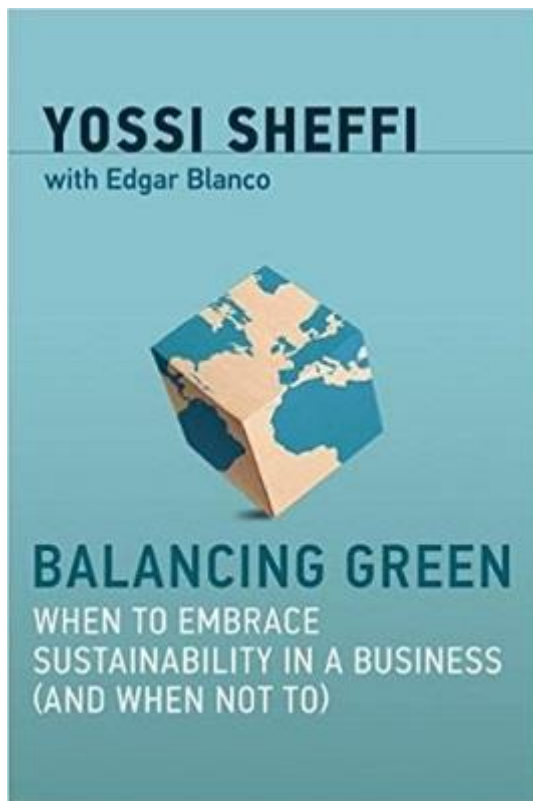


Balancing Green: A Q&A with Yossi Sheffi

In his new book, MIT's Sheffi argues that companies need to find the right balance between investments in sustainability and maintaining their competitive advantage

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By Bob Trebilcock · April 19, 2018

Balancing Green: When To Embrace Sustainability In A Business (And When Not To) was recently published by Yossi Sheffi.

In it Sheffi argues that while many companies are embracing sustainability in their marketing materials, going green is not always an easy or sensible business decision. As he wrote in a recent [LinkedIn blog](#):

“Companies are championing their environmental credentials in glossy reports, speeches and media interviews. At the same time, however, many will admit, off the record, either that they do not believe in the need for this effort, or more commonly, that current initiatives do not meet any reasonable cost benefit test even if global warming is real and the danger acute. ...All stakeholders need to recognize that even the most environmentally responsible companies must manage their supply chains to satisfy growing demand and provide employment opportunities. The real conflict is not ‘profits versus planet’ but ‘(some) people’ versus ‘(other) people.’ More specifically, people who believe in the importance of environmental stewardship vs. people who are looking for jobs and affordable goods.”

Sustainability is a hot button issue, and Sheffi's book is likely to spur debate. I learned this a few years ago, when I published an article that argued that in many ways sustainability has become [a luxury good](#) – great in concept, but often only affordable to the very well off. After all, there's a reason Whole Foods was sometimes referred to as Whole Paycheck.

While the article touched a nerve [with some readers](#), a follow up [survey we conducted of SCMR readers](#) found a mixed bag of activity and attitudes, ranging from companies that said sustainability was important to their image to respondents who told us they had more important things to worry about, like getting product out the door.

With that as backdrop, I had a conversation with Sheffi about the new book.

SCMR: From your perspective, what is the state of sustainability?

Sheffi: This book was five years in the making, and I had a chance to talk to a lot of executives. During my research, it became clear to me that in some sense, there's a lot more said than done. People are writing glorious sustainability reports but what's really getting done is relatively small. From my research, I realized that despite what everyone says, many companies don't want to do it, some don't believe in it, and while some companies believe there is global warming, they don't think they can do anything about it, or that technology will mitigate it later. The book is titled *Balancing Green* because senior executives have to worry about a lot of things – revenue, market share, risk management, sustainability and their reputations. The question is, how far one should go with sustainability? My take is that they may be right for going small.

SCMR: What are the reasons to embrace sustainability in some way?

Sheffi: There are four. The first is that if your customers and investors believe its important, then you have to do something. Otherwise your sales and market value go down. Second is that in some cases it reduces costs, such as energy costs. That's easy to justify internally. The third reason is that the culture may change. For example, we see that younger people are more environmentally aware than older folks. As they grow in purchasing power, they may buy from companies that are sustainable. And, of course, if you believe in global warming – or don't believe – you may face a reduction in the available resources. For those reasons, companies may want to hedge their bets. For example, Clorox started a small green business unit, which was like taking an option. If the market changes, they will know the chemistry and the suppliers and can move. At the same time, I don't like slogans like "it's people versus the planet." It's not people versus planet or people versus profit. It's people who believe in the need for environmental sustainability for future generations versus people who want jobs and can afford a lot of goods. In that sense, it mirrors the political climate. People are talking past one another. If you believe that jobs are important, you're a global warming denier. If you're an environmentalist, you want to get us back to the stone age. These slogans are not helpful.

SCMR: Since we're supply chain people, has sustainability been dumped in the laps of supply chain?

Sheffi: No. I would argue that sustainability is in fact a supply chain issue. Manufacturing, for instance, is very carbon intensive. To understand the

carbon footprint of an item, you have to look at the entire value chain. Supply chain people are the only ones who can deal with it in a way that makes a difference. You have to make sure that your suppliers are OK. You have to look at what happens at the end of life. For instance, it's not enough to make a hybrid automobile if the manufacturing of the battery is extremely energy intensive.

SCMR: A few years ago, I published a story that argues that sustainable products are often targeted at a buyer with discretionary income for luxury goods. Do you see sustainability as a luxury good?

Sheffi: The short answer is yes. The reason I don't recommend that companies go all out on sustainability is that it's expensive and according to all surveys, people say they want sustainable goods but they won't pay for them. If consumers won't pay, it's ridiculous to ask companies to lower margins and lose profits. Now, for some companies, it works. Think about Patagonia. They sell to people who care about the environment. The company is committed to sustainability throughout the supply chain. Supply chain has veto power over suppliers, for instance. They are very successful in their niche, but at the end of the day, they are a niche company. Natura is a Brazilian cosmetics company that works with the Amazonian community and has made sustainability part of its business model. They have 1-1/2 million sales people who go door to door and tell the story. And, by the way, they're not more expensive. Another example that everyone talks about is Unilever. They have embraced sustainability, but they have lagged the market. It demonstrates the difficulty in embracing sustainability.

SCMR: What do executives tell you?

Sheffi: Well, when an MIT professor comes to talk to you about sustainability, no red blooded executive will tell you that they don't believe a word of it. However, a top executive at a major company said, "if it cuts costs, we do it, and if it doesn't cut costs we won't do it." And, by the way, the sustainability people have to justify their salaries every year by cutting costs.

SCMR: Do large global companies have an advantage over the small-to-mid-size companies that can't leverage their investments in sustainability over multiple locations and geographies?

Sheffi: That's one way to look at it. Another way is that once they do it, they have a higher cost structure than their competitors who don't.

SCMR: Is the consumer demanding this?

Sheffi: On the consumer side, I think there's more said than done. I do think there is demand coming from business, the equity funds that invest in sustainability and there's always the concern that an NGO will start a campaign against your company. Part of that is that if you can press you're suppliers, it's easier than doing it yourself. And, if your suppliers are more sustainable, than your product becomes more sustainable. In order to make it easier for suppliers, its much better to work with industry associations. That way it's the same requirements than different requirements because it drives the suppliers nuts.

SCMR: What's your advice to organizations.

Sheffi: I talk to a lot of boards. I tell them don't do too much and increase your costs. And don't fight government regulations because those affect your competition too. At the end of the day, there's no reason not to do things that cut costs, and to do enough to fend off attacks by NGOs. And, like the Clorox example, do enough on the side and in a small way to understand the eco-system, the suppliers and your customers. If the market moves, you'll be ready.

About the Author



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