The Opportunity of Sustainability

By Caldwell Hart, Poligage Expert

Making sense of sustainability for many companies is a challenge. Is sustainability a compliance matter, a risk mitigation exercise, a business strategy, a cost, a source of competitive advantage, a headache, an opportunity – or all of the above? Businesses hear mixed messages daily from multiple sources ranging from the media to investors to employees to customers and others. Each brings their own differing views. Add in voices like consultants, technology salespeople, conference promoters, and educators further complicates the issue. Depending on who you talk to, sustainability could be all of the above.

Who knows where to begin, what to do, or why they are doing it? Many shrug their shoulders and say, "I will just wait until the whole thing sorts itself out and I find out what I HAVE TO do."

This approach would likely be a mistake. Why? Simply, there is no clarity as to when or who will sort it out. Each stakeholder has different goals or purposes. The SEC, as an example, is focused on truthful, consistent, and transparent disclosures, and not requiring companies to reach net zero. Key NGOs seek action to reach net zero and reduce negative climate impact to reach the 1.5C targets before they view it's too late. Businesses are stuck between comply or "the end is near." Neither provides clear direction or motivation. Thus, organizations may be waiting for a long time to be told what to do. Ultimately, action should be driven by a company's values, business strategy, and business context.

I believe sustainability at its core is rooted on proven best practices that many companies already follow through concepts like "lean," "continuous improvement," and "optimization." Perhaps all that is required is finetuning an existing business model. Companies don't have to wait, because many are already on the journey and do not realize it. Thus, view this current climate of action around sustainability as an opportunity to demonstrate sound business practice.

Or even more simply put: sustainability does not have to be hard or noisy!

Tackling Sustainability Through the Risk Management Lens

To maximize effectiveness, sustainable business must be linked to business strategy. Listen to multiple stakeholders, consider mission and values, develop plans with priorities, execute, measure, and tell the story. Execution requires deriving value from each segment of the value chain, which translates into positive financial results (profit, ROI, ROA) and other positive impacts like a reduction in greenhouse gases or reduced employee turnover. Many studies show sustainability leads to stronger more profitable businesses. Why? Because at its core, sustainability addresses business risk and drives resiliency.

Risk management traditionally focuses on operations and finances. Within these areas, factors like leadership, margin, capital, cashflow, and quality are central. Supply chain management teams and their operations partners have monitored and even audited suppliers for decades for delivery, cost, and quality. Progressive companies over a decade ago expanded the view of risk to incorporate more elements, such as product life cycle, socio-economic, environmental, and political that may impact the ability to achieve business objectives. Best practices like lean have also shaped how teams designed and managed their value chains.

One of the companies I worked for was an early pioneer of supplier risk management and used tools like Dun & Bradstreet Supplier Risk Manager. We proactively expanded our definition of risk by developing a process that considered what we referred to as “socio-economic-health-political-climate-design” factors as core elements. We mapped event scenarios and developed business continuity plans based on this inclusive view of risk. For example, what happens if a future pandemic like H1N1 closes the border between the US and Mexico, impacting supply from our Mexico based suppliers? What happens if an earthquake in Northern Italy impacts our ability to obtain critical forgings for our manufacturing needs? Or if political unrest or a labor strike impacts operations in any country we do business with?

We used risk scenario mapping to identify the greatest risks, including sole source, make/buy, and key materials. We raised awareness, adjusted strategy, reduced risk, and improved performance. By looking at the “what, why, and how” of our supply chain, we saved more than 15% per year on average, improved our resiliency, and provided positive sustainability benefits. We realized that these efforts also mapped to environmental risk metrics like CO_2 emissions and waste reduction. Thus, we began to measure these factors even before “green supply chain” and “sustainability” became a movement. Finetuning our business drove positive financial AND sustainability results.

Next, we integrated our effort with the company’s broader Enterprise Risk Management process, and we engaged employees in idea generation on other ways to address our risks. This led to embedding these concepts into our culture. Commitment and culture impacted employee morale as they saw their contributions have real meaning in our business operations and outcomes. These concepts are also easily applied to the extended enterprise in collaboration with suppliers. In sustainability terms, we impacted Scope 1, Scope 2, and Scope 3 not by overcomplicating the issues, worrying about reporting protocols, or purchasing SaaS reporting tools. There is a time and place for addressing these topics, but it isn’t where we started.

Here are some specific examples of what we did to improve costs AND sustainability for our organization that other organizations may also wish to consider:

1) Standardized our field operations fleet to a single platform, with standard configuration, an eco-efficient engine, and piloted telematics. This enabled us to reduce operating costs (fuel consumption, maintenance), as well as the CO_2 emissions of the fleet.

2) Expanded our use of videoconferencing to reduce our travel, as well as utilizing capabilities from our travel agency to show CO2 emissions from the travel. Even something as "small" as modifying our preferred vehicle rental class helped to optimize our travel costs while also reducing CO2 emissions.

3) Conducted energy studies and occupancy studies in our offices and facilities. With a small CAPEX investment, we retrofitted light controls, tinted the windows to reduce HVAC costs, and used a lean tool (6S) to identify hazards and waste, like leaking pipes and faucets. The results were cost improvement and positive impact on areas like emissions and water usage.

4) Utilizing Value Analysis & Value Engineering with Design for X, working with engineering the team simplified a product design. This reduced the raw materials required, the amount of machining required, and simplified other specifications, resulting in shorter lead times, reduced costs, and improved quality, among other results. We took waste out of the process which meant we consumed less energy, created less waste, and generated lower emissions. Thus, we strengthened the business with lower risk and positive financial and sustainability impact.

Making Sustainability a Business Opportunity

Too many organizations simply see sustainability as a compliance exercise. Given all of the regulatory activity around the world related to sustainability, ESG, and the "alphabet soup" of these activities, it isn't hard to understand why that view exists. For the record, there have always been compliance requirements around supply chain and business operations.

Trade compliance, Dodd-Frank (Conflict Minerals), FCPA, ITAR, and other issues have been compliance matters for years. This list of requirements grows each year at all levels. Consider the list of recent additions, such as the EU's Sustainability Reporting Act requiring reporting for all companies >€150M, Australia's GHG reduction mandate, the Uyghur Forced Labor Prevention Act 2022, German Supply Chain Act, and the UK Environment Act 2021, to name just a few.

These may compliance issues may seem like a burden, but if addressed through the lens of risk and opportunity, they do not have to be. In terms of the opportunities, consider the recent U.S. IRA legislation of 2022, which commits $260B to green energy investment in the US, or the US requirements in FAR which seek to use the $690B in federal spending power to drive companies to action. Companies "win" today not just by profitably delivering products and services that meet customer needs, but also by efficiently using resources, positively impacting the environment, benefitting their communities, and demonstrating core values. While there always needs to be a clear understanding of regulatory requirements, the approach to sustainability should not be focused on a reactive response to these always-evolving mandates.

Competitive advantage, new products, new services, differentiators, employer of choice, and industry leadership represent some of the best ways to view the development and integration of a sustainability strategy into the enterprise. Companies that incorporate sustainability into their risk management, product design, service scoping, procurement decisions, and effective use of resources will harvest benefits.

Ultimately, sustainability is about maintaining successful business operations – or sustain to maintain….and grow. If organizations are unable to offer products and services that customers demand, they lose market share. If a company cannot obtain materials because of environmental factors or political issues, they cannot produce their goods and services. If they fail to produce goods and services, they cannot generate profit, pay payrolls, pay their suppliers, and invest in the communities they operate in. They simply cannot SUSTAIN.

By considering sustainability to be a business strategy rooted in risk management and built on proven business methods, leaders have an opportunity to offer innovative products and services with strong financial results and positive impacts for all stakeholders. Measure and communicate those impacts clearly and concisely with goals and milestones, and organizations can have a strong business model that is more than simply able to "comply" with regulations.

So What Should You Do Now?

I work with clients to assess and develop their sustainability approaches following this simple framework:

1) Get started
   a. Build a small team, picking members from different parts of the business and levels
   b. Make this team accountable to the CEO
   c. Educate the team on basic sustainability terminology and elements
   d. Keep the exploration process simple: engage stakeholders to collect their points of view on the business, its risks, and sustainability options

2) Collect data and information
   a. Conduct a simple materiality assessment
   b. Document your current business metrics to understand alignment and or gaps with sustainability
   c. Inventory current projects and continuous improvement activities

3) Make a plan and document it
   a. Develop a charter
   b. Set a timeline with milestones
   c. Set simple goals and targets
   d. Establish communications for telling the story (scorecard, messages, etc.)

4) Start! Then follow a "Plan-Do-Check-Act" improvement cycle

I always recommend that organizations keep things simple at the beginning. Do not get stuck trying to decide on the perfect goals, frameworks, tools, and KPIs. Build a solid foundation. Know your core values and business model, assess risk, include sustainability as an integral risk and opportunity, develop a simple plan, and execute. This strong foundation will support the ability to provide any reporting or regulatory requirements as well as strong financial results with positive environmental and social impact, too.

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Caldwell Hart CPSM CPSD is Principal of CHART Consulting. After decades in supply chain leadership positions, Caldwell now advises organizations on their sustainable procurement and ESG strategies, procurement optimization, and development of supply chain/procurement enabling technology solutions. Caldwell earlier served as Senior Vice President of Supply Chain and Chief Procurement Officer for Turtle and Hughes Inc., a $750M WBE industrial distributor and services company. Previously, he served as Chief Procurement Officer for MKS Instruments, a high-tech manufacturer of equipment and solutions for the semi-conductor and advanced markets industries. Caldwell has served in other senior supply chain management positions, and as Interim Chief Procurement Officer for Dresser-Rand, a Siemens Business providing supply chain solutions for the oil and gas industry. Caldwell earlier held several leadership positions in procurement and operations for Bristol Myers Squibb and the former United Technologies Corporation.