

# The sustainability challenge

## Re-imagining the future of supply chain and sustainability

*Sustainability is certainly not a new idea. Powered by purpose, a sustainable supply chain encompasses environmental, social, and economic management—and the definitions of these categories have dramatically expanded beyond what we considered pre-pandemic. When we look back at 2020, we might find that the pandemic taught us three radical lessons:*

- Some existential threats are real.
- When industries across the global economy come together to solve a problem, it can happen.
- The health of employees and customers is as important to organizations as the health of the planet.

Some might say we are emerging from global lockdown with a moral obligation to apply these new learnings to the problem of sustainability, whether we mean environmental sustainability efforts that address the climate emergency—promoting greenhouse gas reduction/carbon neutrality or balancing plastic waste with individual protection, for example—or enterprise sustainability practices that build lasting brand value and competitive advantage—like supporting employee wellness, promoting diverse and equitable workplaces, and building ethical supplier relationships.

*“We have to develop comfort with tradeoffs and discuss challenges more openly. How far are we prepared to put things on hold to solve existential threats—to treat sustainability like COVID?”*

In February 2021, Chief Supply Chain Officers and executives from 12 leading organizations joined a virtual IBM Think Circle to discuss social and environmental concerns against economic and financial pressures and consider the right balance of risk and reward. Thinkers heard from World Economic Forum guests, who shared highlights from the January 2021 Davos Dialogues, leading to debate around three key topics:

- Calculating the cost equation for sustainability
- Using the circular economy as the path of impact measurement
- Examining why flexibility may be the defining feature of the workplace in the future

## Calculating the cost equation for sustainability

Based on an urgent need to rebalance risks and opportunities, many organizations are adjusting their strategic approach, moving from cost competitiveness to risk competitiveness. The resulting impact for supply chains is diversified sourcing models, including localization and reshoring, combined to build risk resilience.

As sustainability initiatives are built into this equation, measurement and reporting need to align with the trade-offs of corporate and stakeholder profitability objectives. *“We are trying to balance something that isn’t sustainable. Profitable growth is in direct conflict with what we are trying to achieve... if you believe there’s a finite amount of time to fix this, the odds are you’re not going to make it.”*

*“The challenge is the measurement but also the money. Greener solutions are often significantly more expensive. We try to do what is possible, but we have shareholders and we need to meet profit milestones. There is an interesting playing field unfolding.”*

Many Thinkers are starting to consider operations and supply chains as the foundations of competitiveness, charged with driving growth and delivering value, rather than as cost centers. Adding sustainable practices to operational excellence is driving increased customer value and loyalty, along with improved employee satisfaction and retention.

As sustainability and stakeholder capitalism become C-suite imperatives, new technology-enabled business models have a critical role to play. In a recent IBM Institute for Business Value research study of CSCOs and other C-suite executives, 32% of organizations cite increasing sustainable operations amongst their most important business priorities, and half of the organizations report they will move toward carbon neutrality within the next three years. (Source: Virtual Enterprise Study). *“Governments are not taking a strong stand mandating sustainability, so people are looking to corporations for leadership.”*

This tension between cost and value combined with the acceleration of digital has forced supply chain leaders to become serial innovators—those who can link social and environmental issues with business solutions and use purpose as the great connector. *“Ambitious goals can push people to innovate. Net energy, net water, net carbon.”*

*“Thousands of organizations have made net zero commitments, but not one of them has a clear pathway to achieving it. It’s not just a technology challenge; it has to be profitable, and this is a major challenge.”*

*“How do we find the right balance between saying and doing? Are we more interested in the ‘claim’ than the real impact? Where is the tipping point in this (sustainability) journey?”*

## Using the circular economy to measure impact

To the question of impact, several Thinkers are using a circular economy approach to remove the financial debate and focus on value to the customer. *“We fought a battle around sustainability versus financial objectives or customer satisfaction. Tradeoffs are difficult, so we adopted circular economy principles where business value and success are tied to objectives and they’re not in conflict with each other.”*

Customers are ready to participate in sustainability efforts, and some may even pay for it. *“We are trying to do some elasticity testing around what customers are willing to pay for. We are trying build in returns process (recycling) into the offer to let our customers know we are serious about this.”*

*“There’s a long runway to decarbonization, and we think our customers’ willingness to pay will move at least as fast as our ability to scale what we can offer them. Sustainably produced products are seen by customers as better and more valuable than the usual carbon emitting product. We are quite confident that a good portion of (the cost to move toward sustainable practices) will be shouldered by the customers.”*

Even with broad support, transitioning from a traditional linear way of working to a circular economy requires supply chain leaders to embrace a new mindset and develop an appetite for business un-usual. Embedding intelligence along the value chain requires trust, transparency, and traceability—to form the building blocks for a holistic, collaborative approach to sustainability and stewardship. *“We are using a complementary environmental impact indicator that measures the environmental value retained through reuse, remanufacturing, repairing, or recycling. This extends the focus from end-of-life to the entire lifecycle.”*

*“Our circularity program works in three ways: 1) we design products through lens of circularity/product lifecycle, 2) we consider the customer experience and how we enable consumer for repair or recycle, 3) we define our role in creating systemic solutions, platforms, and systems that will enable circularity.”*

## Examining why flexibility may be the defining feature of the workplace in the future

Ways of working will be changed forever after the pandemic experience, and the explicit recognition that health and wellness of employees and stakeholders must be part of a sustainable business model will remain a high priority. *“We can track that we attract new hires because of our sustainability point of view. We already think of workforce virtualization as part of our sustainability program.”*

Captive talent is now open to the potential for extreme virtualization. In a recent IBV study, 38% of executives say promoting collaboration through remote mechanisms is one of the most significant leadership hurdles in developing a post-pandemic workforce (source: Virtual Enterprise Study). Flexibility will be a key ingredient, as organizations will need to have a clear, reinvented, and “open” workforce strategy. *“The future of work is going to require flexibility to manage talent from wherever they are. We don’t see that changing.”*

*“The challenge is burnout since people are not getting a break and so our question is how sustainable is this mode of working.”*

New ways of working and the associated new tools have become commonplace. The balance between open spaces and privacy will need to evolve with the workflows and the tools that each worker uses. The digital channel has become a primary source of engagement, creating new challenges for recreating empathy, sense of belonging, and human connection. Technology will drive the hybrid workforce of the future. *“Hybrid is a key word. Some people are sick of looking at the same walls. We are working on our office as an ‘offer’ to co-create and team. This will be highly sustainable and will allow for a more diversity and potential.”*

## A final word: Start

The Thinkers called on each other to move this discussion to action. As one pointed out, the United Nations Sustainable Development Goals (SDGs) provides a roadmap that removes the tension between shareholder expectations and sustainability goals. This is a place to start. *“Sustainability is about the 17 initiatives of United Nations and one is eradicating poverty and hunger and building green affordable energy. These need to be worked on jointly—it isn’t about sustainability versus making a living.”*

They agreed it is critical for this group and its peers to continue to push on educating and elevating the dialogue internally and externally **to find the right balance of immediate actions** that will **get sustainability as if it were the next pandemic** – **and get inspired to take action now**. *“When it comes to sustainability and resilience, there’s no time left. Organizations need to act now, with new levels of collaboration, even among competitors.”*

*It’s insane to define targets for 40 or 50 years in the future. We can do the math, Mother Nature is going to win this fight...”*

And they agreed to reconvene as a Thinkers working group to investigate developing a simple and meaningful set of metrics and measures (like an NPS score) that will help determine if they are making progress (fast enough) and achieving their sustainability goals, (well beyond cost) takeout. *“Everyone uses different measures – what are the right ones?”*

Stay tuned for more.

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UN SDGs  
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Bayer uses remuneration to incentivize sustainability goals  
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