Barriers to sustainability in the Nordic Retail trade

Barriers
Although some proactive retailers would like to - and do engage in sustainability work, they often find the journey quite challenging. In this section barriers for retailers to initiate, maintain and expand their sustainability work upstream, in-house and downstream the supply chain are outlined based on extant literature about European retailers, as well as a survey and interviews with Nordic retailers.

Financial
One of the barriers to initiating socially responsible purchasing is the need to justify the activity and its cost to the Board of Directors based purely on the business benefit or profit for the company, since neither private nor public organisations are run as charity institutions (Whitehouse, 2006). Business logic and bottom-lines steer Board rooms and therefore the right arguments need to be found to justify the undertaking. Norgesgruppen (NO) confirmed this by identifying as a barrier the need for environmental issues to compete on equal terms with other areas where resources and investments are needed.

The costs of actions to reduce environmental impacts can thus be a barrier for retailers (BIO Intelligence Service, 2009). “The investment costs could represent a barrier for those actions that do not result directly in economic savings, such as for example in the case of projects related to the eco-design of products.” (BIO Intelligence Service, 2009: 51). Additional costs may arise in the short term from the need to develop additional systems to collect information about stakeholder expectations, to process the information, to develop internal and external strategies for greening supply chains and procedures, and to implement them (Maignan, et al., 2002). All contacted Nordic retailers confirmed that financial resources are one of the main barriers for strategic and systematic environmental work. As COOP-SE put it: “In certain areas, actions to lower our environmental impact require large scale and long-term investments, e.g. replacing refrigerators and freezers in stores. There is a lack of incentives for green investments despite cost savings, since such investments are often limited by restrictions in financing (limited investment funds), by long payback periods, and sometimes by internal administrative systems where recurrent and investment costs are dealt with separately.” Norgesgruppen (NO) also supported this view: “Consumers want environmental products at low cost. Due to economies of scale it is often difficult to give them both”. REMA 1000 DK also mentioned that the lack of resources in the organisation is a barrier to increasing the assortment of green and ecological products in shops: “some green products are too expensive for the discount market”.

A general problem for incorporating social and environmental issues is that both the focal organisation and its suppliers have difficulties with imposing changes or checking the performance beyond the first tier suppliers. This does not mean that organisations do not recognise the possibility of problems arising upstream in the supply chain, but they may lack resources, both financial and strategic (such as internal capabilities and knowledge) to address these potential problems (Welford and Frost, 2006).

Lack of resources may also be seen in terms of staff time in the company to develop the business case and manage the supply chain (Almaani, et al., 2004).

Very few retailers actually audit their suppliers. Some prefer putting demands on suppliers in terms of ISO 14001 certification or eco-labelling for products. In these cases it is much easier for retailers to trust the environmental and social quality of products. Audits for socially and environmentally responsible practices require significant inputs of time, internal capabilities and financial resources from focal organisations. In order to reduce these costs, they may hire external auditors to check supplier performance. While hiring external auditors might reduce the cost of supply chain management by reducing on-site inspection costs, focal companies might be unsatisfied with the quality of the work undertaken. If a company is interested in establishing long-term collaborative relations with its suppliers, then developing internal capacity by educating the company’s own auditors is preferred and is considered to be a cheaper option in the long run.

Suomen Lähikauppa (FI) identified the company’s own critical financial situation as a barrier.

Strategic
First mover disadvantage: Retailers that are innovative in their work on sustainability might have an early mover advantage when governments bring in policies that favour sustainable products and services and penalise those with significant environmental impacts (WBCSD, 2006). Until then, the first movers are/were often loosing on being the first and had to come up with strategies for attracting consumers by subsidising green products or by reducing their profit margins. In addition, by marketing their sustainability work in the supply chain retailers may bring media attention to the company that might uncover problematic areas that the company has not addressed yet (Schmidt, et al., 2009: 25). This barrier has also been named by some Nordic retailers. For example, COOP-SE mentioned that “the lack of sufficient support to the frontrunners in primary production and the processing industry places a heavy responsibility on the retailers to support and encourage environmental improvements upstream in the product chain”. KESKO (FI) reported in interview that “sometimes there is a first mover disadvantage in some individual projects. But overall there are better cost savings if we do not wait for regulations but are proactive ourselves. Environmental issues are easier to address, while in some social responsibility issues it is difficult to develop the business case”.

There is often lack of a robust business case that arises from conflicting business priorities between procurement, marketing and environment teams within the company (Almaani, et al., 2004). For example, environmentally and socially sound products typically cost more and sometimes retailers subsidise them by lowering their margins, which goes against the traditional business logic of seeking the highest possible returns. Similarly, marketing campaigns such as “buy two get one for free” trigger consumers to buy more than they actually need. The environmental department might be willing to take away this campaign, while the marketing department would see it as one of the most effective ways of selling more products and generating profits.

A further barrier is the lack of an independent measure for evaluating sustainability efforts in the retail sector: without such an independent assessment, retailers can make a variety of claims which are difficult for consumers to verify, value or compare; however, sustainability is such a complex issue, and the range of activities undertaken by retailers is so varied, that an independent assessment framework might be very difficult to establish and use successfully (Ipsos MORI, 2007).

In addition to these barriers, some of the Nordic retailers identified lack of general knowledge about environmental issues and the strategies for retailers to improve their environmental performance as a barrier.

S Group (FI) specified as a barrier lack of sufficient performance indicators in order to monitor, control and reward good environmental performance of shops and the entire group. In particular, S Group (FI) reported lack of information and knowledge about cost-effective opportunities to improve the environment as an important barrier. “This is due to insufficient and incommensurable reporting systems, e.g. by suppliers and service providers (e.g. waste haulers). Once it is possible to, e.g. compare electricity consumption in all outlets for different purposes and in relation to different measures, it will be possible to identify problems and best practices and spread them throughout the group”.

Market

Although many consumers report an interest in buying sustainable products, this does not always translate into regular and significant demand for greener products; retailers believe that price remains the most important factor in consumer decision-making (BIO Intelligence Service, 2009, Schmidt, et al., 2009: 5). Greener products are often more costly to produce, and this higher price negatively influences consumer decision-making and reduces potential sales of green products. The main market barrier identified by Nordic retailers was higher prices for ecological and organic products. For example, COOP-SE expressed that “Small volumes and higher production costs are two main factors behind the fact that consumer prices are higher on eco-products than ordinary products. In some product categories, e.g. chicken, the limited supply of eco-products also limits the demand”.

There is still significant consumer confusion about the various environmental and social labels, so labels themselves are less effective without campaigns to promote consumer understanding (BIO Intelligence Service, 2009). S Group (FI) also mentioned the confusing array of labels as a barrier. “Companies put carbon footprint labels on their products, but it is not clear to consumers what they mean. S Group is careful in introducing new labels unless the added value for consumers is clear: can the consumers interpret the labels, do they influence consumption decisions?”. KESKO (FI) supports that view: “Confusing labels are one clear problem for the trade. Even for our own people, it requires time and effort to figure out the background of various new labels, which unfortunately will continue to proliferate in the future”. 
There is a certain difficulty in collecting information on consumer preferences. Retailers need to anticipate the expectations of consumers, as they are not usually communicated while shopping, but consumers can only choose from the range of goods presented to them and so it cannot be assumed that they do not desire something more sustainable just because they haven’t asked for it (NCC and SDC, 2006: 29). Another barrier with regard to consumer preferences was identified by KESKO (FI): the “attitude-behaviour gap”, which is well-known both from scientific literature and practical experience: “In surveys, people say they will choose environmental products, but real sales are actually small, e.g. organic products in Finland”.

Reliability of supply is one of the barriers for sustainability work, since there is still a lack of environmentally and socially sound alternatives to traditional products. There are concerns about the capacity of the supply chain to provide greener products (Almaani, et al., 2004). For example, Malmö community is working with introducing organic chicken in schools, and has discovered that there is only one producer of organic chicken in Sweden, who cannot fulfil the demand of Malmö schools.

Regulatory
Regulations that restrict the use of substances (e.g. EuP Directive and RoHS Regulations), as well as food safety standards and obligatory eco-design, are considered to be effective routes to environmental protection; however, retailers generally do not favour such regulations due to the cost implications, particularly when regulations differ between countries (BIO Intelligence Service 2009: 50), as, for example, in the cases of food labelling requirements and food safety standards. KESKO (FI) confirmed that the cost of regulatory compliance may become a barrier.

COOP-SE mentioned that regulatory instruments per se may become a barrier: “The failure to create global market mechanisms for externalities such as carbon emissions, i.e. to set a price on carbon emissions, is a huge barrier to introduce more environmentally friendly production and distribution systems”. Taking into account that all retailers saw higher prices of ecological products as a barrier, the lack of Environmental Tax Reform or any other mechanism to incorporate environmental externalities into product costs must be seen by retailers as a significant regulatory barrier.

Norgesgruppen (NO) expressed dissatisfaction with too few strict/smart regulations and/or good incentives that would influence retailers’ business environment.

Managerial
Some companies lack top management commitment, or the commitment may end when resources are needed for implementation of the policy or the Code of Conduct (Maignan, et al., 2002), especially if the company, in order to comply with its Code of Conduct, needs to choose better performing - and therefore more expensive supplies. The level of top management commitment therefore is decisive for purchasing managers to decide to what extent sustainability work is to be implemented in the company and how proactive they may be with introducing sustainability to their supply chains. Support at board level is also crucial for creating the interest and willingness to improve environmental performance and to establish it as a core value in the corporate culture (Almaani, et al., 2004).

Introducing environmentally and socially responsible purchasing may lead to significant changes in the focal organisation. For example it may necessitate changes in processes and systems for supplier selection, level of employee training, and procedures of verification and performance assessment. It may also impact product design, logistics and maintenance processes, as well as skills and competencies of procurement staff (Vassallo, et al., 2008).

Other internal barriers can be lack of training and lack of information in the focal organisation regarding social and environmental aspects in the supply chain. Organisations may have advanced systems for dealing with environmental and social issues within the organisation, but have very little understanding of what issues can arise upstream in the supply chain, how they can affect reputation, and how to develop a system for addressing issues arising in their supply chain.

In addition to these barriers, Nordic retailers mentioned lack of systematic work with environmental issues among suppliers and partners as a significant barrier. According to COOP-SE: “There is still some work to be done on integrating environmental issues into general business relations”. ISL (IS) mentioned that “if there is no interest in environmental work among the staff, it is a barrier to marketing new products”. Suomen Lähikauppa (FI) mentioned that due to their financial situation, top management focuses on environmental issues that make a direct contribution to cost savings or bring immediate financial benefits.
References


