



Sustainable Supply Chains

Analysis of the findings of Ti's environment and ethics in logistics survey.



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Although modern supply chain management concepts have been fundamental to economic development, they have also been criticised for their impact on the environment. It is well established in supply chain theory that the extra cost created by the greater number of just-in-time delivery journeys, and the use of smaller, less efficient vehicles, is more than offset by the reduced costs in inventory holding. However, critics believe that this trade-off only works as external costs to the environment are not fully passed on to the consumer. These include the social costs of higher levels of pollution and noise, as well as the environmental costs of greenhouse gas emissions.

Consequently, governments throughout the world have seen it as their role to regulate the market and levy tax on companies in order to cost some of the externalities back into the supply chain. However, rather than waiting to be compelled, an increasing number of businesses realise that acting responsibly is also good business practice. It not only protects companies' reputations but also motivates employees, builds strong relationships with customers, not to mention in many cases delivering lower costs and creating additional revenue. In some parts of the world, such

as in developing countries, it can deliver a competitive advantage as a way of differentiating global from local businesses.

For many years in the industry, a view persisted that Corporate and Social Responsibility (CSR) was purely a 'box ticking exercise' and that CSR existed as a 'necessary evil', which was at best an irrelevance to the company's primary aim of making money, and at worst a source of cost and a waste of management time.

This view has now become increasingly outdated. Long-term success in the industry depends on the adoption of holistic corporate development strategies which combine the goals of mitigating environmental and societal impact with the creation of economic value.

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INTRODUCTION

In September 2016 Transport Intelligence surveyed over 100 logistics and supply chain executives, located in North America, Europe, Asia and Africa, on a range of issues related to ethics and sustainability. This followed on from a previous survey first undertaken in 2008, thus allowing for the comparison of attitudes and perceptions between then and now.

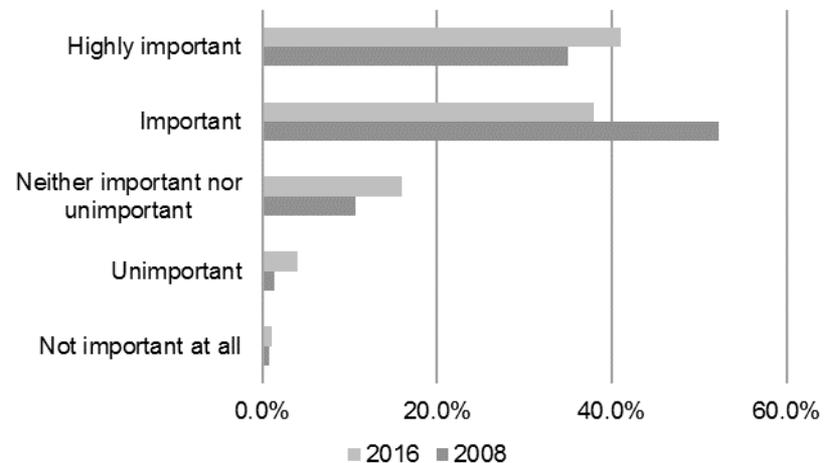
It is very rare these days for any manufacturer, retailer or logistics company to ignore the importance of sustainability to their company. Even if the commitment to mitigating environmental and societal impact is motivated by corporate self-interest or at the very least the desire to avoid damage to their brand, the issue is at least being taken seriously.

How seriously, of course, is another question and that is why surveys on the matter are so important in order to gauge trends. For example, has the global economic downturn which started in 2009 had a long-lasting impact on supply chain managers' attitudes towards sustainability? Are the drivers of green supply chain management strategies the same now as they were in the mid-2000s?

IMPORTANCE TO CORPORATE STRATEGY

Overall, there has been some change to the importance which managers attach to the environment. In 2008 87% of respondents thought that the environment was either 'important' or 'highly important' to their companies' strategies. This had fallen to 79% in 2016, which is perhaps surprising as it might have been expected that more companies would regard sustainability as a fundamental consideration in their business models. There was an increase in the proportion of respondents who considered the environment as 'highly important', but the most significant growth occurred in the category of respondents who regarded the environment 'neither important or unimportant'.

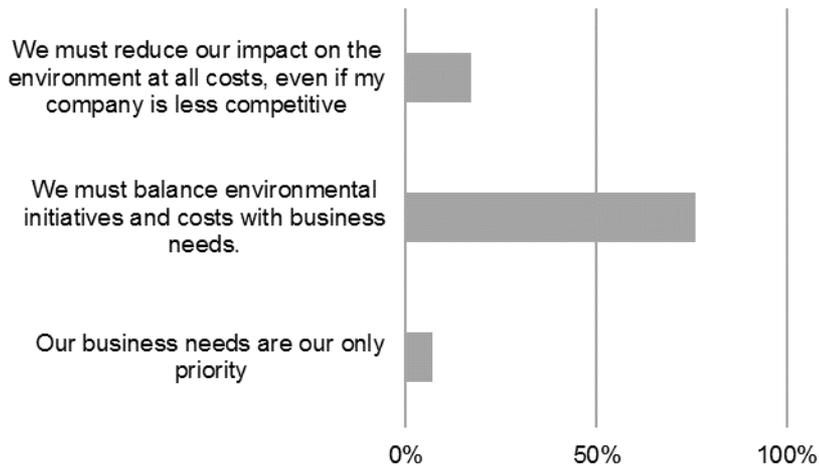
Figure 1: How important is the environment to your company's strategy?



Delving deeper into respondents' attitudes (Figure 2), a large majority indicated that they considered business needs should be balanced with environmental initiatives. Almost a fifth of those surveyed thought that green initiatives should take priority over the needs of their company, although only a very small proportion considered that the business needs were the only priority.

In 2008 when a similar question was asked, significantly fewer respondents believed that their company should reduce its impact on the environment, even if that meant it was less competitive (10% in 2008 compared with 17% in 2016). This suggests that, on a personal level, people are starting to take the issue more seriously.

Figure 2: Which of the following statements most closely describes your personal views on 'green' issues?



The survey also looked at altruistic corporate behaviour (Figure 3). Almost two thirds (64%) of respondents judged that their company had undertaken an environmental initiative for no commercial value. This represented a significant increase from 2008, when only 44% of those surveyed could identify such initiatives.

Figure 3: Has your company spent money on an environmental initiative that has no direct commercial benefits?



MAIN PRESSURES DRIVING LOGISTICS POLICIES

It is not always easy to identify the core reasons behind the corporate adoption of ethical and environmental policies and initiatives. There are often a mixture of drivers, ranging from the philanthropic at one end of the spectrum, to the self-serving at the other. In many respects the driver is not necessarily the key issue, as a positive outcome is more important. However, for those with an interest in sustainability it is useful to understand the thinking behind management decisions and attitudes.

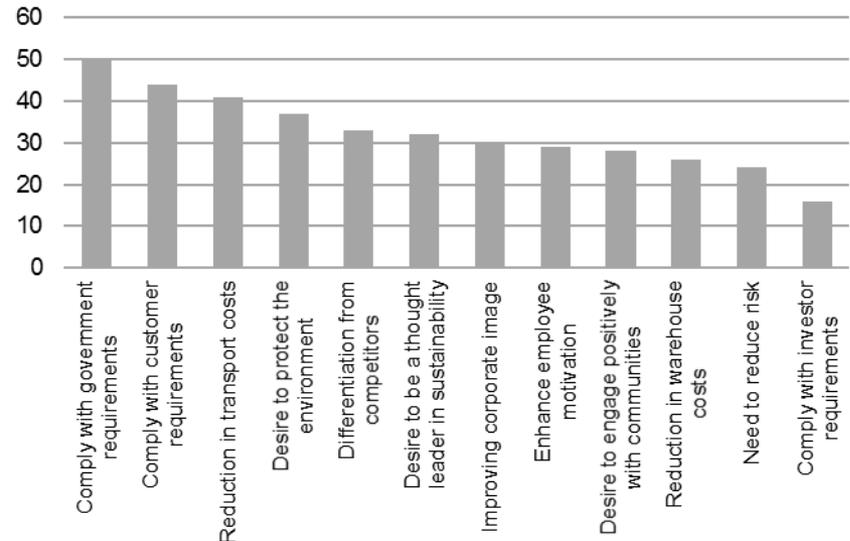
Respondents to Ti's survey were asked to list the key pressures which were behind their companies' sustainability policies. The results suggest that the main reasons were compliance with government and customer requirements rather than any altruistic motives, as these two categories occupying the top two positions. They were followed by the pressure to reduce transport costs, in third position.

It would seem that although being 'green for the sake of being green' is not the main motivating factor (ranking only fourth and significantly below the top two factors), it is still very important. As Professor Alan McKinnon pointed out in his book *Green Logistics* (Kogan Page), 'The most fundamental of all green objectives should be to maintain a physical environment that can support a high level of economic activity in the longer term.'

The 'need to reduce risk' appears near the bottom of the scale. At some level there seems to be a disconnect between increasing levels of supply chain risk, which of course includes meteorological events such as flooding, hurricanes and typhoons (all of which may be related to global warming), and sustainable policies.

'Comply with investor requirements' is by far the least frequent response. Although anecdotal evidence suggests that this is an increasing issue for manufacturers, retailers and logistics providers, it would seem across a balanced survey of the industry that this does not play a major part in managers' decisions.

Figure 4: What do you believe are the main pressures driving your sustainable supply chain and logistics policies?

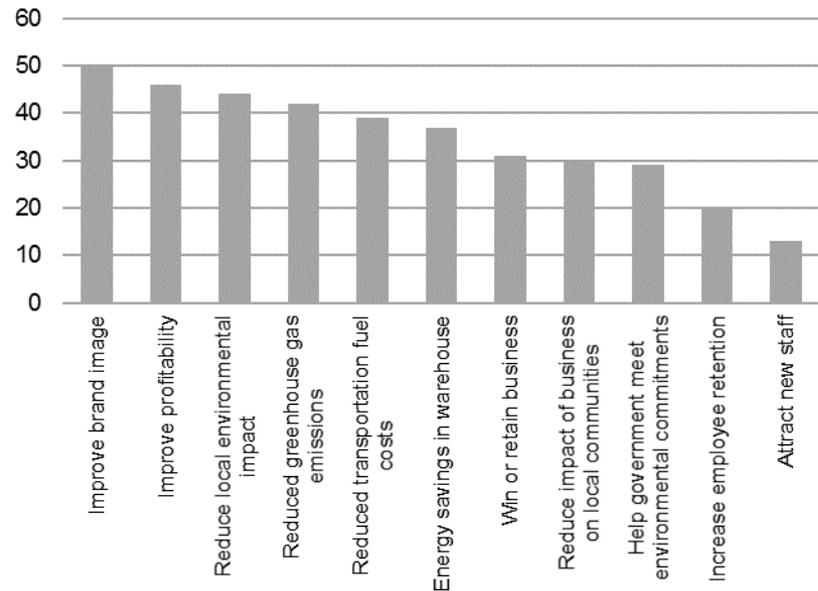


MAIN BENEFITS OF IMPLEMENTING A SUSTAINABLE SUPPLY CHAIN AND LOGISTICS STRATEGY

The next question in the survey looked at the main benefits which managers believed would accrue from implementing a sustainable supply chain and logistics strategy. The top two answers were 'improve brand image' and 'improve profitability'. This reinforces the theme from the results of the previous question which suggested that respondents were looking for direct benefits from a 'green' policy. In this case these benefits are achieved primarily through building brand equity, as well as financial gain. Although 'complying with government regulations' was identified as the main pressure, interestingly, 'helping government meet environmental commitments' appeared low on the list of benefits. It would suggest that companies have not necessarily bought into government and inter-government policy, but perhaps, rather begrudgingly, comply with regulations out of necessity.

It is also apparent that companies see comparatively few advantages in terms of retaining and attracting new staff from their implementation of a sustainable business model.

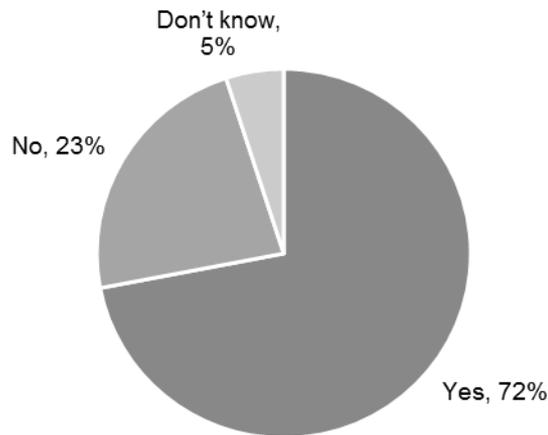
Figure 5: What do you believe are the main benefits of implementing a sustainable supply chain and logistics strategy?



EFFECTIVENESS OF FORMAL ENVIRONMENTAL POLICIES

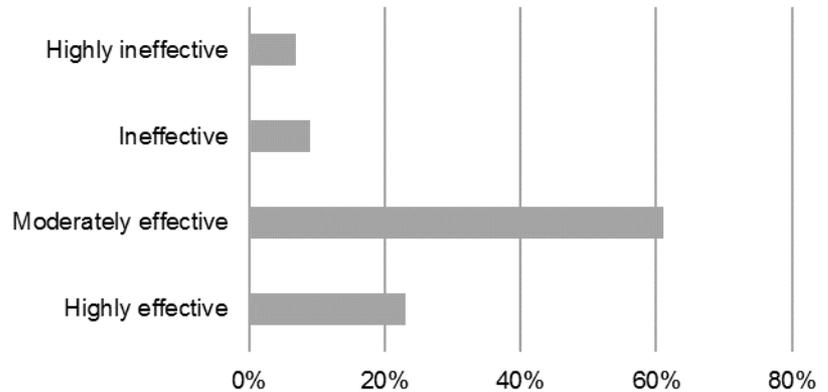
The next two questions of the survey were designed to identify firstly the proportion of companies which had implemented a formal environmental policy and then, if so, how effective this policy had been.

Figure 6: Does your company have a formal environmental policy?



It seems that companies are increasingly recognising that a structured approach to environmental management is important in order to demonstrate their credentials to stakeholders. Just under three quarters of respondents stated that their company had a formal environmental policy. Indicating the importance which companies are now placing upon the issue, in 2008, when Ti undertook its first survey on the environment, the equivalent response rate was 64%.

Figure 7: How effective is your environmental policy in the adoption of more sustainable working practices?



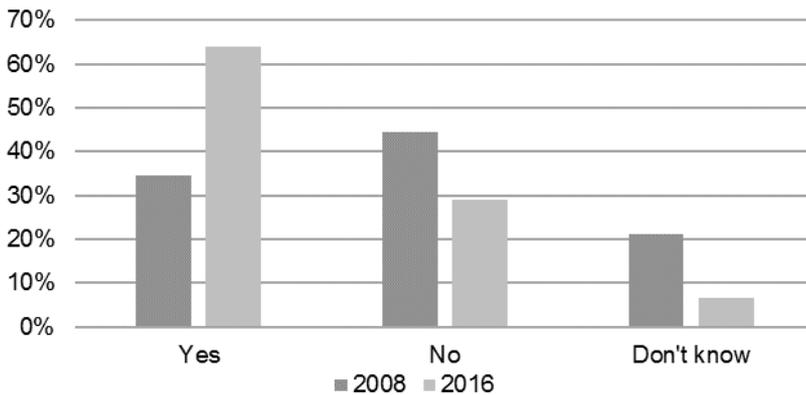
The majority of respondents (61%) thought that their environmental policies were 'moderately effective'. This is perhaps not a total endorsement of the work of their Corporate and Social Responsibility (CSR) departments, but positive nonetheless. Only 23% thought that they were 'highly effective'. This is may be an area of concern, at least in how the work of the CSR department is perceived internally. However, overall, it seems that CSR departments are believed to be doing a good job, with only 16% indicating that their environmental policies were either 'ineffective' or 'highly ineffective'.

The Corporate and Social Responsibility function plays an important role in facilitating the development of an ethical and environmental strategy, as well as monitoring and achieving targets in sustainability. However, overall responsibility lies with senior management who create the vision and culture, as well as with the company employees, who not only put policies into action, but who are best placed to develop their own initiatives.

MEASUREMENT OF IMPACT ON THE ENVIRONMENT

One of the most positive conclusions that can be drawn from comparing the survey in 2016 with its predecessor in 2008 is the increased number of companies measuring their impact on the environment. Only by measuring impact can it subsequently be managed. Without a set of baseline metrics it is impossible to track improvements and assess if targets are being met.

Figure 8: Does your company measure the impact of its business on the environment?

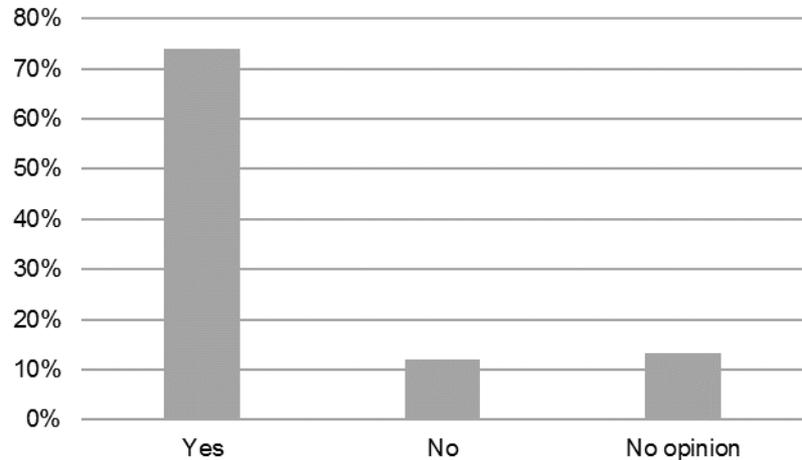


As Figure 8 shows, the number of companies measuring environmental impact (e.g. carbon footprint) has increased from 34% to 64%. The number of managers who did not know if their company had some type of measurement scheme in place fell from 21% to 7%, perhaps suggesting that environmental initiatives are being better communicated across companies.

ENVIRONMENTAL IMPACT AND SUPPLIERS

A set of questions within the survey examined how companies perceived and handled the issue of sustainability in the context of outsourcing. Given the ongoing trend of unbundling and outsourcing production and logistics, this is of growing importance to the industry. After all, although many operational and commercial aspects of doing business can be outsourced, the moral responsibility for societal and environmental impact should not be amongst them.

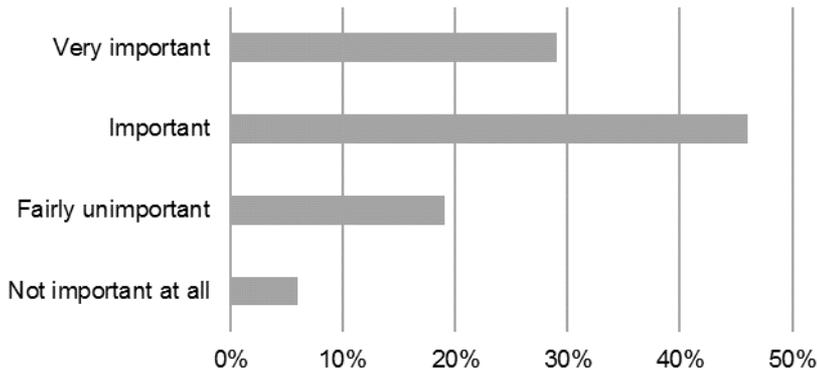
Figure 9: Do you consider the impact which your suppliers have on the environment and societies to be your responsibility?



In fact, the vast majority of respondents agreed in this respect. Just under three quarters stated that they saw it as their responsibility, with only a 12% disagreeing.

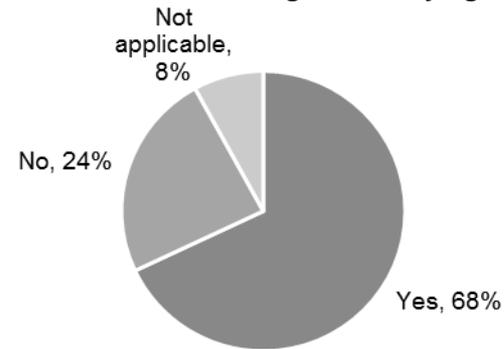
The degree of sustainability of suppliers' operations is very important to outsourcing companies, according to the results of the survey (Figure 10). Three quarters of respondents stated that it was either 'very important' or 'reasonably important'. This is slightly at odds with the response to a previous question, where sustainability's role in winning or retaining business was downplayed as a benefit. Clearly it is expected by customers, although perhaps the advantage of a green or ethical approach is not as 'front of mind' as other benefits.

Figure 10: When awarding a contract, how important is the environmental compliance of your suppliers?



One of the ways in which companies can ensure that their outsourced suppliers comply with a set of environmental standards is through the selection process. According to the survey, 68% of respondents stated that they had made environmental compliance part of the tendering procedure.

Figure 11: Do you make environmental compliance part of your tender documents when contracting out or buying services?



When it came to whether the outsourcing company was prepared to pay for the sustainable compliance which they were insisting upon, there was a positive response (Figure 4.12). Whilst the majority (60%) of respondents replied that they expected the supplier to pay, this is perhaps not as large a proportion as might have been expected. However, it does show that economic owners are pushing costs onto their suppliers and these costs must be absorbed.

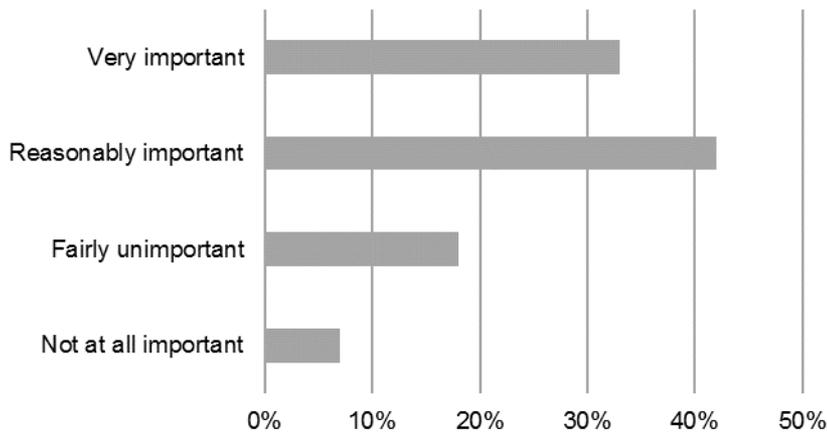
Figure 12: Do you consequently make provision for extra costs?



THE IMPORTANCE OF SUSTAINABILITY TO BUSINESS ACTIVITIES

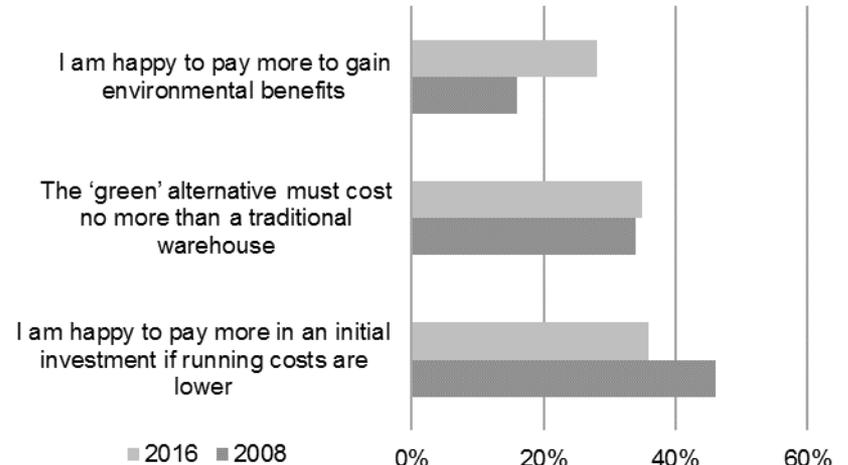
The next part of the survey looked at how important sustainability is to operational efficiency. As Figure 13 shows, it is seen as a significant driver to adopting more efficient processes within a business. 75% of managers surveyed believed that it was either 'reasonably important' or 'very important'. This compared with 74% in 2008: a similar proportion.

Figure 13: How important is the environment as a driver in adopting more efficient processes within your company?



In terms of the implementation of a sustainable warehousing strategy, there seems to be little consensus. Managers were asked to select an option which best fitted their views, as shown in Figure 14.

Figure 14: If you were to select a more environmentally-friendly distribution centre over a traditional alternative, which of the below most closely matches your views?



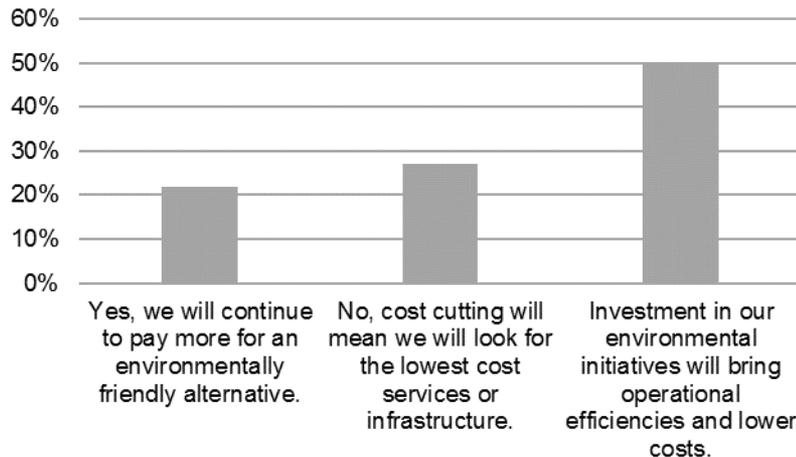
In 2016, as in 2008, the most frequently chosen option was, 'I am happy to pay more in an initial investment if running costs are lower'. However, the gap has narrowed considerably with the second most frequent selection: 'The 'green' alternative must cost no more than a traditional warehouse'. Significantly, the greatest increase from 2008 was the choice of, 'I am happy to pay more to gain environmental benefits.' The proportion of those willing to pay more for green benefits rose by 12 percentage points, from 16% to 28%. It is noticeable that the proportion of those who felt that green warehousing should cost the same as traditional warehousing stayed at about the same level between 2008 and 2016.

FUTURE COMMITMENT TO THE ENVIRONMENT

Just how committed would supply chain and logistics managers be to the environment if there were another economic downturn? There has always been the suspicion that sustainability as an issue drops down the corporate priority list when making profits gets harder.

Managers were asked whether their attitudes would change in the event of another recession. The results are shown in Figure 15.

Figure 15: In the event of an economic slowdown, would you continue to invest in or pay more for more environmentally-friendly services or infrastructure?



About a quarter of respondents indicated they would be willing to pay more for an environmentally-friendly alternative. This was slightly less than the proportion who said that, in such a scenario, they would look for the cheapest services or infrastructure. However, the majority chose a third option, which stated that they believed investment in environmental initiatives would bring operational efficiencies and lower costs.

SUMMARY OF RESULTS

The results of the 2016 survey and comparison with 2008 results convey a positive view of the response of the logistics and supply chain sector to the social and environmental challenges it faces. Undoubtedly, progress has been made in many areas. For instance, the number of companies measuring their impact on the environment has grown significantly over the period. In addition, managers now would be happy to pay more for environmentally-friendly warehousing. Furthermore, the vast majority think that their suppliers' practices are also their responsibility and that overall they think their company has effective sustainability policies in place.

It is also encouraging, in some respects, that companies see the potential benefits of sustainability in terms of brand image and profitability.

However, the survey also suggests that the main reasons for adopting sustainable policies are still government regulation and pressure from customers, rather than from internal, commercially-led initiatives. It is also of concern that the 'headline' importance of the environment to companies' overall strategies (Figure 1) has diminished over the years. This may be due to the difficult economic climate and the operational challenges which many in the industry face.

Key points

- The environment, as a business issue, has slightly lessened in perceived importance to logistics and supply chain managers over the past eight years. However, the number of companies which have participated in sustainable initiatives without direct benefit has increased
- The main reasons for introducing sustainable policies were compliance with government regulations and customer requirements, rather than to protect the environment, per se
- Attracting and retaining employees were the least important reasons
- The majority of respondents agreed that the behaviour of their suppliers was ultimately their responsibility and that environmental compliance when awarding a contract was important
- The majority of respondents (61%) thought that their environmental policies were 'moderately effective'
- In the event of another economic slowdown, most logistics and supply chain managers would continue to invest in green initiatives due to the operational cost savings they are expected to bring.