Supply chain has entered everyday speech in headlines about shortages, inflation and employee fatigue. The ability of businesses to operate profitably is challenged by overstretched supply chains and resources, and overstressed people. CSCOs must lead for a new definition of sustainable profit.

What You Need to Know
Sustainable profit is a way of looking at profitability that goes beyond simple financial measures and shareholder concerns. Sustainable profit emphasizes the long term over the short term and so delivers durable profit. It holistically considers the impacts of operations outside the organization by accounting for externalities. It considers the concerns of all stakeholders, not just shareholders and in so doing develops resilience by uncovering more shocks and disruptions before they materialize.

What is sustainable profit?
- It ensures that short-term profit doesn’t come at the expense of long-term profit, which makes it durable.
- It accounts for externalities beyond the boundaries of the organization, which makes it holistic.
- It addresses a broader set of stakeholders’ concerns and reduces surprises, which makes it resilient.
Analysis

For decades, cost optimization and ever faster delivery has enabled supply chain leaders to drive innovation, deliver goods around the world and create profit to shareholders. However, these successes haven't come without a price. We have stressed the limits of natural resources, upset natural ecosystems with waste and greenhouse gas emissions, and strained the people who work in the supply chain as well as those who live in the communities within which they operate. Financial profit simply does not capture all of the impacts of companies’ operations, so the definition needs to be expanded to one of sustainable profit if companies hope to have a healthy customer base, planet and workforce in the future (see Figure 1).

Figure 1: Sustainable Profit

Sustainable Profit
Durable
Holistic
Resilient
In many ways the term “sustainable” is analogous to “profitable” in that it provides the context for an enterprise to make decisions about resource use with a particular goal in mind. Transforming decision-making criteria around profit to be more sustainable calls for consideration of a broader set of long-term impacts on the business and its performance, rather than focusing only on immediate or short-term benefits. For example, that might include taking a position on market externalities such as GHG emissions and considering how that presents opportunities or poses potential financial liabilities and/or reputational and operational risks. A market externality is a consequence or “cost” not currently reflected in the market prices — so, for example, carbon emitted into the atmosphere is free, pollination of crops by bees is free — both are examples of market externalities.

The “sustainable” in “sustainable profit” is not used only for its relation to the planetary impacts, but also the longevity and viability of the business and the pressure that employees and communities can support.

As we look anew at profit, people and planet through the Sustainable Profit lens, we see:

- **Profit:** Companies are operating on a finite world, but financial profit does not account for planetary boundaries. The world's population is growing, and consumption has grown even faster to the point where many natural ecosystems have been overstretched. Our impact is significant — there is now more mass of plastic than mass of animals in the land and sea. ¹ Short-term profits may well be enhanced by continuing or even accelerating the exploitation of more of the world's resources, but there will be impacts on long-term viability of value streams. We are already seeing the price of many commodities increasing in volatility in global markets, from energy costs to key raw material costs. Long-term energy costs will be determined by the green energy transition. Long-term raw material costs will be dependent on more circular models.

- **People:** The pandemic has had a massive additional impact on people's physical health, but also continued to accelerate the deteriorating mental health statistics in the workforce at large. From fields to factories, people have been pushing through to do their jobs, to deliver for their businesses and customers. But, in the last 12 months, 55% of employees have experienced significantly damaged health, according to a 2021 Gartner survey among more than 3,500 employees. ²
In response, many leading organizations are aligning themselves to new ways of looking at profit. Over 4,000 companies have chosen to become B-Corps, legally committing themselves to consider the impacts on all stakeholders, not just shareholders. Large companies too are part of this growing movement across industries. Instead of focusing solely on maximizing shareholder value, they are adopting stakeholder capitalism. This concept was expressed in 2019 via a statement issued by the Business Roundtable, a consortium of large U.S. companies. In it, 181 CEOs pledged to redefine the purposes of their respective corporations such that they would serve all of their stakeholders: customers, employees, suppliers and local communities, as well as investors. This was followed in 2020, when the World Economic Forum defined a common set of 24 stakeholder capitalism metrics. All of these shifts lead toward an expanded view of profit — one that we call sustainable profit. Sustainable profit is durable, resilient and holistic:

- **Durable profit**: Supply chains must adapt and embrace circularity, energy transition, stewardship of resources, protection of communities and employees’ health and well-being in order to have a viable customer base, partners and business operations that can deliver profit in the long term.

- **Holistic profit**: Supply chains must account for externalities, consequences from their activities that don’t show up in today’s profit and loss (P&L) but instead fall involuntarily on another party, such as manufacturing operations outsourced to another country that impact air and soil quality and drive up health costs.

- **Resilient profit**: Supply chains that are disconnected from the concerns of stakeholders other than shareholders have not sought to use materiality assessments of broader stakeholders’ key concerns. This leaves them blind to valuable insights which could help them foresee future disruptions to their businesses. It leaves profit exposed and less resilient. For example, addressing the concerns of employees will create conditions that will mitigate skills gaps by retaining talent at times of shortages.

**Planet**: For decades greenhouse gas emission (GHG) has driven climate change. As companies pledge to net zero and governments update their nationally determined contributions (NDCs) for COP 26, the U.N. report that even if those promises were achieved we could still see a 2.7 degrees Celsius rise by 2100 compared to preindustrial levels. The consequences to this are almost unimaginable, and beyond the scope of this note, except to say that the viability of most businesses would be sorely tested as the world moves beyond 2 degrees.
Stakeholder groups such as investors, customers, suppliers and employees have all responded well to the new focus on truly sustainable profit. In contrast, companies that aren't demonstrating that they are serious about delivering long-term profits without adversely impacting the planet and people will be open to stakeholder direct action. For example, BlackRock (one of the largest investment firms in the world) has publicly announced its net zero carbon emissions commitment and is actively asserting its influence on business decisions for more sustainability. At another level, individual stakeholders are taking action too. Consumers worldwide increasingly vote with their wallets and employees are voting with their (increasingly virtual) feet. Government stakeholders continue to increase oversight and regulate business priorities through expanded laws and requirements of doing business.

**Recommendations**

CSCOs and supply chain leaders must move beyond the conventional solely financial view of profit by:

- Addressing business model shifts and growing stakeholder concerns by developing new circular economy models and adopting other strategies. These strategies must account for the finite nature of resources, including natural materials and employees' energy to support long-term durable profit.

- Moving to holistic profit by accounting for externalities fully within your P&L statements, adopting stakeholder capitalism metrics and factoring holistic carbon costs into decision making processes for capital investments.

- Identifying emerging social, political and environmental disruption by embedding robust, proactive risk management practices and creating an appropriate risk response to assure resilient profit.

**Evidence**


4. About B Lab, B Lab.
5 Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’, Business Roundtable.


7 BlackRock to Back Proposals From Climate Activists, Financial Review.

8 The Rise of Brand Activism Is It Impactful?, Piplsay.

9 2021 Gartner Hybrid Work Employee Survey. We surveyed over 3,000 knowledge workers throughout a wide range of industries, functions, geographies and current work statuses to understand their preferences and challenges related to current and future work design. We also interviewed HR leaders at more than 65 organizations and surveyed over 75 HR executives to determine how organizations are adapting their work design.

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

Ignition Guide to Conducting a Materiality Assessment

Video: Sustainable Procurement — People. Planet. Profit

Define Sustainability and Leverage Materiality to Drive More Effective Strategy

Ignition Guide to Assessing Materiality to Formulate a Sustainability Strategy

Sustainability: What to Do When Stakeholders Want You to Save the World

Supply Chain Executive Report: Purpose-Driven Supply Chains Deliver Value to Stakeholders

The DEI Leader's Role in Stakeholder Capitalism

Supply Chain Executive Report: Revolutionize Talent by Winning With Gen Z and Millennials