

A pragmatist's take on sustainability

By Susan Lacefield | From the [Quarter 2 2018](#) issue

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It can be hard to find a nuanced discussion of corporate sustainability. But Yossi Sheffi's new book aims to provide just that, offering a clear-eyed take on the challenges and benefits of going green.

Throughout his career, Massachusetts Institute of Technology (MIT) Professor Yossi Sheffi has researched and written books on a wide variety of supply chain topics, from resiliency to logistics clusters to urban transportation. "I guess I just get bored easily," he quips.

But none of those books gave him as much trouble to write as his most recent one, *Balancing Green: When to Embrace Sustainability in a Business (and When Not To)*.

Part of the reason may be that, unlike most people who write about the environment and sustainability, Sheffi does not consider himself a "tree hugger" ... but he wouldn't call himself a "climate change denier" either. Instead, he takes a pragmatic approach to sustainability, balancing corporations' responsibility to protect the environment against everything else a business has to accomplish—including making a profit, providing jobs, giving back to the community, and providing goods and services that people want at a price they are willing to pay.

The result is a book that aims to help companies decide what types of sustainability efforts make sense for them from a business standpoint and what efforts do not. To help provide this guidance, Sheffi and his fellow researchers at MIT conducted more than 250 interviews with executives from companies of all types—from giant multinationals like Siemens and Coca-Cola to smaller companies that consider environmentalism part of their corporate mission, like Dr. Bronner's Magic Soaps and Patagonia. The book presents three business rationales for sustainability: cutting costs, reducing risk, and achieving growth.

Sheffi recently took time to talk to *CSCMP's Supply Chain Quarterly* Executive Editor Susan Lacefield about the book.

NAME: Yossi Sheffi

TITLE: Elisha Gray II Professor of Engineering Systems at the Massachusetts Institute of Technology (MIT); Director of the Supply Chain Management Program; and Director of the MIT Center for Transportation and Logistics (MIT CTL)

EDUCATION: Bachelor of Science in civil engineering, Technion, Israel Institute of Technology; Master of Science and Ph.D in civil engineering, Massachusetts Institute of Technology (MIT)

EXPERIENCE: Founded the MIT's Master of Supply Chain Management degree and the online MITx MicroMasters in Supply Chain Management certificate program. Led the international expansion of MIT CTL by launching the Supply Chain and Logistics Excellence (SCALE) global network of academic centers of education and research. Consulted with governments and manufacturing, retail, and transportation enterprises all over the world. Founded or co-founded five successful companies: Princeton Transportation Consulting Group Inc., LogiCorp Inc., e-Chemicals Inc., Syncra Inc., and Logistics.com Inc.

RECOGNITIONS: CSCMP Distinguished Service Award and the Salzberg Medal and Award for "outstanding leadership and innovations in supply chain management" by the University of Syracuse, among others.

Q: What made this book so difficult to write?

In all my other books, I had to explain a phenomenon, talk about it, and give examples. In this book, I felt I had to tread a fine line between what makes sense from a sustainability/global warming point of view and what makes sense from the corporate point of view. I kept going back and forth.

I believe there must be a reasonable cost-benefit balance between what companies are expected to do and what their role in life is—and I'm not talking about profit versus planet. The punch line of the book is that it's *not* profit versus planet or people versus planet. It's really people versus people: people who are interested in environmental sustainability and social responsibility, and people who are interested in jobs and being able to afford stuff.

My point is that everybody is right. There is no right and wrong. That's where I diverge from the people who hold sustainability as a moral imperative. I'm not buying that. For me, it's a question of what makes sense, what are the costs, what are the dislocation costs, when does it make sense, where does it not make sense, what are companies doing, and what are companies not doing. That's where I'm coming from. That's why it was a little more difficult to write. You won't believe how many versions of the book I went through. It's well over 20. And I'm still not satisfied.

Q: When does it make sense for companies to invest in sustainability initiatives?

It makes sense for companies to do something, whether or not they believe [in climate change], for three reasons. One is to cut costs, especially in terms of energy. That's the first thing everyone does. Change the light bulbs. Put speed meters on trucks. Buy better insulation.

This is all fine. There's no reason not to do it.

The second reason is, it doesn't matter what you believe, if your customers believe that sustainability is important, you have to do something. Otherwise, you will be a target for Greenpeace and the media. You may lose sales and lose market value. So there is an element of risk management. You have to do a certain minimum so as not to be the guy who's being attacked.

The third reason is hedging. The world may be changing. Whether you believe [in climate change] or not, there are enough younger people who do and as they enter their spending years, the market may change. So you may want to hedge for that. There are examples of companies that hedge. Clorox started Green Works [a line of eco-friendly cleaning products] as a sideline business. It's small; at \$40 million, it's not a big deal for an \$8 billion company like Clorox. But it allows the parent company to better understand the [eco-friendly product] marketplace, the chemistry, and who the suppliers are in this space.

Q: What are some examples of when companies should not embrace sustainability?

When the cost of dislocation of people and jobs is too high. Look, everybody does the easy things like changing light bulbs, putting some solar panels on the roof, and buying some wind power when possible. It doesn't cost much, and sometimes it reduces costs. Fine.

But doing things that are really sustainable requires investment and carries higher costs. The question is, does it make sense? Sometimes it does, sometimes it does not. What I am calling for is a clear-eyed analysis of the cost of doing business. There are some companies that are committed to the cause, such as Seventh Generation, Dr. Bronner's, and Patagonia. They are founded by environmentalists and are selling to environmentalists. And they are doing fine, but they are small. It's hard to be Procter & Gamble or Unilever and do the same things these small companies do. It's just too costly.

Most companies are actually doing this [cost analysis]; most companies do not embark on sustainability projects that don't clear their [financial] hurdles. Their corporate marketing brochures may tout all the savings in terms of carbon and water and waste, but by and large, it's marginal, it's really quite small. Because doing something major requires a big investment.

Q: What are some of the best tools or methodologies for balancing sustainability against providing jobs and being profitable?

Basically, you have to do a benefit-cost analysis. Are the benefits of the sustainability program greater than the costs? When they conduct that analysis, some companies give a discount to programs that are environmentally sustainable. For instance, normally they would ask for a 12-percent return, but if it's environmentally sustainable, it needs to [produce] only a 10-percent return.

The benefit-cost analysis itself should be a comprehensive exercise that considers the impact on reputation, job dislocation, and whether or not doing something somewhere will create more problems somewhere else.

Q: What are some examples of big companies that have been able to take a balanced approach to sustainability?

There are big companies that care about sustainability to an extent, such as Unilever and Starbucks. Both are working very closely with their suppliers on sustainability. Starbucks works with its coffee suppliers and educates them on how to be both more sustainable and more productive. It teaches them how to cultivate their crops and how to prevent erosion when the crops are grown on mountainsides, and how to rotate their crops regularly. Unilever, which is the world's biggest supplier of tea, has a similar program with its tea growers. Because the programs focus on teaching growers how to be more productive, the cost savings from those efforts help them invest in sustainability efforts. This is one way that companies are able to have their cake and eat it too.

Q: What are some of the most difficult parts of setting up a sustainability program?

The classic one is recognizing that sustainability is a supply chain issue. Many companies are dedicated to sustainability within their own company. So, for example, all of Apple's own facilities are carbon-neutral. But that's nothing because Apple doesn't make anything. It's the factories that are the big energy consumers. So the question really is, "How do we make [Apple's contract manufacturer] Foxconn's facilities more sustainable?" And Apple is aware of this.

In many cases, sustainability doesn't mean much unless your suppliers and your suppliers' suppliers are sustainable. Companies have to realize that people are going to judge them not just on their own internal sustainability efforts but on their entire supply chain's sustainability.

You really need to conduct a lifecycle analysis along your product's entire supply chain, and that has to include how the end customer uses the product. It's not going to mean much, for example, if you are able to build cars using sustainable methods but the cars themselves are going to be polluting when the customer is using them. So the product lifecycle analysis has to look from the mine or the raw-material stage up to the point where the product is discarded, and it has to consider how it's being discarded. Are you just dumping it, or are you recycling? It's an entire supply chain issue.

There are more and more tools that enable people to do this type of detailed analysis, but they can be excruciatingly time-consuming. We have done some work at MIT that provides a short-cut analysis that can help companies identify relatively quickly the hot spots in their supply chain that they should pay more attention to—for instance, where in the supply chain they are using the most water or where they have the highest carbon footprint or the most waste. We detail three ways to do this in the book.

Q: What do you think it's going to take for more companies to make large investments in sustainability?

At the end of the day, nothing will change until we have a willing consumer. And right now, people like you and me like to order things from Amazon, where products are being shipped out as onesies or twosies with all the packaging that that involves. That's not sustainable. But who is going to give up buying online? That's a question I always ask my students: "Who's willing to pay more for sustainability?" Everybody raises their hands. Then I ask, "Who's willing to stop ordering online because it's not sustainable?" No one raises their hand. Until consumers are willing to give up some convenience, it's not going to happen, at least not in any scalable way.

Editor's note: This article originally appeared in the June 2018 issue of our sister publication, [*DC Velocity*](#).

Susan Lacey is Executive Editor of CSCMP's Supply Chain Quarterly.