What next for the sustainable supply chain?

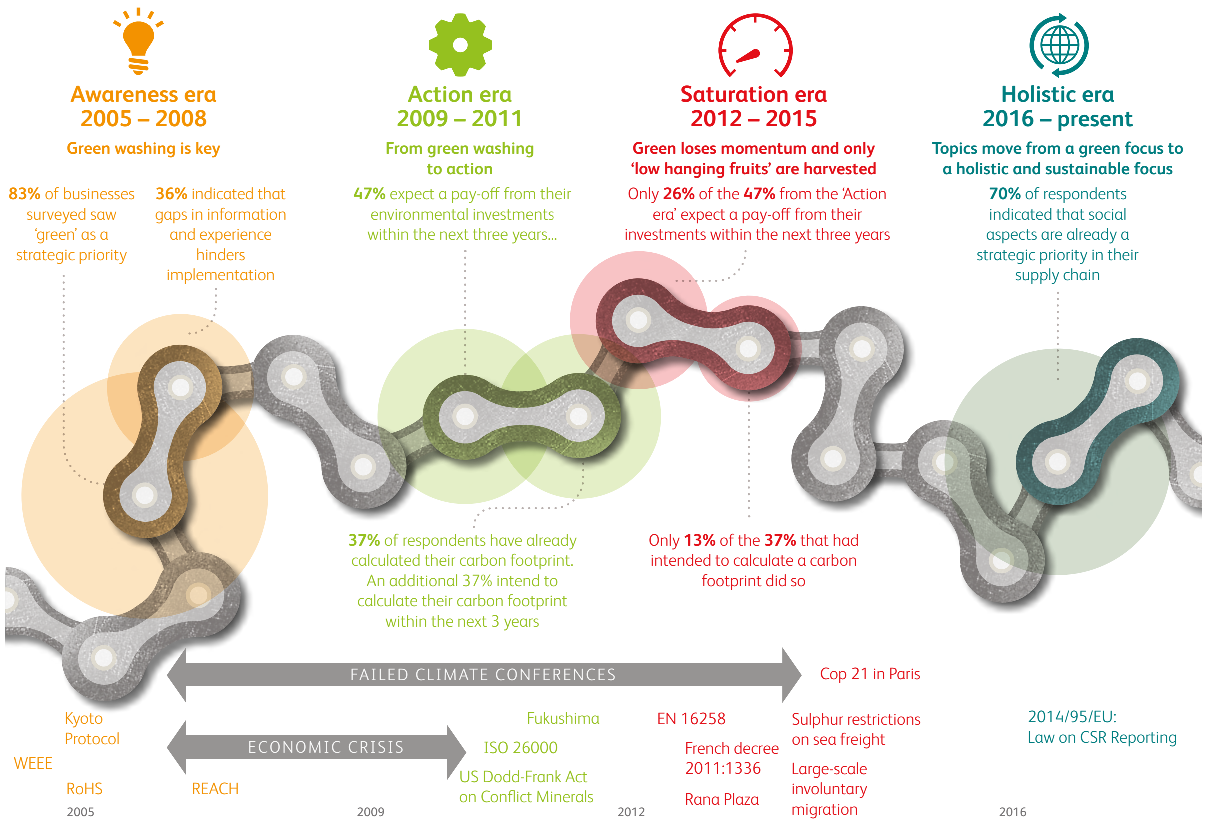
Companies are embracing a deeper commitment to sustainability, moving from an ad hoc to holistic approach by combining green and social initiatives

IN 30 SECONDS

- A major new study by BearingPoint reveals the strengthening nexus between strategic business interests and sustainable supply chains
- The days of paying lip service to 'greening' the supply chain are fast coming to a close. This is on account of a growing political impetus to curb emissions in the wake of a high-profile corporate scandal, a freshly minted global agreement on climate change, and the power of social media to make or break brands
- A new fourth era is dawning, marked by more and more organisations acknowledging the business case for sustainability behaviours / strategies

A history: the business of 'greening' the supply chain

How have companies been rethinking their approach to sustainable supply chain management against increased regulations?



Source: Supply Chain Monitor 2015: From Green to Sustainable Supply Chain Management, BearingPoint 2015-2016: http://bit.ly/2aYXd6w

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Shortly before the close of 2015, delegates from 196 governments converged upon Paris and pledged to reduce carbon emissions and curb global warming in a historic climate-change agreement. Crucially, the world's top two emitters, United States and China, have ratified the agreement, which would have been unthinkable just a few years ago.

Whilst opinions divide among onlookers on the workability of the deal, in the business sphere the sense of a hardening global resolve[1] around sustainability runs deep.[2] Brands that remained silent or wobbly on global environmental and social issues got their latest reality check; and brands already focused on sustainability got further evidence they are moving with the wind at their back.

Indeed, a major international study by BearingPoint into the evolution of the sustainable supply chain confirms that a new wave of change is coming.[3]

Previous BearingPoint studies chart an 'awareness' phase characterising the first era, a ramping up of corporate action in the second era, followed by the lost momentum of recent years where green initiatives crawled to a standstill (see infographic). Since then, our research indicates a fourth era is emergent, distinguished by a more holistic and sustainable focus. In this new phase, standout brands - dubbed 'holistic companies' - are not hanging back for the next raft of regulations. They are preparing and taking next-level action now, whilst moving deeper into the social domain.

> 'The latest SCM Monitor results confirm that it is time to acknowledge that green operations/ production yield measurable financial improvements beyond the brand image. Green supply chain management needs to be at the core of the business' – KATHARINA TOMOFF, VICE PRESIDENT OF SHARED VALUE, GOGREEN, DHL

Better still, they have the metrics to demonstrate their progress.

One implication is that companies renouncing this opportunity will, at best, miss out on seizing critical value-creating levers for their supply chain. At worst, they will expose themselves to grave reputational and regulatory risks that will negatively impact their bottom line and market share. This paper delves into these issues by firstly examining the main features of the fourth era, taking a capsule look at the American and European context and, secondly, offering businesses some preliminary steps on how to properly align with this changing landscape.

America finds an opening: businesses up the ante

BearingPoint research findings reveal a growing maturity in organisations' approaches to carbon reduction - compared to 2008 and 2011 when we published similar studies.

Over half the companies surveyed (in the US and Europe) have prioritised the green supply chain as a strategically important issue.

Strikingly, the US is showing signs of catching up quickly, having long trailed Europe on carbon reduction. As an example, within the next one to three years, American companies will outstrip their European counterparts in terms of making the green agenda a priority, 21% versus 6%.[3]

More public signs of heightened US environmental consciousness are also evident. The automotive emissions scandal (involving companies such as VW, Renault, Mitsubishi and Opel) was first uncovered in the US, and is continuing to have a ripple effect where tough measures are now being administered.[4] Meanwhile, Wal-Mart – an all-American household name – has snatched the limelight in the drive to promote green credentials as a differentiator to its customers.[5] That a discount retailer would lead the way in stocking 'greener' products, along with instituting strict codes of conduct and scorecards for suppliers, would have been unthinkable even just a few years ago. But today such stories are becoming part of the everyday.

The evidence, running from the anecdotal to the statistical, suggests a notable swing towards US companies taking a longer-term strategic view of sustainability.

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Europe raises its game: embracing social sustainability

European companies have made serious inroads into reducing their carbon footprint in recent years. Our studies show a shift has occurred from simple cost-reduction and operational efficiency undertakings to projects that strive for more sustainable and long-term improvements.[6]

For example, we found those at the vanguard are more likely to have dedicated sustainability or corporate social responsibility (CSR) departments[7] - teams that provide proactive input into business decision-making. They are also applying pressure on suppliers.[8] On the rise are supplier audits and scorecards, and as many as a third of European companies claim to have altered their supplier portfolio as part of their commitment to environmentally sustainable purchasing. Next moves include capturing and reporting more data,[9] and extending carbon reduction measures across broader operations.

Crucially, these companies are also broadening their sustainability programmes to encompass social measures relating to human rights, labour practices and ‘decent work’, as well as

FOSSIL FUEL DIVESTMENT

The fossil fuel divestment campaign is a global movement that seeks to pressure institutions (pension funds, universities, and charities, to name a few) to pull their money out of oil, coal and gas companies.

Their case rests on two main arguments.[10] First, the moral dimension. When fossil fuels are burned, they emit the carbon dioxide that causes global warming. Campaigners say if countries are to reach their target of limiting the global surface temperature to two degrees Celsius above pre-industrial levels, then roughly 70% of fossil fuels will need to remain in the ground. In other words, the existing fossil fuel reserves already exceed the amount we can safely burn.[11] Yet fossil fuel companies continue, unabated, to prospect for new sources, fully confident that the targets will not be met. Meanwhile, the world moves closer to environmental catastrophe.

The second dimension is financial. A growing chorus of investors are warning of a **carbon bubble**: the notion that oil, coal and gas reserves of fossil fuel companies are overvalued – to the tune of trillions of dollars - because the true costs of carbon dioxide in accelerating climate change are not factored into the stock market valuation.[12] If international climate change accords were fulfilled, these investments would be rendered worthless. The concern is that this would trigger a financial crash.[13]

Fossil fuel divestment ranks as the fastest-growing divestment campaign in history, outpacing previous campaigns against tobacco and apartheid in South Africa. Under the sway of these arguments, the Norwegian Sovereign Wealth Fund has ceased investing in fossil fuels. As has the Rockefeller Brothers Fund – a family name made famous for making much of its fortune in fossil fuels: ‘As we take the steps to divest from coal and tar sands investments, we are also undertaking a comprehensive analysis of our exposure to any remaining fossil fuel investments’.[14]

Many OECD countries have signed agreements to coordinate the switch away from fossil fuels; and many European banks are reducing their lending or blacklisting energy companies altogether.[15] Faced with the one-two punch of reputational and regulatory risk, interest from organisations and investors alike is fraying in the once sure bet of hydrocarbon energy sources.

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society and product responsibility.[16] This was driven, in part, by anticipated tighter regulations around working conditions and rates of pay. As US brands and supply chain partners play catch-up with carbon measures, their European peers are forging ahead with greater social investment,[17] such as in improved health and safety as well as in employee pay and conditions.

'Corporate sustainability will become a survival strategy. Carbon emissions, but also water and land use and resource management, are progressively becoming an integral part in corporate analysis and financial reporting. We are just at the beginning, but each step - such as scrutinising your supply chain - is a step in the right direction of corporate responsibility' – MICHAEL SAHM, MANAGING DIRECTOR, FOREST CARBON GROUP

'Holistic companies': green credentials and a social sensibility

After the inertia of recent times, with the global financial crisis and failed climate conferences thwarting progress, change is afoot. The emissions scandal that engulfed the automotive industry has galvanised the public's interest in corporate environmental behaviour, consequently revitalising green considerations in supply chain management.[18] Similarly, the UN climate conference in Paris in 2015 has put environmental standards and regulatory initiatives squarely back on the map. Widely acknowledged as a watershed, the consensus to place caps on emissions to keep global warming 'well below' 2 degrees Celsius[11] sent a clear signal that national leaders are prepared to act on global concerns about the environment. An EU directive forcing companies to report on sustainability KPIs from December 2016 onwards[19] heralds this new trend.

Perhaps more significantly, business communities are themselves calling for greater action on decarbonisation. In the wake of the Paris Agreement, 110 global companies closed ranks by signing a letter endorsing the deal – including the likes of Adidas Group, Johnson & Johnson, Philips, Hilton Worldwide Holdings Inc., and HP Inc.[20] Another powerful example is the Carbon Pricing Leadership Coalition. The Coalition's goal is to broaden the use of sound carbon pricing policies, policies that can create jobs, boost innovation, maintain business competitiveness, and deliver meaningful reductions in emissions. This expression of support for carbon pricing by 74 countries and over 1,000 companies helped create a groundswell of support for carbon pricing at the UN Climate Summit.[21]

Yet despite coalescing support for comprehensive global standards, the rule-making is still very much in flux. The big plus-point for companies here is the opportunity to assume a leadership role. Much of this stems from risk mitigation: no firm wants to be junked for poor performance when rules are eventually imposed. And imposed they will be, for this is a matter of 'when' not 'if' given the viral nature of the internet coupled with surging traffic across public and consumer domains. The timing of this looming

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tipping point is critical and something all companies must sensitise themselves to and plan for. Astute companies, at this juncture, are stepping into the breach. They are taking proactive steps both internally and along their supply chain[22] as they look to shape the broader conversation on green issues.

These threads unite as we enter a new holistic era where social practice is coming to the fore. Increasingly, the risks associated with carbon emissions (see box-out) and green topics are becoming tethered to social topics. For example, according to the World Economic Forum's *The Global Risks Report 2016*, climate change ranks as the number one global risk and has for several years now. Large-scale involuntary migration of displaced people also climbed into the top five risks. Together, as the report describes, when these risks interact it may give rise to a set of cascading risks.[23]

What does this mean for businesses?

Sustainability will be the only way businesses can grow in the future. Even today, we believe 'holistic' companies pressing ahead on sustainability will have a clear market advantage. While policymakers race to keep up, 'holistic' companies are making strides aligning with external demands on green and social action. By doing so, besides being well-prepared for looming compliance hurdles, these early adopters are poised to disrupt industry and steal market share.

> 'Sustainability is firmly anchored in our system of values. One of the concrete environmental protection goals is the use of state-of-the-art eco-friendly technologies wherever this is economically viable. A further proactive contribution to environmental protection are the regular in-house training courses offered to our staff on safety and environmental issues' – LARS BOSTELMANN, DEPARTMENT HEAD OF MERGERS, INTEGRATION & PROJECTS, GLOBAL NETWORK SERVICES, DACHSER

The thinking here is to approach business sustainability not in an ad hoc fashion. But rather to approach it in a holistic and strategic way, as much to capture greater value as to 'capture' the sustainability debate in the marketplace.

How to position your business in the 'Fourth Era'

At no point in recent history has the need to manage this new environmental and social landscape been so urgent. Our research suggests companies in the coming years will either be busy embedding sustainability into their supply chain strategy or busy losing the battle in the marketplace.

How can companies do more?

For companies striving to be 'fourth era' compliant, the trade-off between their short-term financial objectives and long-term sustainability requirements calls for a new strategic balancing and/or alignment.

Latest studies, to be sure, see a marked correlation between a company's reputation on sustainability and revenue.[24] This correlation works both ways – a favourable standing on sustainability may boost revenues whereas a tarnished reputation harms revenue streams and burns company value, as currently evidenced with the emissions scandal in the automotive sector.

From our research, being holistic means a broadened scope. It means developing a strategy to build reinforcing short-term paybacks on the road to capturing longer-term value from sustainability. It means that to limit 'green' and 'social' actions to a company's own operations would be short-sighted. To conform to 'fourth era' trends, then, companies should address up- and down-stream partners so as to minimise risks.

To give you the edge, we offer some ideas to make your supply chain more sustainable:

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RECOMMENDATIONS

To begin with, use a materiality assessment[3] to understand your internal and external stakeholders and their goals. This exercise is designed to define the social and environmental topics that matter most to your business and your stakeholders, which should inform your sustainability reporting and communication strategies.

Then, consider the following:

- Integrate and include Scope III emissions data,[25] in the knowledge that rating agencies and legal requirements for sustainability reporting will apply pressure on each party to satisfy questions about up- or downstream suppliers.
- Automate carbon footprint calculations to ensure companies can address the increasing demands of different parties. Requests may vary in the way they are ordered, and require different levels of granularity, so a single report cannot be relied upon to fulfil all needs. In the future, companies may need to answer questions on demand too, rather than filing a static report periodically.
- Join official programs such as LEAN and GREEN by GS1 or Green Freight Europe to structure and report energy and CO2 reductions in a formalised manner.
- Move from initial lighthouse projects to continuous improvement programs for energy and carbon efficiency.
- Rethink your company’s stance on off-setting programs. Climate change is a global problem and with COP21 off-setting programmes are officially strengthened. So why not join the voluntary markets to make green investments where they are most efficient? For example, with a one euro investment in China or other emerging country, the reduction in emissions is likely to be more significant than were it invested in European operations, due to their relatively confined and immature green tech.
- Bring ‘green’ goals and plans down to a functional level so they are incorporated into everyday behaviour. For example, today, procurement departments are still largely basing procurement decisions on monetary/quality factors, despite environmental sustainability being a board-level priority. Do not underestimate employees’ desires to support green efforts, if empowered to back campaigns and make positive choices.
- Consider the risks of the carbon bubble and divesting in fossil energies (see box-out).
- Join sustainable supplier rating platforms to mutualise costs, share good practices and reduce the need to handle repeated requests.
- Reduce your supply-chain risks by assessing your suppliers with scorecards on sustainability.
- Check the relevance of ISO 26000 and guidelines of the Global Reporting Initiative, in addition to EU 2014/95 to help you tackle the increasingly important social aspects in your supply chain.
- Use the options of a digital supply chain for holistic/sustainable decision support. Nowadays software applications/platforms and big data allow for multi-dimensional planning and accounting of costs, CO2, risks and lead times. In addition, they now enable traceability all along the supply chain / life cycle.
- Integrated reporting: consider joining your normal annual report with a sustainability report so as to enable a holistic view of the environmental, social and economic issues facing your business.

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KEY TAKEAWAYS

- After green efforts in supply-chain management plateaued in the ‘third era’, there are signs of growing momentum behind sustainable activities in global supply chain management
- BearingPoint research highlights that organisations are adopting a more proactive stance to raise their green performance
- American firms are catching up with their European counterparts in making their supply chain more sustainable, motivated by rising investor and consumer demands
- European brands and logistics companies are continuing to broaden their sustainability program to encompass social measures
- Even huge brands like Wal-Mart are strategically positioning themselves to take advantage of a deepening environmental consciousness within consumer markets
- Harvesting the insights gleaned from data will become increasingly critical to corporations intent on remaining competitive
- Digital supply chains enabled by IoT and big data opens up a new window of opportunity for sustainability. As an example, transparency along the supply chain / life-cycle is increasing such that it can even trace single product lines. This offers a powerful lens on the business and a potential resource to leverage for branding purposes

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