The Green Pendulum Swings Again

By Yossi Sheffi

Editor's note: Yossi Sheffi is the author of "Balancing Green: When to Embrace Sustainability in Business (and When Not To)." Published in April 2018, the book was the result of five years spent interviewing hundreds of executives in industry, government and nongovernmental organizations (NGOs). In the text, Sheffi argued that business should take the lead with sustainability because many governments are paralyzed by discord. Further, he believed that industry was the source of most environmental impact and therefore could and should lead the way in addressing its consequences. Now, he provides an update to the topic – and an interesting shift in perspective.

The Green Pendulum Swings Again

Since writing my book, I have realized two things: First, business is not taking the lead with sustainability; and second, it actually should not do so. To understand this viewpoint, one must think about the role industry plays in society. Vast supply chains span the globe to deliver goods and services to humanity. Through new information and communication technologies, companies have lowered their costs and vastly enhanced their service levels so that more people can afford and enjoy more goods whenever and wherever they desire. These advances have enabled new business models — such as electronic commerce and omnichannel experiences — and allowed swift delivery of products at affordable prices.

Three of the most revealing results of the research that led to my book were as follows:

- Companies cannot control most of their emissions, even if they want to.
- Most consumers are unwilling to pay more or incur slight inconveniences in the name of sustainability.
- Jobs and economic development are more important than sustainability.

IT'S OUTSIDE THE FOUR WALLS

Most organizations' environmental footprints do not stem from their own operations. Instead, they come from the upstream supply chain (the deep-tiered network of suppliers, sub-suppliers, sub-sub-suppliers and so on) or downstream when consumers use and discard the product (exhaust emissions from automobiles; electricity-related emissions from consumer tech; or heating water for using laundry detergents, shampoos and soaps). The upstream and downstream components are important to remember as one judges corporate claims of environmental achievements.

Every product is based on a bill of material that specifies product components, sub-components and sub-sub-components. While supply chain professionals know their tier 1 suppliers, they are often in the dark about tiers 2, 3 and beyond. Furthermore, even if a manufacturer identifies a sub-supplier buried deep in its supply chain, it has little or no leverage to convince or pressure that business to become more sustainable.

The issue with use-phase environmental impact can be even more difficult. In addition to designing products for efficient downstream use, companies may have to influence and educate consumers on the benefits and efficacy of new, environmentally responsible products and how to use them in a sustainable fashion. For example, according to Unilever, dry shampoo absorbs excess oil from the hair and scalp and can replace a wet wash 60 percent of the time. However, with dry shampoo accounting for only 3 percent of the global market of shampoo sales, consumers have made it clear that they do not believe the product has the same efficacy, value or appeal and do not find its inherent sustainability a compelling reason to buy it. A marketing campaign on why a product's sustainability is important could be costly — and isn't guaranteed to work.

> Most companies comply with regulations. But that's the law, not true leadership.

It's no wonder, then, that organizations instead choose to focus on their own operations. In glossy brochures and triumphant press releases, Apple, Cisco and Microsoft report on the eco-consciousness of their server farms and offices, ignoring the vast emissions associated with making the products they sell. McDonald's is working to scrap the use of plastic straws in its restaurants, but it keeps serving beef, despite the fact that cattle is responsible for about 10 percent of all global greenhouse gas emissions — mainly via methane, which is 28 times more potent than carbon dioxide in its impact on global warming.

SAY VERSUS PAY

Consumers make frequent claims that they want more sustainable products and are willing to pay for them. But retail data shows very few actually do. "Green marketers have known this for a long time," George Mason University Professor Gregory Unruh recently told Forbes. "Consumers will consistently tell surveys that they are willing to pay more for socially and environmentally superior products. But when they are alone in the shopping aisle and it's just them and their wallets, they rarely fork out more for 'green.'"

A 2014 study by the European Food Information Council produced a similar result: "Although consumers understand sustainability, this understanding does not yet translate into changes in food choices." And ongoing research by the MIT Center for Transportation and Logistics further confirms this. In the study, consumers were simply observed while making buying choices between clearly marked sustainable products and regular ones in several supermarkets. Early results from several hundred observations show that only 5% of consumers go green – and this is in Massachusetts, one of the most progressive states in America.

The situation is even more alarming because, for the vast majority of consumers in developing markets, sustainable products are a luxury. In other words, in the effort to attain the standard of living of Western consumers – air conditioning, concrete buildings and automobiles – no amount of sustainability initiatives will bring a reduction in the growth rate of carbon emissions.

WHAT CAN BUSINESS DO?

Most companies comply with regulations. But that's the law, not true leadership. What organizations must do is based on eco-efficiency, eco-risk management and eco-hedging:

- Eco-efficiency: The easiest business case for sustainability involves initiatives that are aligned with corporate profit goals. The most common is cost savings through the reduction of energy and raw material consumption. In 2006, Staples changed the control software in its delivery trucks to limit their top speed to 60 miles per hour. Company leaders report that the change immediately paid for itself in $3 million of fuel savings annually. Driver productivity didn't even drop because the time lost to slower speeds was offset by fewer fuel stops.
- Eco-risk management: These initiatives explicitly aim to reduce the likelihood and magnitude of business disruptions caused by environmental issues, such as negative media coverage and consumer boycotts. Brand-sensitive organizations know that investing in eco-risk management means that NGOs will be less likely to target them as environmental underperformers. Additionally, NGO and media performance scorecards give rated companies an indication of their risk relative to peers, helping them avoid being the "nail that sticks out," which gets hammered by both consumers and competitors.
- Eco-hedging: Here, strategies focus on experimentation with green products. Even though mainstream consumers are not buying in volume, millennials do seem to be more willing to pay for sustainable products. Of course, survey responses do not sales make. Until retailers' sales data corroborates environmentalists' survey data, companies may be reluctant to invest in large-scale change or incur higher operating costs for environmentally sustainable products. Still, some are hedging their bets in the face of uncertain shifts in future regulations and consumer behavior. This enables them to learn about technology, supplier ecosystems, distribution channels and the green consumer market. In that sense, such eco-hedging efforts help ensure the business is not caught unprepared if and when regulations or consumer preferences shift.

Given the difficulties supply chains face in reducing environmental impacts, the reluctance of consumers to pay for green products, and governments' preference for jobs and economic development both in the developed and certainly the developing worlds, companies cannot make significant investments and increase costs in the name of sustainability. Yet, NGOs, environmental activists, investors and most of the Western media are exerting pressure on supply chains to lead in sustainability efforts. This is particularly true in the face of the inability of government to provide significant market-based solutions, such as carbon taxation or meaningful regulations.

Companies, governments and consumers are all talking a good game. They make feel-good pronouncements, set goals and take incremental actions within their own frameworks – but none of this truly moves the needle. Unfortunately, until consumers are willing to pay more through mechanisms such as taxes that align environmental goals with economics, the situation is unlikely to improve. In the meantime, look to eco-efficiency, eco-risk management and eco-hedging to set your supply chain on the path toward aligning economic and environmental objectives.

Yossi Sheffi is the Elisha Gray II Professor of Engineering Systems at MIT and the director of the MIT Center for Transportation and Logistics. He may be contacted at sheffi@mit.edu.