

Supply Chain Sustainability: A Must Have for Today's Competitive Business Environment

Joseph Thomas
University Central Arkansas

Mark E. McMurtrey
University Central Arkansas

Carl Rebman, Jr.
University of San Diego

As the competitive landscape of today's retail business environment continues to change, and particularly with advancements in technology, both consumers and shareholders have increased access to information on the companies with which they choose to do business. With this additional information, many consumers and shareholders are now placing added importance on "Corporate Sustainability" when making their purchase or investment decisions. Fortunately, many companies have already embraced the concept, or are at least starting the journey of incorporating sustainability practices as a core part of their business operations and/or supply chain strategy. Only time will tell what the future business environment will look like, but it is becoming increasingly apparent that a focus on sustainability will continue to grow and contribute to future business success. This paper discusses the origins of sustainability, the standards, the importance of adopting sustainability practices, and challenges observed from the COVID-19 pandemic.

Keywords: sustainability, triple bottom line, COVID-19, global

INTRODUCTION

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MEANING AND ORIGINS OF SUPPLY CHAIN SUSTAINABILITY

The importance of sustainability in business has received considerable attention over the last decade as its often the subject of discussion in corporate business environments and among consumers looking to purchase products in the crowded marketplace. Sustainability concepts and goals have become extremely common among businesses enterprises, and its scope is constantly expanding. Despite the abundance of literature and on-going conversations, the meaning of the word sustainability still varies greatly across organizations and industries. It has been estimated that there are at least 50 definitions of sustainability in literature (Bateh, et. al., 2013). However, for purposes of this paper, and also in accordance with the definition provided by the Brundtland commission (which seems to be the most widely accepted definition), sustainability can be defined as “the process of development (or business activity) that satisfies the needs of today’s generation without limiting or impeding the needs of later generations” (Bateh, et. al., 2013). Despite a generally accepted definition of sustainability, challenges remain in the areas of measurement and accountability with respect to adherence of sustainability principles and thresholds. As a growing number of companies look to build sustainability drivers into their supply chains, they often run into a similar problem- many sustainable supply chain initiatives do not actually address sustainability at all (Searcy, 2016). To be sustainable, a supply chain must generally operate within thresholds imposed by nature and society (Searcy, 2016). Historically, many company supply chain initiatives did not make reference to or act in accordance with any standardized thresholds, which made it difficult to evaluate the level of sustainability of the company. These issues took on added importance in the 1990’s as multinational companies out-sourced much of their production capacity to subcontractors in developing countries (Dathe, et al, 2022).

Recognizing that there was a universal problem in the lack of generally accepted sustainability principles and standards, the United Nations specifically addressed the issue. In 1999, the then secretary general of the UN, Kofi Annan, spoke to the World Economic forum in Davos, Switzerland, about the need for a new global compact for business (Dathe, et al, 2022). What resulted from the conference and discussions that occurred therein has become known as the United Nations Global Compact (UNGC or Global Compact). The UNGC consists of ten general principles which focus on human rights, labor rights, concern for the environment, and anticorruption. More specifically, the ten principles of the UNGC are as follows:

Human Rights: Businesses should support and respect the protection of internationally proclaimed

1. Human Rights: Make sure that they are not complicit in human rights abuses.
2. Labor: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
3. Labor: The elimination of all forms of forced and compulsory.
4. Labor: The effective abolition of child labor.
5. Labor: The elimination of discrimination in respect of employment and occupation.
6. Environment: Businesses should support a precautionary approach to environmental challenges.
7. Environment: Undertake initiatives to promote greater environmental responsibility.
8. Environment: Encourage the development and diffusion of environmentally friendly technologies.
9. Anti-Corruption: Businesses should work against corruption in all its forms, including extortion and bribery (Podrecca, et al, 2021).

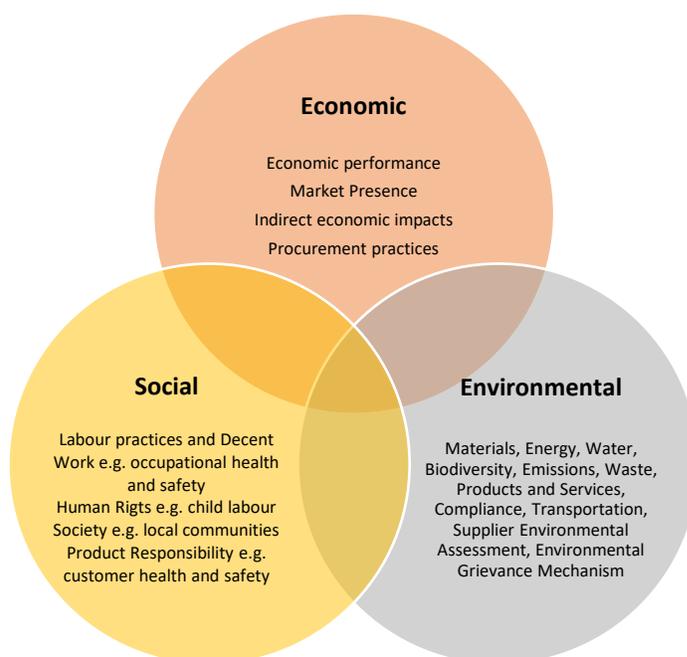
The Global Compact was designed as a voluntary initiative but requiring member organizations to make a clear statement of support of and include some references in its annual report (or other publicly facing communication) on the progress such member is making on internalizing the principals within its own operations (Dathe, et al, 2022). A company’s failure to issue such reports on an annual basis will result in the company being delisted from the compact (Dathe, et al, 2022). The primary enforcement mechanism appears to be that of consumer demand. With publicly available information on a company’s sustainability initiatives and adherence to the UNGC standards, consumers in theory should have the information they

need to make their purchase decisions if they are wanting to support UNGC member companies. Membership in the Global Compact acts as a market signal, indicating a visible public commitment to the standards (Orzes, et al, 2020). Proponents of the UNGC argue that because the Global Compact is a voluntary effort, there is minimal accountability for company members. Research from 2010 indicated that the lowest compliance levels were from companies based in China, Dominican Republic, and the United States. Those with the highest levels of compliance are Germany, the UK, and South Korea (Orzes, et al, 2020). A more current study is needed to specifically indicate if there has been any change on this issue. With respect to overall UNGC membership growth, the UNGC has seen tremendous growth in its membership, however as of the present date, it has fallen short of its overall desired membership goals. The UNGC had set a target of 20,000 companies by 2020 (Williams, 2014). However, as of July 19, 2021, that number stands at 13,555 (United Nations, 2021). It appears membership in the UNGC will continue to grow, but more time will be needed before the 20,000-member goal can be reached.

Supply Chain Sustainability and the Triple Bottom Line

While the UNGC helped set the framework for modern sustainability principles, it actually was building off principles first enunciated by British business academic writer John Elkington. In 1994, Elkington coined the term “triple bottom line” to represent the three component areas of sustainability: social, environmental, and economic (Wilson, 2015).

FIGURE 1
THE GLOBAL REPORTING INDEX TRIPLE BOTTOM LINE



As with the UNGC 10 principles, critics have also argued that these concepts have had no consistent form of reporting which made it difficult to compare companies (Wilson, 2015). To help address the issue, in 2014 the Global Reporting Index (with support from the UN) was developed to help establish one of the primary standards for sustainability reporting used by companies today (Wilson, 2015). While the index incorporated the historical triple bottom line concepts of economic, social, and environmental, it added the subcategories as illustrated in figure 1 above. Of these factors, environmental sub-considerations as described in figure 1 are now often part of leading strategies being used by organizations to enhance their image, reduce costs, and create competitive advantages (Wilson, 2015).

Looking at store shelves, many packages, and advertisements for products and services are regularly marketed as “environmentally friendly” or “green.” Out of this has grown a whole additional field of advertising and regulation commonly known as “green marketing.” With standards in place, manufactures know (or should know) the rules of the road, and can be held more accountable when they drift from those standards.

While green marketing has received a lot of attention, customers are also increasingly concerned with social/ethical issues that affect their purchasing decisions (Wilson, 2015). Conscious or concerned customers generally want to buy products known to have been ethically sourced with good labor practices (i.e., no child or forced labor) and produced in an environmentally friendly manner (i.e., no “bad” chemicals or with as little impact to the environment as possible). With this perspective in mind and being in the best position to offer what customers want, retailers can have tremendous impact in helping resolve sustainability challenges as they can greatly influence changes in production processes and consumption patterns (Wilson, 2015). Manufacturer’s marketing or holding themselves out as offering sustainably produced products now have standards or “scorecards” by which retailer purchasing agents can request to see before making their purchasing decisions. These “scorecards” are helping to drive more sustainable behavior by manufacturers. Simply put, retailers are the best positioned to exert pressure on producers and suppliers to provide sustainable products. Having guidepost, or rules of the game (well established and universally known KPI’s) are essential and will only help provide visible and achievable standards for companies to strive for and be held accountable for by peers, customers, and society in general.

In addition to having standards developed to help companies in their efforts towards benchmarking and setting corporate strategy for a triple bottom line approach, supply chain risk management is also growing in importance as companies are more aware of the impacts it potentially has on overall triple bottom line outcomes. Companies are seeing that sustainability actions are influenced by risks in the supply chain and that a focus on risk management practices may improve sustainability related performance (Miemczyk and Luzzini, 2019). Supply chain risk practices typically comprise risk assessment and management dimensions which can lead to improved supply chain performance by focusing management attention in the right areas and minimizing disruptions (Miemczyk and Luzzini, 2019).

Business and industry practices may vary widely from company to company or industry to industry, but value can still be added to a company’s bottom line. By conducting a risk assessment, management of businesses can get a better picture of the levers for their business and adjust those levers accordingly to better align with company strategy. Generally speaking, research shows that companies that can align their supply chain sustainability strategy and their internal resources can obtain more positive outcomes in the area of sustainable supply chain capability (Miemczyk and Luzzini, 2019). The exact resources that are required is still an area open for debate. However, positive impacts are generally observed for companies who have undertaken a supply chain sustainability risk assessment approach. While environmental and social practices on their own may not be seen as competitively valuable, their combination with risk assessment practices can often provide a positive effect on overall company performance (Miemczyk and Luzzini, 2019).

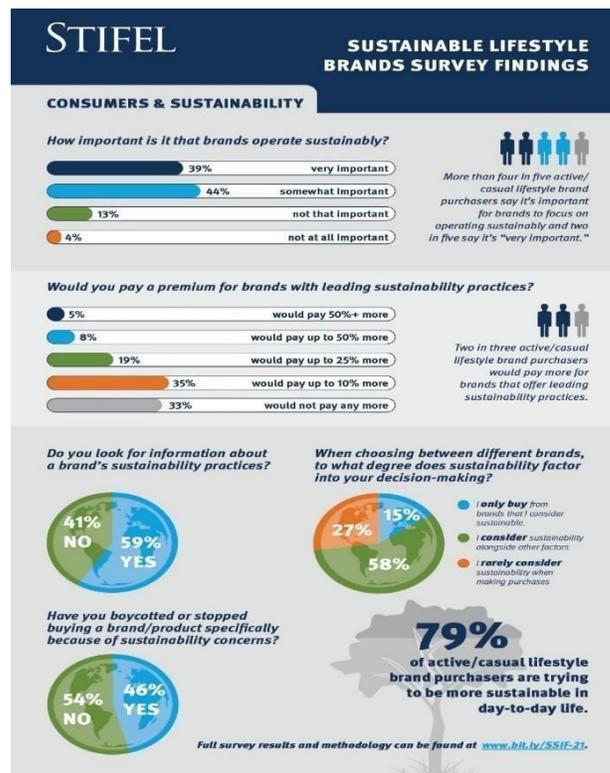
IMPORTANCE OF SUSTAINABILITY

The growing importance of sustainability in the consumer retail environment is apparent by consumer pressures having significant impacts on business organizations. In a 2018 study, research indicated that consumer pressure is forcing a substantial shift in the attitudes of consumer packaged goods organizations towards more sustainable supply chain practices (PRweb, 2018). The research, which surveyed some of the top 250 US and UK supply chain decisionmakers, indicated that 98% of their organization had a commitment in place towards achieving supply chain sustainability, with the overall driver being consumer demand (PRWeb, 2018). In working to satisfy consumer demand, about 51% the survey respondents viewed cost savings as the most important factor, 31% were looking to reduce environmental impact, and for US based managers their concern was more about protecting against reputational damage (PRWeb, 2018).

In another survey of over 800 global CEO conducted in partnership with the UNGC, 93% of the CEO's see sustainability as important to their company's future success (Lacy and Hayward, 2011). (Note that the CEO's companies were already members in the Global Compact and had already made public commitments in the area of sustainability). As consistent with the US based managers view as mentioned above, the CEO's of this study also indicated that brand trust, and reputation, are very important components of sustainability and building long-term trust with stakeholders (Lacy and Hayward, 2011). Based on these research findings, it is apparent that consumer demand is fueling a large part of the growth and demand for sustainably produced products, and more loyalty towards companies that have made public commitments in the area of sustainability.

As consumers are becoming more loyal to companies who have committed to sustainability and labeling (like Rainforest Alliance, etc.), brands are becoming more valuable. Brands are continuing to analyze and figure out what segments of their customers are aware enough and concerned enough about sustainability issues that they are potentially willing to pay a higher price for more sustainable products (Friedman, 2019). One industry in particular where sustainability has significantly received an increased focus is the fashion/apparel industry. A global search platform "Lyst's" recently reported that there was a 66 % increase in searches for sustainable fashion products from a year earlier (Friedman, 2019). The report particularly noted an increased demand for sustainable denim. For example, Weekday jeans made from 100% organic cotton were the most wanted jeans among sustainable denim this year; leading to an 80% increase in searches from the previous year (Friedman, 2019).

FIGURE 2
SUSTAINABILITY SURVEY



In another survey illustration prepared by Stifel Consultants (Figure 3), brands that operate in a sustainable manner was viewed as an important selection factor when consumers shopped for a brand (Globe News Wire, 2021). However, the same study did not indicate a significant willingness to pay a substantially higher price for sustainability produced goods. I found this survey to be interesting from the

perspective that consumers might be willing to pay a little more, but not significantly more for such products.

The concept of consumer demand as a primary driver is commonly known as a “market-based” approach. Such approach assumes that producing goods more efficiently will result in sustainable consumption. “Green” or “ethical” consumers will drive market transformation by demanding sustainable goods (Bocken, 2017). Another approach that has been advocated (and is being used by companies such as Patagonia) is an approach referred to as the “absolute reduction approach” (Bocken, 2017). This approach seeks to reduce consumption as an overall goal.

For example, at the individual level, Patagonia directly targets customers by asking them through their marketing efforts to repair/reuse and consider not buying (Bocken, 2017). Patagonia’s business model and marketing techniques focus on an environmentally conscious lifestyle. Despite asking customers to buy less, Patagonia as a company has experienced growth (Bocken, 2017). Whether a significant number of other companies will adopt a similar approach to that as of Patagonia remains to be seen, but it is notable that a company can still experience growth despite being a vocal advocate for reuse/repair versus purchase new products.

While there are a number of possible best practices, a few notable as base-level starting points are as follows: 1) Companies should establish long-term sustainability goals (Villena and Gioia, 2020). An exercise on strategy goal setting forces a company to take a look at internal efforts, can help it focus on the strengths and weaknesses of its business, and better align with its future goals. A second-best practice is that companies should also require their own suppliers to set long-term sustainability goals (Villena and Gioia, 2020). Such practices will help make sure interests are aligned, and that both companies are moving down a path with similar focus. Thirdly, companies should task an internal point person or a team with managing a company’s overall sustainability strategy (Villena and Gioia, 2020). Without someone in charge of sustainability efforts within an organization, there may be little to no accountability available to hold employees or suppliers accountable for their failures. Looking through the current business environment, many companies have recognized this best practice and now have “chief sustainability officers.”

COVID-19 Impacts

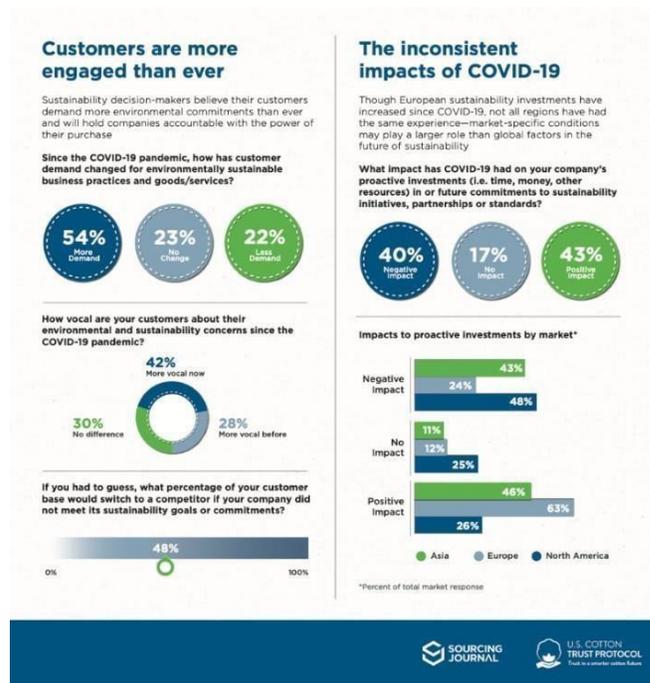
For many businesses, this past year of operating in a COVID-19 environment has brought unprecedented challenges. Both manufacturers and retailers alike have experienced headwinds in regard to their sustainability efforts. Despite these challenges, the post COVID-19 recovery process has required businesses to step back and reassess their supply chain structures in terms of location, production capacity, and management of the flow of materials and information (Sarkis, 2020). As a result of the pandemic, it has been argued by many that some supply chains should be given the spotlight (and therefore more protections) as they are critical for society and require specific attention from the government, such as pharmaceutical supply chains, grocery retailers, logistics/transportation, and healthcare and safety sectors (Sarkis, 2020). One issue that was highlighted by the pandemic was a shortage of goods in many areas (toilet paper and sanitizing wipes for example). Such supply shortages have caused many companies to re-evaluate their offshore production activities, and look at bringing primary production back into the United States. Reshoring is likely to be a hot topic for governments, policymakers, and supply chain managers around the world in the near future (Sarkis, 2020). In fact, a newly released 2021 state of manufacturing report from Fictiv indicates that among those industries with plans to onshore 2021, 80% of medical device companies report onshoring is a key strategy, followed by 67% in robotics, 61% in automotive, and 45% in consumer electronics (Fictiv, 2021). The same report indicated that the pandemic exposed deep weaknesses in supply chains as 94% of the survey respondents reported concerns about their current supply chains, and 92% reported supply chain weakness acting as barriers to their new product innovation (Fictiv, 2021). By conducting a thorough assessment of their supply chains, hopefully manufacturers and retailers will be better positioned to withstand future challenges.

While the pandemic has had some negative impacts, there have been some positive impacts. The pandemic did help serve as a catalyst to turn emerging digital ideas in strategies which are now irrevocably changing supply chains (Fictiv, 2021). Most companies now have more online offerings and/or delivery

options which were not available pre-pandemic. The focus on “contactless” within a retail environment has already intensified through increases in curbside pickup and contactless payment options. While curbside pickup has been in the works for years before the pandemic (for companies like Walmart), the trend had not fully caught on until retailers were forced to use their stores as fulfillment centers or forego even more sales (Taylor, 2020).

Consumers will still push demand for sustainably produced products, despite challenges of the pandemic. Some researchers are predicting that the demand for such products and initiatives will only grow. According to the Capgemini Research institute, sustainability and circularity are expected to be major factors in how retails operate in the post-Covid era. Consumers are expected to become even more conscious of a product’s origins and makeup, with 79% changing their purchase preferences based on social responsibility, inclusiveness, or environmental impact (Taylor, 2020).

**FIGURE 3
COTTON TRUST SURVEY**



A recent global survey by the US cotton Trust Protocol shows 54% of sustainability leaders at apparel and textile brands say they’ve seen their customers’ demands for environmentally sustainable practices and products increase since the beginning of the COVID-19 pandemic, but 59% said they believe customers will continue to prioritize price when making purchases (Walker, 2020).

CONCLUSION

As businesses continue to operate on a global scale and lines between social, economic and environmental business practices intersect, focus on supply chain sustainability will continue to be a hot topic. While expectations can vary widely, uniform standards for measuring and benchmarking efforts are becoming more common place. Consumer demand for sustainability is as strong as ever, and even appears to be growing in post pandemic times. Despite recent challenges, the future of a more sustainable business environment appears bright. It is imperative that companies embrace the concept and learn to adopt sustainability measures that not only can benefit their company but also society in general.

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