeholders, NGOs and trade associations, the company would ultimately be recognized as a leader in sustainability knowledge and practice within its industry. This would enhance Solea's brand, management reasoned, and result in improved customer retention, higher bid yields for new business, and higher gross margins for differentiated products and services in the market.

Integrating Sustainability into Daily Operations

Integrating sustainability into Solea's daily operations required substantial changes. A sustainability dashboard would be developed to communicate expectations, guide operational decisions, and provide measures of sustainability performance. To provide the necessary structure for the sustainability strategy to succeed, Rothenberg created three director-level positions to head Training, Performance, and Communications. These three areas were highly integrated, with the directors meeting regularly to discuss progress and to find new ways to collaborate:

Director of Training: Focused on developing best practices; training subject matter experts; creating educational materials; and sponsoring activities and events for employees to learn and share best practices across Solea's markets.

Director of Performance: Working with corporate headquarters and the North American President's Council, this area established timed goals and performance metrics for operations.

This department was also responsible for developing and implementing the performance dashboard to be used by site managers.

Director of Communications: Established internal and external partnerships with stakeholders; sought stakeholder validation of sustainability commitments, goals, and priorities; and communicated initiatives and outcomes.

Measuring Progress

In 2004, Rothenberg and his team at corporate had created a web-based ISM (Internet Sustainability Management database). Key Solea personnel across regions were granted access to the online tool. Through 2010, the tool registered almost 1,000 "best practices." For North America alone, there were over 100 initiatives listed, posted by 35 different people.

The news wasn't all good, however. Most initiatives contained insufficient detail to allow for validation of the practice's impact or to allow others to copy the practice, at the same time the input into the system surpassed corporate's resources to filter and verify content. Nevertheless, the responses were used to provide evidence of Solea's progress in the 2010 corporate social responsibility report. This frustrated some North American OS directors, who advocated for a revision of ISM that allowed for more rigorous control over data entered. "We're not living up to standards of transparent reporting – I just don't think we're capturing enough detail yet," said one OS director.

Acknowledging ISM's limitations, Rothenberg sped up the development of the sustainability dashboard. The new tool was developed with three objectives in mind: To facilitate the reporting of local initiatives and key performance indicators among district and site managers; to share best practices and encourage internal benchmarks; and to strengthen internal and external communication with stakeholders.

In mid-2011, the dashboard was released to 100 sites with an interface that allowed site managers and clients to effectively track a site's progress toward sustainability commitments. The new dashboard contained five focus areas: carbon, water, waste, health and wellness, and community. Using demographic information about the site as well as responses from site managers to questions about a site's products and practices, the tool suggested "best practice" improvements for each focus area.

Rothenberg and his OS team also developed a dashboard function that would allow the tool to sort through input to identify "best in class" sites. Once a site was identified as such, OS representatives would verify and document the site's practices to create a model for other sites to follow. At the same time, internal analysts would examine how the sustainability practices were impacting the site's profit contribution and, if necessary, make recommendations to improve that impact.

Bright Future Plan

In 2009, Allen publicly announced Solea's Bright Future Plan, a set of ten sustainability commitments by which Solea would abide (See Exhibit 4). Each commitment included timed goals for achievement, relevant metrics, as well as corporate policies and procedures to support these goals.

The Bright Future Plan should align supply management with the sustainability strategy. A few product categories in various regions had already achieved several of the sustainability commitments due to market demand and proactive managers. For example, the manager and suppliers of the Western Europe region's fish and seafood category had been working toward sustainability for several years, achieving the Marine Stewardship Council's hard-earned sustainability certification just months prior to the release of the Bright Future Plan.

On some fronts, the Bright Future Plan was immediately embraced by supply management. Particularly in the leisure, museum, zoo, and aquarium markets, where potential clients often required bidders to offer sustainable products and services, managers viewed the commitments as a resource for convincing clients that Solea was serious about sustainability. "When we can show clients the steps we've taken to meet the Bright Future Plan," one leisure market supply manager said, "we're showing them that we walk our sustainability talk. We think clients want some kind of concrete evidence."

Ongoing Challenges

The sustainability strategy met its share of internal resistance from several fronts, including a perceived conflict of interests between the Bright Future Plan and a separate company initiative, Initiative 2016, which aimed to substantially increase profits. At the same time, some managers felt threatened by the Bright Future Plan, because the company's performance evaluation and incentive system (See Exhibit 5) was based largely on profits, with no allowance for achievement of other company initiatives.

Initiative 2016

In 2008, corporate contracted a group of external consultants to identify opportunities to improve the North American region's financial performance. The result, Initiative 2016, called for doubling sales and tripling operation profit by 2016. The responsibility for Initiative 2016 was charged to a task force mostly staffed by supply managers.

One of the primary strategies of Initiative 2016 focused on supply chain efficiency. This interested both OS and SMG since it had direct implications for three aspects of the supply chain, namely: delivery frequency, SKU rationalization, and vendor choice.

For supply management personnel, ‘delivery frequency’ held the potential to increase efficiency by optimizing both drop size and order frequency. Doing so decreased logistics costs and reduced the number of delivery trucks on the road. This aligned with sustainable delivery initiatives suggested by OS, which had recommended that supply management review its ordering patterns and introduce minimum orders to discourage 'little and often' delivery patterns. Reducing delivery frequency satisfied both the Bright Future Plan and Initiative 2016 by reducing cost while boosting sustainability.

The other factors affecting the supply chain, SKU rationalization and vendor choice, appeared to meet the approval of the SMG, but posed a problem for OS. SKU rationalization offered performance benefits such as increased quality through greater consistency and cost reduction through better bulk buying opportunities. Vendor choice favored purchasing through prime distribution channels, which maximized volume discounts. However, these factors, while reducing purchase costs by up to 20 percent, simultaneously conflicted with Solea’s Bright Future Plan commitments.

Current foam use at Lakeshore Hospital appeared to present a conflict between SKU rationalization and sustainability performance. The supply manager had replaced recyclable paper plates and cups with foam dishes because a prime distributor could provide the latter at very favorable prices, directly impacting site profitability. When pushback came from the site's sustainability committee, the manager had the distributor install foam-compacting equipment. This equipment was labeled "Foam Recycling" and prominently placed in the dining facilities for customers' use. However, rather than being recycled, the compacted foam was hauled away with the regular trash, as the short-term benefits of SKU rationalization trumped the long-term profitability that the Bright Future Plan was trying to create.

The Bright Future Plan called for activities like purchasing local products, which would reduce vendor discounts. While these actions would lead to long-term improvements to Solea's brand, increase its customer retention and ability to win new business, they hurt short-run profits. As Rothenberg had feared, supply management personnel in many categories reacted to these recommendations with hostility, labeling them as "economically irresponsible and risky" threats to Solea's profitability.

Rothenberg also considered the effect vendor discounts could have on evaluations of SMG and district manager performance. Specifically, SMG was evaluated partially on the vendor discounts generated, with district managers having their pro rata share of vendor discounts added directly to their gross margin. Because district managers were evaluated on profits, a greater number of vendor discounts produced better evaluations. Unless the evaluation system was dramatically altered, senior management believed that the majority of the SMG and district managers would continue to resist the Bright Future Plan.

Client Relationships

Complex client relationships also contributed to the difficulty of integrating sustainability into Solea's business practices. Even when a sustainable option was made available, client participation and compliance was not a given. This particularly affected Solea's food operations, which was also a traditional revenue source for Solea's clients. Clients wanted and even demanded sustainable options from Solea, but were often unwilling to pay the additional upfront cost even when it would lead to greater long-term profits, expecting Solea to shoulder the cost. Additionally, Solea itself was often reluctant to invest in sustainable practices.

Assuring client follow-through was another inherent difficulty Solea's managers faced. For instance, one recent client contracted for compostable plates and flatware, which satisfied its customers' desire for sustainable offerings. However, once the dishes had been used, they were simply thrown into the garbage because the client did not want the additional work effort and cost of composting the items.

And while Solea was continuing to struggle to accommodate its own directives, many clients were developing initiatives customized to their circumstances and asking Solea to meet those standards at its own expense. If thousands of clients expected compliance to their specific sustainability guidelines, Solea would face the unpalatable option of either meeting the guidelines and paying the additional expense, or displeasing clients by refusing to conform. Individual client initiatives also limited Solea's ability to offer its clients expert advice on sustainability issues, a part of the strategic plan.

Other Challenges

Cost management presented an obvious challenge to managing sustainability, as the purchase price for sustainable items could be higher than for non-sustainable items. Of note, OS did not have life cycle costing data on hand for specific Solea purchases, thus making analysis of the economics of sustainability more difficult. "We've really got to find a way to do better capturing cost data," one district manager stated. Adding: "This is important not only for our own view of sustainability, but also for our ability to communicate this information to clients and suppliers."

Solea's customer relationship management system did not code sustainability as a reason for winning or losing bids and clients. Yet some requests for proposals required minimum levels of sustainability performance to bid and OS had been told that clients had been lost in the past because Solea didn't have sustainability offerings.

Risk mitigation was another potential problem facing management, specifically as it related to local food purchases. Many of Solea's clients wanted locally-sourced items, in accordance with their own customers' demands. However, Solea did not have processes that allowed sites to purchase directly from suppliers. Instead, the company's strategy was to rely on regional distributors to procure sustainable items within a given region. Without the necessary processes in place, SMG viewed the purchase of locally-sourced items as an area of high risk.

Challenges existed in the government sector as well, one of Solea's major markets. Under federal law, Solea was required to share vendor discounts with the government accounts that contributed to them. Unsurprisingly, clients in other markets became more sophisticated about discounts and were pushing Solea to share vendor discounts with them, too. Faced with tough competition and a bad economy, Solea began accommodating these clients as their contracts came up for renewal. Sustainability directors believed that the discounting offered to government and other clients might eventually spread across all markets, thus disrupting Solea's pricing strategy and threatening its business model.

The faltering economy served to further illuminate the challenges already facing the Bright Future Plan. The Bright Future Plan had been designed with a robust economy in mind, rather than an economic recession. Some Solea executives were now suggesting that the commitments be adapted, even discarded, until the economy recovered. In an exchange of emails that went all the way up to Allen and his supply management counterparts, OS was accused by SMG of dangerously promoting sustainability “best practices” that were financially irresponsible in light of the current economy. To Rothenberg and the OS directors, attempts to establish and encourage best practices seemed to be often met with resistance from supply management personnel. SMG’s arguments against OS turned many supply management personnel against the sustainability initiative, thereby stalling organizational change. Rothenberg complained to Allen that he perceived short-run profits as being privileged over long term profitability to the detriment of the company. In an email exchange between Allen and Rothenberg, Rothenberg suggested, “Perhaps it would be best to rethink strategy in light of current issues. We will meet with OS directors to discuss alternatives.”

Balancing Sustainability and Company Interests

Allen and Rothenberg believed that in order to assure that sustainability became a way of life for Solea, further changes to the sustainability initiatives would be required. In their view, it was imperative for best practices to be supported by financial analysis. Additionally, sustainability performance needed to be linked to the formal performance evaluation and incentive system, not just tracked on the dashboard.

Several interested employees of the financial department volunteered their time to collect and analyze data on sustainable practices such as the use of disposable versus reusable china, but such work was expected to progress slowly since comparisons required differential analysis, not routine cost data captured by the information system. The near term strategy of the OS was to work directly with the markets (e.g., corporate, health care, education) to eliminate some of the more perverse incentives that the current system rewarded and to work with corporate to get sustainability into the formal performance system.

Pressure from corporate to produce results was readily apparent and growing. In a July 2011 email, Allen told Rothenberg that "Senior leadership wants something to give the media that shows we're making good on our commitments. We've already issued press releases on the supply categories that have implemented Bright Future Plan and on the dashboard. But it is definitely time for fresh progress to report, some clear wins."

Allen was aware that without evidence that sustainable practices would increase profitability, most members of SMG would continue to refuse to follow the Bright Future Plan. The group would also resist any move to include sustainable practices in the performance evaluation system unless they had the same evidence needed to convince them to implement the Bright Future Plan. "Until we get financial analysis supporting our claim that sustainability fosters profitability," Allen told Rothenberg and the OS directors, "we cannot progress in our efforts to integrate sustainability into daily operations."

Exhibit 1. Development of the Sustainability Dashboard

Solea launched a web-based dashboard for site managers in late 2011. The dashboard collected information about the market, location, size and scope of services at the site. It included questions on five major categories tied to commitments in the Bright Future plan.

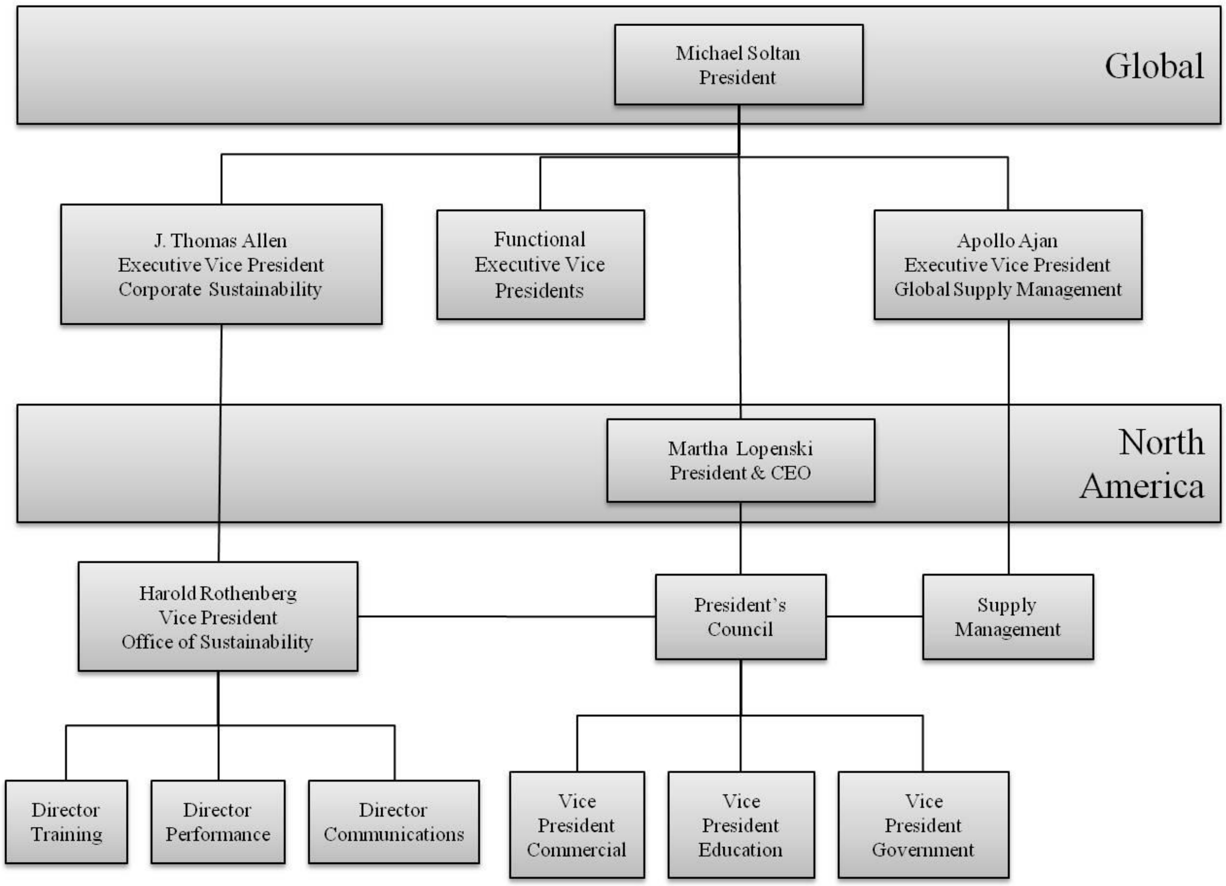
- Carbon
- Water
- Waste
- Health and Wellness
- Community

Each major category contained detailed questions that communicated suggested behaviors. The tool contained over 450 questions spread across the major categories. These questions were weighted based on the demographic data collected on the site; each site got a score out of 100 on each of the five categories.

As an example, the following were some of the questions included in the carbon category:

Team Engagement and Behaviors
Do you have organized training and monthly meetings for all of your workers about energy conservation?
Do you communicate your energy conservation efforts and ask for participation from your customers/clients?
Have you established energy savings goals?
If yes do you advertise your goals, chart progress and post results?
Lighting
Are at least 95 percent of all the lights centrally controlled and/or equipped with timers or motion sensors?
Have you replaced incandescent and halogen lamps with ENERGY STAR® compact fluorescent lamps, LEDs or induction lighting (use dimmable lamps with dimming switches)?
Has your site replaced T12 fluorescent lamps and magnetic ballasts with T8 or T5 lamps and electronic ballasts (de-lamp where possible)?
HVAC
Has your site installed side panels on exhaust hoods?
Does your site have centralized controllers for the HVAC system?
Have you installed window film to block sun-generated heat—use high quality film and professional installer.* (Note: energy payback is longer, however customer satisfaction is immediate.)

Exhibit 2. Solea Organizational Chart



Source: Company Reports.

Exhibit 3. Solea's Supplier Code of Conduct

HEALTH AND SAFETY GUIDELINES

Suppliers must share Solea's commitment to providing a safe and healthy workplace and to treating employees fairly and in compliance with local laws.

ENVIRONMENTAL GUIDELINES

Solea will actively seek Suppliers that share our commitment to protecting the environment. Suppliers shall abide by all federal, state and local environmental laws.

LABOR FORCE

Solea shall not tolerate the use of indentured, slave, bonded or other forced involuntary labor by its Suppliers. Suppliers are prohibited from using workers under the legal age of employment in any country or local jurisdiction where the Supplier performs work for Solea. Solea will give preference to suppliers whose work force mirrors the diversity of its clients and customers.

WAGES AND WORKING HOURS

Suppliers shall not pay less than the minimum wage in accordance with local laws or the prevailing market, whichever is higher. Suppliers shall maintain reasonable employee work hours in compliance with local standards and applicable national laws of the countries and regions in which the Supplier does business.

COMMUNITY INVOLVEMENT

Solea seeks to work with Suppliers that partner with local governments and communities to improve the educational, cultural, economic and social well-being of the communities in which they live and serve.

ETHICAL STANDARDS

Solea seeks to identify Suppliers that conduct business with ethical standards consistent with our own. Solea's ethical standards are detailed on our website.

COMMUNICATION

Suppliers should take appropriate steps to ensure that this Code is communicated to their employees and throughout their own supply chains.

Source: Company Reports.

Exhibit 4. Solea’s 10 Sustainability Commitments (The Bright Future Plan)

1. We will source local, seasonal or sustainably grown and raised products.
2. We will increase the purchase of items that can be recycled and reused.
3. We will increase the purchase of items sourced from fairly and responsibly certified sources.
4. We will supply sustainable fish and seafood.
5. We will purchase and promote energy efficient equipment.
6. We will reduce waste generated and divert 100% of fryer oil.
7. We will reduce our carbon and water intensity across all our operations and clients' sites.
8. We will increase products and programs that promote health and wellness for our employees, clients and customers.
9. We will support local community projects and employ and train a local work force.
10. We will ensure compliance with the Supplier Code of Conduct.

Source: Company Reports.

Exhibit 5. Performance Management and Incentive System

Solea had an elaborate performance management system for all employee levels down to a manager located at a client site. The system required both the employee and his/her manager to review Solea's standards for goals and behaviors appropriate to the employee being evaluated. The review of Solea's standards was followed by the employee performing a self-evaluation, the manager evaluating the employee, the employee signing off on the manager's review, and the employee creating a development plan for improvement.

The items included in Solea's performance management system were each evaluated on a 1-5 scale with the average in each of two sections, financial and value behaviors, weighed 60 percent and 40 percent respectively.

To illustrate that system, the following were the evaluation criteria for the financial objectives and value behaviors for site managers for commercial accounts.

Financial Objectives (60 percent weight)

1. Attainment of budgeted profit contribution
2. Revenue sales growth
3. Developing a team
4. Cross selling services/products
5. Food Safety/Physical Safety Audit
6. Implementation of division initiatives (approved employee recognition programs and customer satisfaction survey)

Value Behaviors (40 percent weight)

1. Serving clients and customers (proactively understanding client needs, establishing rapport, displaying professional behavior.)
2. Drive and dependability (eagerness, enthusiasm, passion and integrity)
3. Building a diverse team (increasing diversity and inclusion)
4. Interpersonal relations (develop and maintain professional, trusting, positive working relationship with clients, supervisors, staff, managers, customers, and vendors.)
5. Managing employee performance and development (inspire employees beyond expectations, motivate by providing meaningful feedback, recognize and reward accomplishments.)
6. Managing unit finances (understand financial data, identify key factors affecting financial performance, align budgets and performance with strategy.)
7. Ensuring quality operations (implement, monitor and manage quality operating procedures.)

The results of the performance review could result in a bonus to the manager up to 20 percent of salary for the year. No one within NA received any bonus until NA made 95 percent of its budgeted profit, however.

Source: Extracted from Company Documents.

Deploying Sustainability at Solea

Teaching Note

Abstract

Solea, a multinational food and facilities management company, announced a global sustainability initiative. Within Solea, sustainability meant considering the environmental and social impacts of operations along with profitability. This case focuses on how the implementation of the sustainability initiative created organizational conflict between the sustainability group and the supply management group. Most of the disagreement arose from supply management strategies, designed to increase immediate profits, which conflicted with sustainability strategies, aimed to yield longer term impacts. Even with upper management supporting sustainability, the case demonstrates how complicated it is to implement sustainability when actions get in the way of immediate profits and financial data is missing. Students understand the need to explicitly link (map) the new strategy to financial performance metrics, to specify when and how the benefits of a new strategy should impact profitability, and to monitor lead and lag performance measures.

Keywords: *Sustainability, triple bottom line, incentives, performance measurement, balanced scorecard, long versus short term profits, supply chain management, sourcing, service operations, strategy.*

Introduction

This case is designed to be used in either managerial accounting or in operations management courses. It contains topics important to both disciplines: supply management, sustainability, and performance management and incentive systems, which are normally a part of the core curriculum in graduate and undergraduate programs. It provides a rich description of the integration of sustainability into supply management decision choices in a profit seeking organization, which creates a scenario where concepts from both disciplines apply. The case provides an opportunity to focus solely on topics of concern to one of the specific courses or to integrate materials from both. The case has been used by each discipline independently and has also been used to refer to materials taught by the other discipline as a way of integrating core curricular concepts in a low cost way.

Case Overview

Solea, a multinational company that designed and delivered on-site food and facilities management services for commercial, education, and government clients, embarked on a sustainability journey in the early 2000's. Although the case is based on a real company, details have been changed to prevent interference with ongoing implementation and fictitious dialogue has been added to stimulate student interest.

In the mid 2000's Solea started two major initiatives, the Bright Future Plan (BFP) for improved sustainability and Initiative 2016 for increased profitability. BFP contained Solea's 10 worldwide sustainability commitments while Initiative 2016 focused on improving site level profitability through organizational effectiveness. In North America, an Office of

Sustainability (OS) was created to implement the Bright Future Plan and a team comprised mostly of supply management personnel was established to implement Initiative 2016.

The organizational effectiveness strategies of Initiative 2016 included reducing deliveries, reducing SKUs and pushing more purchasing through prime vendors. Sustainability initiatives included rationalizing deliveries consistent with Initiative 2016's strategy but also called for increased local purchasing from a greater number of smaller suppliers (not prime vendors) and reduced offerings of items such as bottled water or foam products. The supply management group viewed OS's efforts as threats to Solea's profitability and openly opposed many of its messages, labeling them economically irresponsible because of these conflicts.

Students identify this underlying conflict and the operational complexity of pursuing sustainability goals in a global organization. They must understand how and when the sustainability strategy is designed to impact financial performance, the behavioral ramifications of the performance management and incentive system, and suggest ways to simultaneously manage the two initiatives so profit, environmental and social goals are met.

This case can be used by the following courses: Managerial Accounting; Operations Management; Supply Chain Management; Organizational Behavior (including topics of Leadership and Change Management); Environmental Management; Corporate Social Responsibility; Strategy.

Management Accounting Discipline Learning Goals

After completing the case students should be able to:

1. Identify how and when the sustainability strategy should impact financial results.

2. Identify the lack of financial data supporting the sustainability strategy and the lack of a systematic way to reliably capture best practices.
3. Identify key activities/behaviors that support the sustainability initiatives.
4. Recognize the need for a performance measurement system that includes lead and lag measures and can accommodate both financial and non-financial metrics.
5. Suggest metrics that would motivate and measure key activities/behaviors required to implement the sustainability strategy.
6. Identify the activities (behaviors) that the existing performance management and incentive system encourages for site managers.
7. Suggest changes to the site manager's performance management and incentive system to support the sustainability strategy.

Teaching Strategy and Implementation Guidelines

This case has been used with differing assignments by undergraduate students. The first use at the sophomore level occurred in separate core courses in managerial accounting and operations management. The second use, at the senior level, was for an undergraduate elective course on environmental management.

The case was covered in a 75 minute class period each time it was used. This teaching note focuses on the separate use of this case in core courses in 1. Managerial Accounting and 2. Operations Management, since most schools have these courses in their graduate and undergraduate core curriculum. This teaching note first presents guidance for use in Managerial Accounting. That is followed by guidance for using the case in Operations Management.

The Managerial Accounting Assignment

The case was used toward the end of a required managerial accounting class during coverage of performance management systems. At this point in the class students had covered the typical foundational materials in managerial accounting and were trained to analyze situations for their impact on the organization's financial performance through increased sales, cost reduction, or efficient asset management. Using the case, students deepened their understanding of why companies cannot manage internal operations only using financial metrics such as profit margins, asset turnover, and return on assets. During the discussion of performance measurement and management systems, students were reminded to reflect on an organization's social and environmental responsibilities (taught as core material in previous classes) and were challenged to think how they might create a formal system that would recognize not only current profitability but also the accomplishment of other strategic goals that should lead to long term profits.

To prepare for the case session, students were assigned a number of readings rather than a text book chapter.

Kaplan, Robert S.; Norton, David P "Using the Balanced Scorecard as a Strategic Management System. " *Harvard Business Review*, Jul/Aug 2007, Vol. 85 Issue 7/8, p150-161.

Kaplan, Robert S.; Norton, David P. "Having Trouble with Your Strategy Then Map It," *Harvard Business Review*, Sep/Oct 2000, Vol. 78, Issue 5, p167-176.

Busco, Cristiano; Frigo, Mark; Leone, Emilia; Riccaboni, Angelo,"Cleaning Up" *Strategic Finance*, July 2010, p 29-37.

If desired, students could also be assigned a reading on the development of sustainable balanced scorecards (SBSC) such as:

> Figge Frank, Hahn, T. Schltegger,S, and Wagner, M. "The Sustainability Balanced Scorecard-Linking Sustainability Management to Business Strategy" *Business Strategy and the Environment,* 11, 2002, pp 269-284.
>
> Searcy, Cory. "Setting a course in corporate sustainability performance measurement" *Measuring Business Excellence,* Vol 13, No 3, 2009. pp49-57.
>
> Moller, Andreas, and Schaltegger, S. "The Sustainability Balanced Scorecard as a Framework for Eco-efficiency Analysis." *Journal of Industrial Ecology,* Vol 9, No 4, pp73-83.

Students were asked to work in groups and provided the following instructions for the Solea case as background preparation.

> *ASSIGNMENT TO BE HANDED IN:*
>
> *Prior to class read the Solea Case and:*
>
> *1. Prepare a one page document (verbal or a diagram) that shows how the sustainability strategy will create (support) the financial results desired by Solea.*
>
> *2. Select a sustainability initiative from BFP (Exhibit 4) and identify some activities and/or behaviors necessary to achieve this sustainability goal. List at least two activities or behaviors required for: 1.Supply management personnel, 2.Site Managers, and 3. Office of Sustainability directors.*

3. Indicate key activities that would support Initiative 2016. List 2 activities each for 1. Supply management personnel and 2. Site Managers.

<u>Suggested Managerial Accounting Class Teaching Plan</u>

We typically begin a case session by having students present an overview of the case "problem" as a "big picture." Students need to explain Solea's existing business model that relied on vendor discounts to provide as much as 20% of its operating profits and how that model was being threatened since clients were beginning to ask for their share. Students should appreciate the importance and complexity of Supply Management within Solea given its size and geographical spread. Students must realize that upper management has created an Office of Sustainability (OS) and supports its efforts. Further, students should identify that there is conflict between supply management and OS and the fact that upper management "bought in" to the sustainability strategy and believed that it would result in long term growth in sales and profits.

We use about 20 minutes for students to discuss their homework and to acknowledge that financial performance metrics are lag, not lead performance metrics. (We have included a sample solution to these in TN-1)

1. Explain how Solea's sustainability strategy is supposed to impact short term and long term profitability.

This should end with a rough strategy map diagrammed on the board, see TN-1. From their discussion, students should acknowledge that the OS personnel were convinced that unless Solea became a sustainable company, it would lose existing customers and win fewer bids. Further they were concerned that clients might get ahead of Solea on sustainability initiatives and drive up costs with their unique sustainability requirements. They wanted to introduce best practices to their clients, carrying practices from one market to another. OS felt that vendor discounts were going away; in some states government clients had to be given credit for these rebates by law. Other commercial accounts were negotiating for vendor discount rebates as well, and OS directors felt that future reliance on vendor discounts was dangerous. Yet the benefits of the sustainability strategy were not immediate like the vendor discounts; sustainability efforts would pay off in the longer run if OS personnel were correct about their assertions and the sustainability strategy worked. Students should acknowledge that the supply management group was deeply concerned that the sustainability commitments would interfere with their ability to increase gross margins through vendor discounts. They didn't believe the sustainability strategy had an ability to increase profitability like vendor discounts did.

2. For the sustainability commitment selected in BFP, what actions did you identify as necessary to achieve the sustainability goals for:
    a. Supply Management Group
    b. Site Managers
    c. OS Directors
3. What are the actions required to support Initiative 2016?

TN-1 contains sample solutions. The goal is to get students to discuss the requirements of the two strategic initiatives, BFP and Initiative 2016, and the points where they support and conflict with one another. I pose a series of questions to encourage the conversation:

1. Is there any problem with the existing information system?

The impact of sustainability on losing customers or winning bids was hard to determine since OS didn't have information on why clients or bids were lost. OS didn't have financial data to support their arguments that sustainability would increase sales or gross margins while the impact of vendor discounts on profits was immediate and captured within the existing financial accounting system. Best practices were not supported by differential analysis and this data was being developed slowly because no resources had been committed to the analysis.

2. Are the existing measures of performance adequate? What kinds of behaviors/actions get rewarded in Solea?

Ask students about site managers' existing performance management system, directing them to review the information provided in Exhibit 5 of the case. Students should recognize that supply management and OS would have different items in their performance management and incentive system than are included in this site manager's report, but we have provided this one since site managers deliver Solea's value proposition to the client. From their review of Exhibit 5, students should realize that rewards are based mostly on profit.

Student groups are then given the following in- class assignment:

1. *Develop a scorecard for Solea's Sustainability Strategy that will assist* ***senior managers*** *in their efforts to monitor that proper activities are undertaken and will provide goals that will motivate employees to perform correct activities. Develop this with your group members. Your scorecard may have items that belong on the performance management and incentive system report of OS, supply management, or site*

managers. As you develop the scorecard label to which group you think the item is relevant.

2. Create key metrics for each of the four areas in the scorecard; do not create more than 5 metrics for any one area of the scorecard.

Student groups are allowed 20 minutes to work on their solution. We typically assign different dimension of the scorecard to different groups to allow them a deeper dive.

The final 25 minutes of the class are used for student groups to share and discuss their ideas about the proper activities/ behaviors to motivate and the relevant metrics that could be easily captured. The instructor needs to push students to include both lead and lag measures and to emphasize the role that each plays.

We discuss which of the activities are already in the site managers' performance management and incentive system (using Exhibit 5) and which need to be modified or added. Students discuss the two categories of that system, financial objectives and value behaviors, compared to the four dimensions in Kaplan and Norton's Balanced Scorecard, identifying overlaps and gaps.

While the materials in Exhibit TN 1 provide a sample solution; since this is a case, students will bring up other points. Like any case, there aren't "answers", rather the instructor's goal should be to get students to identify what actions need to be taken to implement the sustainability strategy and what actions the existing performance management system encourages. Students should realize that the existing system is not supporting the sustainability strategy; rather it is focusing on short term profits.

If instructors wish to supplement these assignments, there is an opportunity to discuss the nature of the incremental analysis needed to support best practices; the characteristics of good dashboard metrics; and failure of the existing IS to capture sustainability as a reason for losing bids or clients.

Exhibit TN 1. Solea's Sustainability Strategy

1. **Explain how Solea's sustainability strategy is supposed to impact short term and long term profitability. (This should end with a rough strategy map diagrammed on the board)**

Many undergraduate students simply copy the sustainability goal, BFP commitments, the strategy and the OS structure from the case to answer this question.

<u>Sustainability Goal:</u>

Become a leader in offering sustainable services and products to enhance Solea's brand.

Specific BFP Commitments:

1. We will source local, seasonal or sustainably grown and raised products.
2. We will increase the purchase of items that can be recycled and reused.
3. We will increase the purchase of items sourced from fairly and responsibly certified sources.
4. We will supply sustainable fish and seafood.
5. We will purchase and promote energy efficient equipment.
6. We will reduce waste generated and divert 100% of fryer oil.
7. We will reduce our carbon and water intensity across all our operations and clients' sites.

8. We will increase products and programs that promote health and wellness for our employees, clients and customers.
9. We will support local community projects and employ and train a local work force.
10. We will ensure compliance with the Supplier Code of Conduct.

Strategy: Integrate sustainability into normal service and product offerings without charging a premium. Solea would offer expert advice; share practices across markets; measure sustainability performance at clients' sites; and engage with stakeholders to set priorities. Solea would become recognized as an expert in sustainability which would build brand and reputation.

Structure to support strategy:

Create a department for sustainability with the following division managers:

- ***Training***: exists to develop best practices and subject matter experts and design materials, activities and events to share best practices
- ***Performance***: exists to create and implement sustainability goals and the performance dashboard.
- ***Communication:*** exists to establish internal and external partnerships; obtain third party validation of priorities and initiatives; and communicate initiatives and outcomes.

Sample Verbal Description of Strategy

Solea's strategy to include sustainability in normal offerings without premium pricing was designed to enhance Solea's brand and to differentiate it from its competitors. Existing clients would receive expert advice and monitoring of practices and offerings, leading them to experience cost reductions or revenue enhancements in their own facilities. This would cause

Solea's clients to rely more on Solea because their needs were anticipated and met. Further engagement outside the organization with stakeholders, NGOs and Trade Associations would enhance Solea's brand and reputation. These actions collectively would foster strong client relationships and enhance Solea's image so that both sales revenue and gross margin would increase.

A graphic of the strategy is included below. This is more detailed than we would expect undergraduate students in a core course to develop.

2. **What actions are necessary to achieve sustainability goals in BFP?**
    a. **Supply Managers**
    b. **Site Managers**
    c. **OS Directors**

Students will select different initiatives from BFP. We provide a sample of things we have heard in class.

<u>Sample Sustainability Actions Desired:</u>

1. Supply Managers
    a. Source local, sustainable, fairly manufactured food, equipment & supplies.
        i. Develop processes for qualifying & certifying local producers with partner distributors/producers.
        ii. Develop efficient distribution system for local producers with partner distributors/producers.
        iii. Develop chain of control with partner distributors/producers
        iv. Present materials to clients that explain/support local, sustainable & fairly manufactured items.
    b. Reduce carbon intensity
        i. Reduce transportation miles through rationalizing delivery.
        ii. Calculate and report carbon intensity in product/supply offerings.
2. Site manager
    a. Present Solea's sustainability commitments to client (Customer)
        i. Become member of client's sustainability team
        ii. Use point of sales displays of commitments, achievements
        iii. Work with client to complete the sustainability performance monitoring dashboard
    b. Reduce water use

i. Install low flow water heads & use efficient scraping methods to reduce water use during dishwashing.
ii. Plan in advance so food is not defrosted under running water.

c. Reduce waste
   i. Compost
   ii. Separate trash
   iii. Recycle
   iv. Reduce amount of paper, plastics, foam, and bottled water.
   v. Remove trays from dining facility so less waste is generated.

d. Encourage Health Wellness
   i. Offer fresh, low calorie, low sodium entrees
   ii. Mark entrees with nutritional information
   iii. Use literature to inform customers of health/wellness tips.

3. Office of Sustainability
   a. Train
      i. Subject matter experts in each market
      ii. Develop on-line database of best practices
      iii. Develop and offer sustainability forums to supply managers, site managers, and suppliers.
   b. Continuously develop best practices
      i. Monitor information system inputs to identify best practices.
      ii. Establish ways to verify and document best practices so they can be followed by others.

        iii. Create specific Solea business case materials about best practices

    c. Train site managers in monitoring system

        i. Refine metrics/dashboard

        ii. Audit results

    d. Work with stakeholder groups

        i. Seek input on issues of importance for CSR

        ii. Get & publicize ratings, certifications, and endorsements

        iii. Engage around 10 commitments

    e. Monetize the sustainability strategy

        i. Develop new offerings (e.g. trash separation, composting, intensity monitoring, general sustainability dashboard and audits)

        ii. Provide materials and assistance to managers that they can use to sell additional services/products to clients

        iii. Work with marketing/regional managers on brand management

        iv. Work with marketing/regional managers to get increased contract prices and gross margins based on sustainability reputation.

    f. Get sustainability in the performance management system, tied to incentives.

3. What are the actions required to support Initiative 2016?

<u>Sample actions for Initiative 2016:</u>

1. Supply Management

    a. Qualify a small number of distributors with a wide product line to maximize vendor discounts

b. Develop presentations and materials for site managers that encourage them to order products sourced from preferred distributor so the client places orders from them.
c. Limit offerings of locally sourced items.
d. Standardize client orders with the goal of SKU minimization and present these to site managers.
e. Train managers to plan shipments to minimize truck miles.

2. Site Managers
    a. Satisfy the client with profitable, attractive offerings and services (don't lose the account!)
    b. Make a profit margin on the contract by working with supply management to reduce the cost of goods sold
    c. Get vendor discounts by purchasing through prime vendors as much as possible.
    d. Use the SKUs that the supply management group provides as much as possible while satisfying the client.
    e. Plan supply needs carefully to reduce the number of shipments.
    f. Find space to store items to reduce the number of shipments.
3. OS (Not a part of their assignment, but OS has responsibility to think of profits, too.)
    a. Develop and provide best practices around how to plan shipments to reduce truck miles.
    b. Develop sustainable products/services to include in normal pricing that satisfy client accounts without increasing costs.

4. **What kinds of behaviors/actions get rewarded in Solea? Ask students about site managers' existing performance management system, directing them to review the information provided in Exhibit 5 of the case.**

The system that was described in the case was a system for site managers. This system placed 60% of its weight on hitting financial objectives, which focused site managers on short term profits. The first item was attaining the budgeted contribution, which encouraged site managers to buy compliant products from a limited number of vendors so they shared in vendor rebates as well as got low priced product. To achieve revenue sales growth, site managers probably didn't want to drop revenue producing items like bottled water. Food safety was also impacted by using larger suppliers which had strong quality standards; special procedures for safety and inspection of local product hadn't been developed.

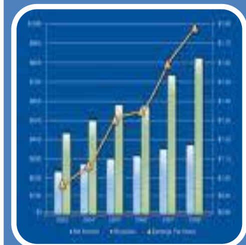
The last item under financial objectives could be expanded to include a specific sustainability initiative if upper management was really ready to push this at the lowest levels of the organization. One of the value behaviors, serving clients and customers, might have encouraged site managers to think about sustainability and to discuss sustainability efforts with the client, but this was the only item in the entire performance measurement system that supported the sustainability strategy. This might lead to an interesting discussion about decentralized decision making and allowing site managers, who are closest to the client, to make the tradeoffs between short term profitability and sustainability issues. A series of decisions favoring short term profits would become the strategy in action and could prevent Solea from differentiating itself through sustainability.

In Class Assignment

1. ***Develop a scorecard for Solea's Sustainability Strategy that will assist senior managers in their efforts to monitor that proper activities are undertaken and will provide goals that will motivate employees to perform correct activities.***

2. ***Create key metrics for each of the four areas in the scorecard; do not create more than 5 metrics for any one area of the scorecard.***

Below is a sustainability Balanced Scorecard that a student group developed. We selected this example because it was stellar; most sophomore classes don't perform at this level.



Financial Dimension (mostly site manager)

- Increase in Sales Revenue
- Higher Selling Prices (% change in Contract Prices for same volume of service/product)-
- Increase in GM%

Customer (Client)--mostly site managers

- Retention Rate
- % Bids Accepted (none of the three groups prepare bids)
- Client satisfaction survey scores
- % Offerings meeting Sustainability Commitments

Process

- SM -- % procurement sustainable, local, certified.
- SM-- Literature for clients on sustainable, compliant products
- SM-% small deliveries (of total deliveries.)
- OS--- Certifications, ratings of stakeholder groups
- OS--% client sites with sustainability monitoring
- OS--% client base with offerings and literature for customers on sustainability /health wellness/community support

Learning & Growth

- OS-# workforce that are SMEs
- SM & OS-% of suppliers, clients & SM participating in sustainability best practice events
- OS-# Best practice events
- OS-# site managers trained in site sustainability monitoring

The Operations Management Assignment

Depending on the use of the case, a variety of readings and assignment questions can be developed. The following questions represent a suggested assignment in an entry level Operations Management course. These questions could be assigned as homework to prepare for in-class discussion:

1. What factors account for the success of Solea's supply chain? In particular, how does their supplier management play a role in achieving this success?

2. To become an industry leader in sustainability what actions has Solea taken in North America?
3. What are the most pressing challenges facing Solea to integrate sustainability initiatives to its supply chain?

4. What must Solea do to integrate sustainability initiatives in its supply chain in North America? In particular, what should Rothenberg do about the emerging problems and expected difficulties of developing a sustainable supply chain? Should Solea make any changes to its sustainability initiatives?

5. Should Solea price sustainable products and services at a premium?

Suggested TOM Class Teaching Plan

The following teaching plan is designed for a 75 minutes class. A suggested board plan is shown in Exhibit TN 2 to accompany this section.

We start the class by asking students to identify the role of Solea and what business the company is in, by explaining the customer value proposition, the industry and competition for Solea. The intent here is to understand the strategic context for subsequent supply chain analysis and discussion. The opening should take about 5 minutes. Most students quickly relate Solea to their food service provider on campus. The discussion is extended by asking their expectations from dining services on campus. They identify their options for food and other food services on and off campus as competition to Solea.

We then allow students to apply their knowledge about supply chain management by asking them to describe Solea's supply chain with respect to the first question:

1. *What factors account for the success of Solea's supply chain? In particular, how does their supplier management play a role in achieving this success?*

This discussion identifies Solea's intermediary role between the suppliers and its clients in a simple supply chain. The discussion on the supply chain should clarify two important aspects of sourcing strategy in Solea's supply chain: First, Solea benefits from the economies of scale in purchasing by consolidating their clients' demand and managing a large pool of suppliers. The class could talk about the cost benefits of vendor discounts and purchase volume for Solea's cost effective supply chain. For procurement, a possible list of competitive advantages could include negotiation power, volume discounts, economies of scale, long-term relations and supplier code of conduct.

Second, the major buyer position gives Solea control over its suppliers. It is helpful to talk about Solea's Supplier Code of Conduct (see Exhibit 3) in further detail. It should become clear that Solea could extend its values to its suppliers relatively easily, and if a supplier chooses not to follow these guidelines, Solea could seek another partner to supply that item.

Further, the site managers play an important role in customer relationship management as well as supply management. Their purchase decisions and marketing efforts should be aligned with the goals of supply management to provide the best service and products at the most profitable level. Try to limit the discussion to 10 minutes.

Next we ask the class to identify the sustainability initiatives at Solea:

2. *To become an industry leader in sustainability what actions has Solea taken in North America?*

Solea implemented sustainability with the establishment of OS, Good Citizen, the Bright Future Plan, three director-level positions for sustainability (training, performance and communication), the release of the dashboard, and parts of Initiative 2016 such as reduction of carbon emissions by reducing delivery frequency. We point out that Solea has to make changes to its supply chain and purchasing as outlined in the Bright Future Plan, like local sourcing, reducing carbon intensity, improving water efficiency, etc. (See Exhibit 4 for a complete list).

Further, the class discussion should examine each of three aspects of Initiative 2016 and their fit for sustainability. The students could reevaluate the aspects outlined by Initiative 2016 (delivery frequency, SKU rationalization and vendor choice) from the perspective of sustainability. The discussion should summarize the following points: Although the first initiative, delivery frequency, could easily become a more sustainable practice (by rationalizing the number of suppliers and product lines, working with suppliers to review ordering patterns, etc.), the other two initiatives (SKU rationalization and vendor choice) needed further action since they suggested purchasing through prime distribution channels and bulk buying opportunities, which were in direct conflict with the Bright Future Plan and sustainability initiatives such as local sourcing.

The instructor may allow 15 minutes to identify the details about the case. When the class identifies required changes to the supply chain, the instructor could move to the next question to delve into the challenges to apply sustainability initiatives along the supply chain and in particular, the conflict between the supply management and OS groups.

3. *What are the most pressing challenges facing Solea to integrate sustainability initiatives to its supply chain?*

We form two different student groups in class to represent *Supply Management* and *Office of Sustainability*. We start the discussion with Supply Management by asking how these initiatives would affect the existing supply chain and requiring students to list their concerns. We allow each group to respond to each other. Students realize the tension between the supply management team and OS, and that it is not easy to implement the sustainability efforts since they may adversely affect the profitability of the company.

The instructor should ask other challenges to include client relationships, cost management, government accounts, risk mitigation and the faltering economy if these are not mentioned in class.

In this discussion, the class should understand the major conflict in the case that Solea must alter its supply chain dramatically, but Supply Management alleges that this change would go against profitability and shareholder responsibility. This part of the class should take 10 minutes.

Then, we pose the following related discussion questions:

4. *What must Solea do to integrate sustainability initiatives to its supply chain in North America? In particular, what should Rothenberg do about the emerging problems and expected difficulties of developing a sustainable supply chain in North America? Should Solea make any changes to its sustainability initiatives?*

The integration of sustainability into the supply chain is a great opportunity to bring out the coordination of three levels of the supply chain: the physical, information and incentive. First, the discussion about the challenge of applying sustainability at the physical level focuses on the extent to which Solea could give up its profitability due to volume discounts and vendor allowances by switching to local sourcing. The site managers play a key role to present these initiatives to the client as well as to manage the internal processes for water and energy efficiency, recycling and waste reduction.

Second, the discussion about the information level highlights how Solea should communicate its sustainability initiatives internally and externally on when and how the benefits of a new strategy should impact profitability. The discussion should bring in the implementation of online tools such as the dashboard. This is a good example to demonstrate how the best practices can be utilized in the organization.

The topic about online sustainability tools can lead the discussion to the lack of incentives for managers although sustainability tools exist. The evaluation of the managers was based on profits, which causes resistance to changes in sustainability. This is directly related to the incentive management in a supply chain. To raise support for sustainability in the organization the case provides students the opportunity to identify the behavioral implications of a performance management and incentive system and suggest changes to align behavior with strategy. This discussion brings out the importance of explicit link between the new strategy and financial performance metrics, and to monitor lead and lag performance measures. The scenario requires students to suggest how they would manage valid, competing initiatives, which forces them to acknowledge that it may be impossible to maximize both at all times and thus develop and share ideas about how to manage organizational conflict. The discussion around these topics takes about 15 minutes.

Besides lack of internal performance management and incentive system, we allow 5 minutes to talk on the supplier performance metrics and reporting. The case points out to current insufficient use of metrics to audit and monitor a supplier's compliance to Solea's corporate, social and environmental principles. When it comes to measuring the sustainability practices by suppliers, this is a major issue.

To wrap up the discussion, the instructor can ask: Should Solea "go green for environment" or should they continue business as usual? Why should they do so and how? We allow 10 minutes for discussion of these questions.

The objective here is to place the students in a position where they should understand that current practices, which have an impact on the environment, are core to the company's immediate profits, so how should the top level executives make a decision? If the answer is "Do not Go Green", then the instructor could ask the class to prepare a statement for the press. How to announce a negative decision about sustainability to public and customers shows that the answer is not very simple. In addition to shareholders, customers and suppliers, Solea is responsible for multiple stakeholders like the local and global community, environmental organizations, press, government, etc. If the answer is "Go Green", Solea has to deal with several issues including, but not limited to,

a) internal resistance from Supply Management team,
b) changing their practices of bulk purchasing,
c) lack of control on some suppliers, and
d) lack of performance metrics and reporting, and incentive system.

5. *Should Solea price sustainable products and services at a premium?*

Some students like to propose offering the sustainability products and services as a premium offering. This is an opportunity to discuss that treating it as a premium offering presents it as an add-on feature, limiting Solea's ability to introduce sustainability throughout the organization and preventing Solea from becoming a sustainability leader. This question facilitates discussion of the difficulty of establishing a sustainability strategy for an organization like Solea. This discussion takes 5 minutes, but the instructor can discuss it within the remaining time.

Exhibit TN 2. Suggested Board Plan for Supply Chain

Customer Value Prop. Industry? Competition?	*<u>Supply Chain</u>* Procurement → Distribution → Client	*<u>Sustainability at Solea</u>* • Bright Future Plan • Initiative 2016 • Local sourcing • …
<u>Concerns</u> 1. 2. 3.	*<u>OS</u>* *<u>Supply Mngment</u>* <u>Response</u> <u>Response</u> 1. 2. 3.	*<u>Recommendations</u>* <u>Go Grn</u> <u>Do not Go Grn</u>

Customer Value Proposition: The instructor could use the board in the beginning of the class while identifying value proposition, competition and industry for Solea.

Supply Chain: The instructor could ask students to describe the supply chain for Solea and the strategic value of each part of the supply chain to Solea's financial success.

Sustainability at Solea: The students could identify the sustainability initiatives by OS and Solea and briefly explain how each decision/initiative or plan was shaping Solea's environmental and social value.

Concerns and Responses: The class could list all concerns that Solea was facing in its implementation of sustainability initiatives while keeping its profits. Two groups (OS and supply managers) could respond to each of these concerns from their perspectives.

Recommendations in US: The instructor could ask the class their opinions for a sustainable supply chain for Solea in US and collect student responses and underlying reasons for discussion of concerns and opportunities.