

The Sustainable Supply Chain

The best companies view sustainability not only as a chance to contribute to social goals, but also as a powerful source of competitive advantage.

By Daniel Mahler



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Sustainability and corporate stewardship are a social ideal and a business necessity. The former tension between efficiency and sustainability has vanished. In fact, being sustainable is now a source of competitive advantage and a matter of corporate survival rather than a costly inconvenience. Many CEOs and marketers embrace sustainability as a top-line priority. Yet the dream of doing good works and making a good profit will go unfulfilled unless orderly supply chains literally and sustainably “deliver the goods.”

Sustainability in Action

To assess corporate sustainability practices, A.T. Kearney and the Institute for Supply Management (ISM) surveyed a diverse group of Fortune 100 firms across several industries—including consumer goods, pharmaceuticals, electronics, and airlines—with revenues from \$1 billion to \$70 billion. We sought to discover how these companies promote sustainable practices according to three core values:

- Economic development. Promoting profits, creating jobs, attracting customers, reducing costs, anticipating and managing long-term risks, and fostering long-term competitiveness.
- Environmental stewardship. Conserving energy and resources, consuming more renewable and less-polluting energy, increasing recycling, minimizing packaging and reducing the firm's “carbon footprint”
- Social well-being. Improving labor standards and conditions, enhancing communities and creat-

ing and delivering socially responsible products and services.

Our study reveals that almost 60 percent of firms have adopted sustainable practices to strengthen brand names or differentiate their products.

Now it is time for “wave-two” sustainability: for companies to move beyond saying the right words to truly making sustainability happen. Our study reveals that achieving genuine sustainability results from making supply chains more sustainable. Since typically 50 percent of a product's value (and often upwards of 70 percent) is derived from suppliers, claims of corporate sustainability are likely just empty promises without this effort. Companies and consumers realize that customers do not just buy products; they also buy the supply chains that deliver the products.

Our survey suggests that for many firms wave-two sustainability has started, with a growing number of companies putting in place specific, comprehensive sustainability strategies for internal operations and external relationships. Rather than offering only general statements of good corporate citizenship, these companies have improved their supply departments with updated sustainability measures and practices, evaluating suppliers and their supply-management organizations across multiple dimensions of sustainability.

Key Characteristics of Sustainability

Traditionally, supply managers sought to provide necessary inputs at the lowest market prices. However, as executives and consumers move to distinguish market prices from social costs—that is, market price plus externalities and social consequences—supply is redefining and expanding its role by managing both internal and external costs. Supply managers can fos-

ter sustainability by ensuring that suppliers incorporate sustainable innovations in operations and processes. They can investigate new processes and technologies that reduce dependency on scarce and potentially expensive resources. Managing the supply chain then becomes the catalyst for triggering corporate behavior that is truly green and socially responsible.

The flowing activities represent key characteristics of sustainable supply management.

Devising a sustainable strategy. A.T. Kearney's survey reveals that already 36 percent of firms have a formal sustainability strategy for managing supply chains. Such a strategy defines the values a company wants to emphasize, declares how it will enforce those values, and identifies consequences when suppliers or employees do not meet the guidelines. Deep principles inform the firm's purposes and values, which shape corporate behaviors and guidelines for engaging suppliers. By making these values, principles, and guidelines explicit, a company

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improves its accountability and performance.

Retooling the organization. More than one-half of companies evaluate supply management executives against some sustainability standards. As firms increase the role of sustainability in their supply management practices, they must draft specific guidelines and procedures, create training programs, and introduce sourcing tools that equip buyers to support sustainability goals. Currently, 54 percent of firms provide written sustainability guidelines to supply management staff. About 40 percent provide training on sustainability management. Twelve percent of companies offer public awards or recognition for supply management staff or for staffers meeting sustainability goals.

Managing supplier relations. Currently, 48 percent of firms reward suppliers with good sustainability practices or jointly improve processes with suppliers that do not. About 44 percent of firms measure the sustainability performance of major suppliers, and 24 percent require a third party to certify suppliers' sustainability practices.

In the next year, we expect profound changes in how companies manage their supply chains. Supply managers, responding to corporate and social pressures, will feel compelled to innovate and implement sustainability programs quickly. We expect huge and rapid increases in the numbers of firms that participate in joint programs with suppliers to improve sustainability processes, track sustainability metrics and require third-party certifications of suppliers' practices. Perhaps most telling is the growing number of firms that will avoid suppliers that fail to meet formal sustainability requirements.

Guidelines Going Forward

Creating sustainable supply chains are as much matters of corporate survival as of environmental care and social responsibility. The following offers some guidelines on how to begin:

Survey the strategic context. To derive the strategic focus of a supply management unit, companies must first identify and understand their economic, environmental, and social priorities. What supply chain priorities follow from specific corporate goals: Resource efficiency? Energy consumption? Reducing carbon footprints? Best-in-class social behavior by the suppliers? Ensuring access to likely scarce input materials? All of the above? Setting a foundation for supply managers to implement best practices requires developing a documented and aligned sustainability strategy.

Understand risks and opportunities. What opportunities exist to limit the exposure of supply chains to social and environmental risks and to future supply-demand imbalances?

Will the opportunities affect suppliers' operations, purchased inputs, internal operations, commodity production, commodities, packaging, distribution, or logistics? In which sourcing categories do we need to prepare for major supply-demand imbalances down the road? Evaluate the risks and implications of the eco-footprint left by global suppliers and low-cost sources. Are there exploitable opportunities for the supply chain to help the firm meet existing market demand in new ways or to create and meet new demand? Which business partner reliably offers access to innovations that foster sustainability?

Get ready. Are current management strategies adequate? Are appropriate processes in place for evaluating how suppliers and internal operations meet evolving customer needs or for incorporating innovative solutions to current or future issues? Is the right organizational structure in place? Does the firm need to hire dedicated staff or embed skills in the existing organization? Should targets, incentives, and internal measurements change? How do other companies do this?

Set priorities. Set formal priorities for implementing plans based on "ease of implementation" (internal costs, time, and resources) and expected value (expected revenue, savings, increased efficiency, reduced liabilities). Set visible, measurable targets.

Go. Ensure that appropriate incentives, supporting processes, and resources are in place to implement the plan. Monitor progress against specific goals and measures. Determine necessary adjustments.

The best companies view sustainability not only as a chance to contribute to social goals, but also as a powerful source of competitive advantage. Improving sustainability allows them to cut costs, create new products and demands, avoid long-term ills and give their firms an edge over less-sustainable companies. To move from a superficial gloss to a profound commitment, companies need to incorporate socially responsible values into their supply chains. Only then will sustainability truly take root.