



Leaders' Perspective

Best Practices for Supply Chain Management
in Emerging Markets

Foreword

With global corporations constantly seeking favorable sourcing prospects, procurement's focus is quickly shifting toward emerging markets across countries such as China, India, Brazil, Mexico, Indonesia, and beyond. However, the strategies that succeed in one area, might not work within a newer, less established market. Establishing a sound procurement strategy for emerging markets requires a thorough assessment of evolving risks and challenges and an evaluation of market effectiveness over time.

To better understand the unique challenges of entering emerging markets and the secret to successful supply chain management, Avetta interviewed three top procurement, health and safety, and sustainability leaders— Randy Waskul (Global Director, Health, Safety and Environment at Birla Carbon), Kaisa Mattson (Director, Sustainable Sourcing and Human Rights at Fazer) and a Senior Manager at a Fortune 500 company. These insights will help companies looking to expand their supply chains across the globe.

Supply Chains in Emerging Markets

Understanding the Risks and Challenges

As global enterprises ponder the impact of the largest economic crisis since the Great Depression, emerging markets across the globe are expected to witness a swift reversal of fortunes. According to a recent survey that interviewed 150 manufacturing companies about general supply chain management trends, COVID-19 has accelerated the shift of procurement and manufacturing from China.

Of all the survey respondents who have had manufacturing and sourcing units within the country,



around 59% have either withdrawn operations, are in the process of doing so, or are seriously considering it.ⁱ

For companies that ultimately reduce their reliance on China, the question remains where to shift to next. Survey results reveal that by analyzing key costs, benefits, and risks companies can consider several emerging markets as an alternative to China, or to their current processes. For instance, nearshoring to Latin American countries like Mexico and Brazil can provide companies with the benefit of working with suppliers within proximity while sourcing from a low-cost location. On the other hand, as a response to rising labor costs in China, companies can also shift their operations to members of the Association of Southeast Asian Nations (ASEAN), including Vietnam, Thailand, Singapore, Malaysia, Indonesia, and the Philippines.ⁱⁱ



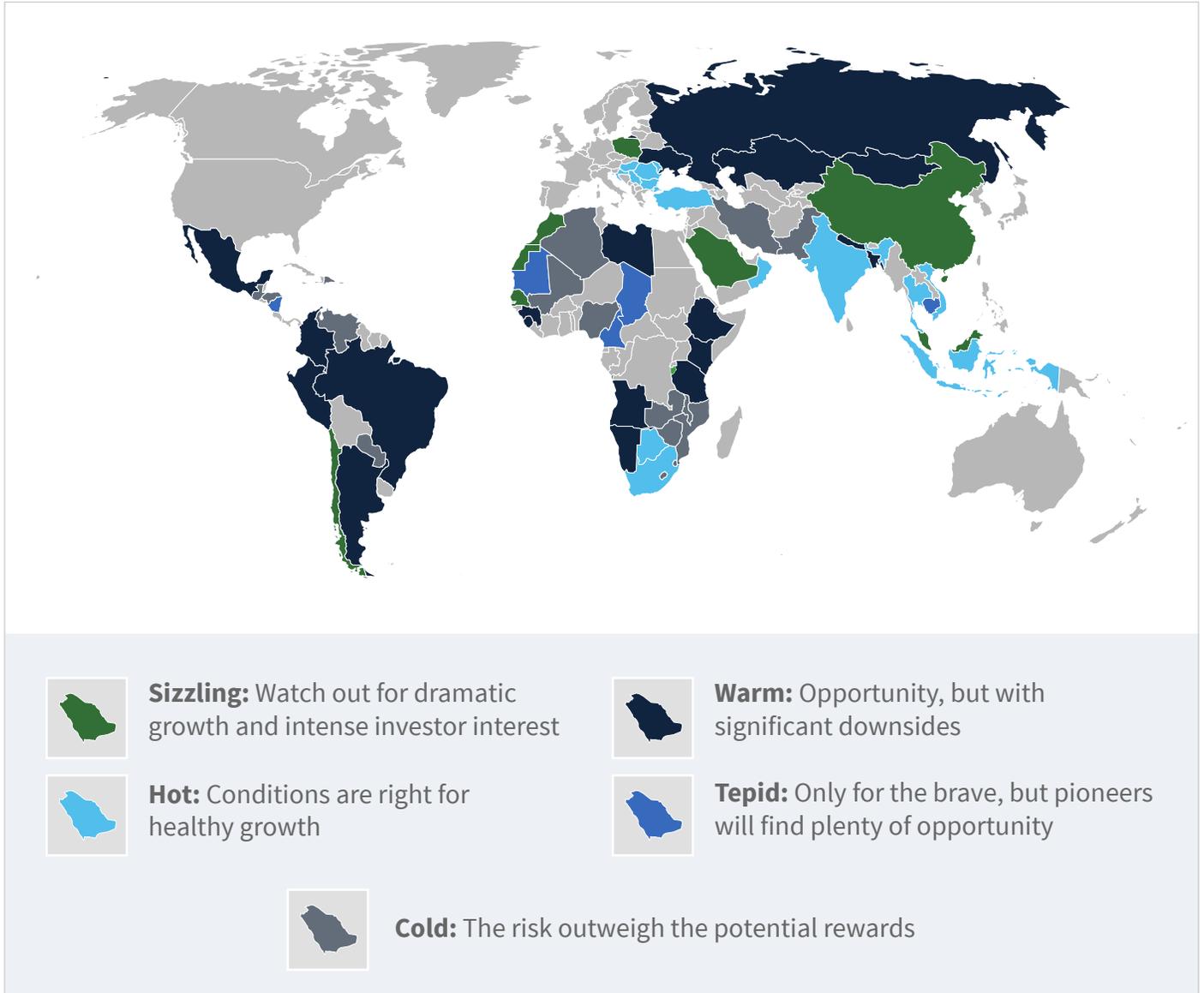
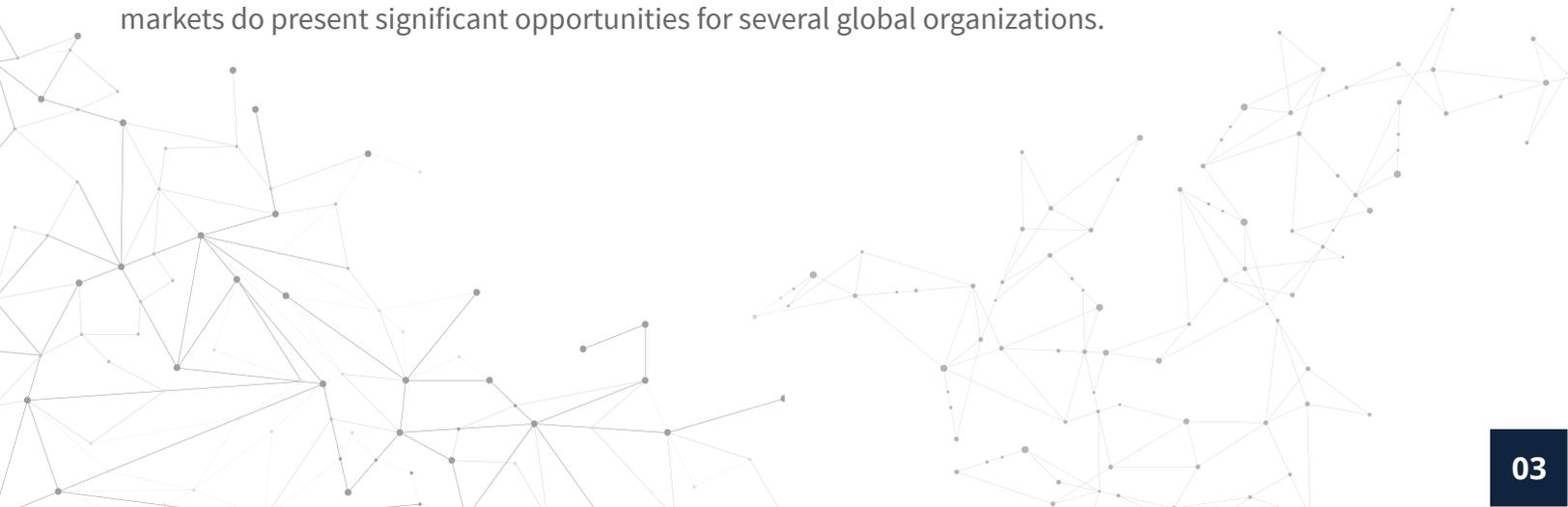


Figure 1: Emerging Market Hotspotsⁱⁱⁱ

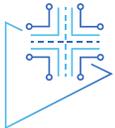
It's safe to say that emerging markets will continue to grow in the foreseeable future as income increases and such nations become economically prosperous. And from a growth perspective, emerging markets do present significant opportunities for several global organizations.



However, these markets may have increased supply chain risk exposure that many organizations may be unaware of and are unprepared to handle. Thus as companies venture into new regions, they need to consistently keep an eye on potential risks they may encounter like:



Lack of well-defined regulations may make it challenging for companies to comprehend the right regulatory requirements for operating successfully in the emerging markets



Lack of robust infrastructure may significantly increase procurement and logistics costs



Incorrect workplace safety standards may lead to workplace injuries, illness and/or death, and ultimately result in non-compliance, sanctions, and most importantly, loss of reputation.



Unethical labor practices that can damage company reputation



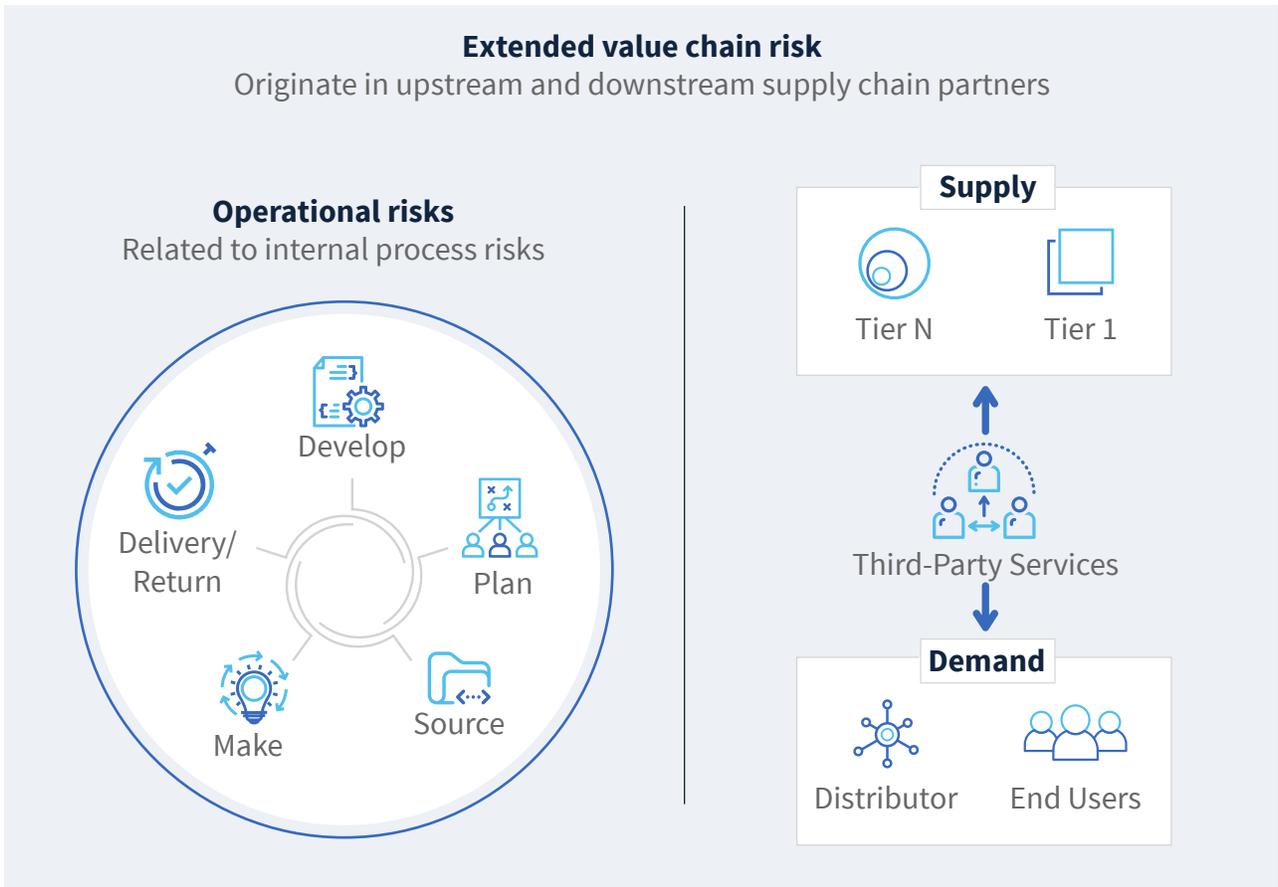
Natural disasters and geopolitical risks that may bring supply chains to a halt



A shorter history of safety-focused workplaces. Different safety cultures may influence workers to operate with riskier behaviors compared to the domestic sites.



Macro environment risks
Have potential effects across the entire supply chain



- Economic
- Environmental \ Social Responsibility
- Geopolitical
- Hazards
- Infrastructure/Resources
- Regulatory
- Security

Functional risks
Exist among enabling functions that support supply chain process

- 1 Finance
- 2 Human Resources
- 3 Information Technology
- 4 Legal

Figure 2: Risk across internal and external supply chain networks

Offsetting the Risks to Drive Value

The Best Practices

Success in emerging markets goes by the concept of risk vs. reward. Companies will have better chances at reducing the risk by closely understanding the market environment and following the best practices that can help them navigate the emerging market challenges. Here's what the experts had to say when asked how organizations can successfully tackle supply chain risk and challenges across emerging markets and arise as clear winners.

Randy Waskul

Global Director
Health, Safety and Environment at Birla Carbon

According to Randy Waskul, the key to developing a successful safety program anywhere lies in understanding a particular site's/location's current culture around safety. He believes that every worksite has its own unique culture based on societal norms, personal beliefs and values, and the efforts of the company.

Waskul highlights the following best practices that Birla Carbon followed to strengthen their safety culture across the world:



Determining whether 'safety' is the job of the HSE team or a leadership priority

Safety should not just be an objective for a site safety professional, rather it should be a leadership priority. This can be hampered by local regulations/requirements that place a significant responsibility on the HSE role when it comes to ensuring the safety of company facilities. Leaders need to be seen as role models for safety. The most important leadership behavior identified by employees in our company was being a solid role model for safety. People are more interested in what you do, more than what you say.



Keep in mind that your safety efforts within the site may be contrary to what is acceptable in the society outside of the plant boundaries. Having a company culture that values safety at a plant where the societal norms do not, is difficult, but it can be done!

Randy Waskul-

Global Director, Health, Safety and Environment at Birla Carbon



Understanding the safety culture

In order to closely understand the safety culture of a worksite and identify loopholes, companies need to have satisfactory answers to the following questions:

- What are the common strengths to build on?
- Are employees, supervisors, and managers on the same page about safety or is there a gap?
- Do supervisors, managers, and other leaders lead by example?
- How do senior executives talk about safety? Is it a natural part of their discussions and communications, or is it only because they have to talk about it?
- Does the company treat employees differently than contractors?
- How can the company measure change uniformly?

Waskul highlights that Birla Carbon used this questionnaire as a part of the Safety Perception Survey that was developed with assistance from an external expert and the internal team. The same questions were used in the same order, in local language(s), at every facility. Sites are then challenged to focus improvements in one of two key areas on the survey such as building trust or reducing risk taking, with progress in these areas being measured on subsequent surveys.



Getting site administrators to accurately and honestly report on near-miss events

While this can be challenging, companies need to create an environment that encourages reporting of incidents without punishing the whistle-blower in any way. Companies need to know what “almost” happened at a site to do all they can to prevent those near-miss events from happening.



Understanding which processes/operations can severely injure people

Organizations should develop a list of safety absolutes— things they must do right all the time to keep people, the process, and the community safe, and hold people accountable for those absolutes. Additionally, they need to share learnings of near misses/events across sites to prevent potential incidents from taking place, especially incidents that have the potential to result in serious injury or fatality (SIF).



Developing standards and procedures that will help a company to meet not only the legal requirements but also drive best practices and excellence

Organizations need to create clear, concise safety standards and procedures that are supported by the leadership. These procedures need to address all known and perceived risks by taking into account that each site will be at different starting points when it comes to implementing these procedures.



Safety is about relationships, and it is vital that your safety leaders have strong relationships with the C-Suite, site leaders, and operational leaders across the organization.

Randy Waskul-

Global Director, Health, Safety and Environment at Birla Carbon





Engaging people within the safety process

Companies need to engage every employee every day about managing the risks they have in their job/work to ensure no injuries occur. This should be done by team leaders, supervisors, managers, and senior managers where they can encourage people to talk about safety and how they are addressing risks/hazards. Doing so can help in creating a conducive work environment where people will not only identify risks/hazards, but also report them without the fear of getting punished.



Leaders need to see safety as a real value to the business, not just money spent.

Randy Waskul-

Global Director, Health, Safety and Environment at Birla Carbon



Measuring efforts, effectiveness, and progress

Regularly assessing the workplace safety performance indicators can be critical to developing a long-term safety strategy. From a global standpoint, it is important to understand that different sites and regions may be at different maturity levels. If a particular site is struggling with the basics, site administrators cannot put in higher-level efforts, such as commitment-based safety. In order to ensure that a program is effective, companies need to master the basics consistently before undertaking advanced efforts. You have to be able to customize an approach at the site level, while being able to move the organization as a whole forward with this effort.

It is here where audits and surveys with site follow-up can create a difference by helping companies measure efforts and effectiveness of a program. Companies need to use a clear and consistent methodology to evaluate the various safety parameters and efforts undertaken. There will always be an objective part to this evaluation, but it should be clearly defined for all auditors/evaluators. Selecting the right metrics and accountability is an important part of this effort, especially for people in leadership roles.

Kaisa Mattson

Director
Sustainable Sourcing and Human Rights at Fazer

According to Kaisa, the following are some of the best practices for a company aiming to create better sustainability practices in emerging markets:



Know your suppliers and business partners

Before collaborating with a supplier or contractor, representatives of the hiring organization need to visit them onsite and ask for a tour of the operations. This can help in getting a quick first impression about the established safety standards and whether they are being followed thoroughly or not.



Communicate with your supplier about sustainability

Companies need to try and create an atmosphere of mutual trust and respect with their suppliers. They need to be sensitive to local conditions and culture and let the supplier understand that the problems in their operations can become a risk for the business.





Get complete visibility on safety policies and procedures before initiating work

Some of the topics that representatives of hiring organizations need to cover when they are visiting supplier work sites include:

- What are the applicable regulations? How are government and local authorities supervising compliance of the operation?
 - i. Pay attention to pollution questions such as water withdrawal and effluent treatment, chemicals management, use of raw materials, and waste management.
- Discuss the sustainability risks that your business partner sees in the operations? Are there issues of land ownership, conservation areas, or with the local community? Is there a seasonal fluctuation in the workforce? Where do the workers come from (how is school education arranged for migrant workers, children)? How are workers compensated, and how are the work shifts arranged?
- Ask about company policies and procedures for social and environmental questions. Do they comply with some international standards? Different industries have different initiatives and standards (i.e., FSC, Fair trade) and some are common (i.e., ISO 14001). Has this company been audited by other customers or a third party?

As a whole, assess the awareness, competence, and resources that a supplier has in order to manage sustainability questions.



Working together builds trust. No company is perfect; therefore, it's critical to have a continuous improvement approach. Ask suppliers to set targets for key areas and follow up on the progress during business meetings. In this way, you underline that sustainability is a business question in the same way as technology, delivery, product quality, or cost.

Kaisa Mattson-
Director, Sustainable Sourcing and Human Rights at Fazer



Stress on a Supplier Code of Conduct

A company needs to come up with a code of conduct and ensure its standards are being met. Send a code of conduct to all your suppliers/business partners and ask for their commitment by signing the code. Please note that the supplier code of conduct should not contradict the Terms and Conditions outlined in the work contract, but rather the two should work together. There are many good examples of supplier codes of conduct. It is recommended to consult a legal advisor for a code of conduct but keep the language simple and straightforward. It is good practice to let the document be translated to the language of your supplier's country. Supplier codes of conduct usually covers the following topics:

- Management commitment and management systems for sustainability questions
- Labor and human rights (includes prevention of child labor and forced and bonded labor and working conditions)
- Environmental protection (all pollution to air, water, land, land use and forestry, conservation, biodiversity, and climate change)
- Occupational health and safety
- Business ethics (anti-corruption and anti-bribery, IPR, sanctions etc.)



Establish supplier prequalification program to ensure that suppliers are compliant with the code of conduct.

Focus your efforts and resources on process aspects where there's maximum risk and where you have the biggest opportunity to make an impact. You can have your own audit program, or you can join some of the well-reputed supplier networks or third-party verification programs to identify non-compliant suppliers who can expose your business to unwanted risks.



Follow up on audit reports and findings

It is important for companies to follow up on the audit reports or findings. Show your supplier that you care. If a supplier faces difficulties to undertake corrective action, try to see if you can support them in any way.

Mattson explains that she has come across several instances where a supplier was able to solve a particular issue with a little help from the hiring organization. For instance:

- Organization asked the supplier to conduct a Lean program that increased productivity and solved working hours issues.
- Organization brought in technical knowledge and a professional network that helped the supplier to improve the effluent treatment process.
- Organization sponsored education and improved conditions for the workers and/or the local community.

North American Contract Risk Program Manager for a Fortune 100 Company

This senior manager thinks along the same lines as the other two leaders and stresses the importance of understanding the cultural nuances of the new market that an organization is entering. He states the way business is done, how support is garnered, and how organizational change is adopted is different from region to region. Also, leveraging established supplier communication models and implementing safety programs specifically designed for developed markets may not yield the same results. The following are the best practices that he believes every organization needs to follow in order to gain success in emerging markets:



Recruit resources on the ground:

Hire people who have the influence and authority to execute on goals established for program implementation. You will need a strong local leader who understands how to gain support in the local operation. This resource will be your conduit to the market and advocate that can help remove barriers to implementation.



Lean on the experts:

Regulatory requirements can vary wildly from region to region. While we understand the basic principles of EHS management, there is no way to be an instant expert in each region's regulatory landscape. A local expert, WW service leader/providers, and industry leaders with a presence in the region will help navigate the challenges bound to arise when entering a new market.



Keep it simple and predictable:

When devising processes and policies, keep them as simple as possible. The tools that will be used and the processes that will be followed, need to be developed with an objective to reduce complexity. The harder it is to understand new processes or use new tools, the less efficient the implementation will be. Develop a consistent method to execute the Plan-Do-Check-Act (PDCA) cycle for all new initiatives. This will help local teams know what to expect when presented with new policies and procedures, and anticipate potential challenges that can be addressed early on in the cycle.



Develop KPIs that all stakeholders agree on to measure success:

All stakeholders should agree on KPIs that will help them measure the health of their program on an ongoing basis. Developing mechanisms that capture this data and present it to stakeholders in an accurate and consistent matter will help keep leaders engaged and supportive of initiatives you will be attempting to implement.



Conclusion

Increased supply chain costs and risks can jeopardize your emerging market supplier strategy. In such circumstances, the ability to better predict and identify threats through supplier prequalification and audits, while implementing effective supplier management strategies can help you gain that much-needed foothold in the emerging markets.

Avetta's world class supply chain risk management (SCRM) solutions can help companies successfully manage supply chain safety, resilience, and sustainability as they venture into new emerging economies. Avetta's global SCRM solution combines industry-leading professional services with highly adaptive cloud technology and local expertise to provide companies with objective, fact-based health and safety, procurement, and sustainability data on their suppliers. With Avetta, companies can gain a thorough understanding of emerging best practices to drive impactful supply chain innovation and risk mitigation initiatives. Such an understanding can address a range of challenges pertaining to the location of a company's supply chain.

[Click here](#) to learn how Avetta can help you fortify your emerging market supplier strategy.

References

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About Avetta

Avetta connects leading global organizations with more than 100,000 qualified suppliers, contractors, and vendors across 100+ countries. We support the sustainable growth of supply chains through our trusted contractor prequalification, supplier audits, insurance monitoring, robust analytics and more. With real results in helping companies reduce TRIR, our highly configurable solutions elevate safety and sustainability in workplaces around the world—helping workers get home to their families each night.