Let's talk Sustainability

‘Sustainability’ is not an easy topic to discuss when most companies have a ‘profit first’ or ‘profit only’ mentality. In one of our Podcasts we cover the topic in detail with one of global thought leaders in Supply Chain:

“Companies need to provide profits, growth, employment, goods. They also have to take care of environmental and social issues. One has to realize that solving environmental issues are actually not up to the companies. Companies respond to what the customers want and when you do actual experiments in supermarkets and other places, you’ll find that only 5-10% of customers are willing to pay a little bit more for environmentally-friendly products. Until the market will change, companies cannot do much in ensuring sustainable practices. And if the market change, of course, companies will respond.”

– Professor Yossi Sheffi of MIT, Director of the MIT Center for Transportation and Logistics, highlighting issues that company executives face regarding sustainability practices.

Here’s the thing: Professor Sheffi is right. Companies are indeed under pressure from various stakeholders to meet their demands – including the demand for greener products. The issue raised here is that the intent to buy sustainable products do not translate to actual decision to purchase.

Research findings echo the statement – although 30% of UK consumers are concerned about environmental issues, they don’t purchase products that are environmentally friendly (Defra, 2006). A study in Sweden also found that although 46-67% of consumers have favorable attitudes towards organic food, only 4–10% of these consumers purchase them (Magnusson et al., 2001).

This is a major issue considering that the fuel that drives companies is profit. With conditions being as they are, comes the next question:

Should you even bother with environmental sustainability practices?

Here’s the thing: You have to.

Most countries now have regulations in place to ensure that companies are generating profit without resorting to business practices that are hazardous to the environment.

In our podcast, Professor Sheffi also mentioned additional reasons why companies should become eco-friendly: “The first is cost reduction. The poster child for this is cutting energy which leads to a win-win situation, where you reduce carbon footprint and you reduce cost. The second reason is to manage risks by making sure that your company is not an outlier by doing nothing. You don’t want your company to be the subject of an attack by an NGO, which would catch media attention and lead to reduced sales and market value. The final reason is to invest in possible growth by catering to the Millenials, who evidence has shown are more attuned to environmental concerns. An example of this is Clorox who made a line of environmentally sustainable product called Green Works. Thus, if the market changes in the future, the company is well-positioned in the market.”

Cost reduction is the golden ticket that many companies prefer to gain by adopting a sustainability position. However, a study done by Boston Consulting Group to gauge the benefits of addressing sustainability issues shows found that though cost reduction is the second most cited advantage, only 10% of the study’s participant experience it in their company.

The benefit that is most felt by nearly 40% of the study participant is actually the one addressed by the second reason: By choosing to pursue sustainability initiatives, their company or brand image has improved in the eyes of consumers which in turn creates greater customer loyalty and satisfaction.

Let’s say you’re now keener to make your company more sustainable – what about your business goals?

“Sustainable Practice & Business Goals” or (Sustainable Practice + Business Goals)?

Most of the time, businesses talk about sustainable practices as an entirely separate entity from business success metrics. This is the wrong way to handle them – instead of treating them separately, consider integrating the two to create more value for your company.

A report by Bain & Company found that companies who realize that is the best approach to take are generating more profit then their market competition. An example of this is Toyota with its Toyota Prius, which holds the record for the world’s best-selling hybrid car until now. Another notable example is Timberlands who creates an environmentally friendly image by using cotton that is produced in a sustainable manner in over 80% of their products by 2018. These companies clearly made some changes in order to achieve the desired outcome.

What changes should I expect to happen?

Factoring in the changes that may occur in your business processes, be it intentionally or unintentionally, is a very important component in ensuring that both your sustainability and business goals are achieved. Walmart is one of the companies that experienced these changes, where the company created a sustainability initiative by requiring their fish suppliers to adhere to certain standards – however, Greenpeace lambasted the initiative for not doing enough and the fish suppliers and state government officials criticized the program for being too strict.

Professor Sheffi summarized this issue in our interview: “In this particular case, which is an example of, you know, the no-win situation that companies are facing, Walmart reduce the sustainability standards in response to the Alaskan fisherman. The argument that Walmart had is that the fishermen are still going to sell their fish. The question is, are they going to sell it through Walmart with some environmental restrictions or sell it on the open market with no environmental restriction. So, Walmart decided to reduce their stringent requirements.”

In this case, the supply chain process is impacted by the sustainability practice that Walmart chose to implement. This is not an uncommon situation – supply chain operation is one of the main business processes that undergo changes due to sustainability initiatives, as found through a global survey by McKinsey & Co. in 2011.

Put the right person to handle it

The right person is needed to manage this type of situation and this responsibility often falls into the hands of the Chief Supply Chain Officer. In this regard, Professor Sheffi mentions several characteristics that are essential for a supply chain leader to have: “First of all, they have to be good managers and good with people – they understand people and how to motivate them – things considered as standards for excellent managers. They also need to understand new technology and what can be done from them. The beauty of it is that it can be done by joining online courses. Just understand the technology, what it can offer, what it cannot offer. You don’t always need your IT people or a consultant – just try to understand what an AI is and is not, what a blockchain is and is not 3D printers – what it can and cannot do, and in what timeframe, or when will autonomous vehicles become an issue. Just be present to observe the trend or have people around you who can watch it. I don’t think that people need to become technocrats or only come from a computer science background in order to be a successful chief supply chain officer because it is still about people, process, management, and business more than anything else. Technology is one aspect of it and it’s always changing for sure. But then again, everything is changing.”

Want to get more insights from supply chain leaders like Professor Sheffi? Check out our podcast: http://radupalamariu.com/17-dr-yossi-sheffi-director-mit-center-transportation-logistics/