

Management Report: The Current Level of Sustainability at Lineage Logistics

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Lineage Logistics started our journey of becoming a more sustainable company five years ago. Our intention at that time was to learn more and set realistic goals in alignment with our peers in the food supply chain and warehousing industry. While we have made strides forward in reducing our negative impact on the environment, we acknowledge that we can and should do more. We are operating in an uncertain market that is increasingly competitive. As agreed in our 2023 leadership strategy objectives, we aim to become a global sustainability leader in our industry by 2030. We believe this objective will help us to better fulfill our purpose of transforming the world's food supply chain to eliminate waste and help feed the world.

To get where we want to go, we must first understand where we are now. The intention of this management report is to analyze the current level of our environmental, social and governance (ESG) framework. The report provides a critical evaluation of our entire value chain and proposes solutions to solve ESG challenges through education and innovation. As a company with 350 warehouses and 17,000 employees across 15 countries, it is essential that we have a succinct vision and strategy for ESG in alignment with our purpose and values.

Lineage Logistics launched our first sustainability report in 2022. To ensure the upmost integrity and consistency of our reporting, we followed the Global Reporting Initiative standards (Lineage Logistics, 2022). The launch of our first report of this kind publicly solidifies our commitment to sustainability and acknowledges growing consumer demand for corporate responsibility. Over 60 percent of US consumers are willing to “pay more for a product with sustainable packaging” and 78 percent “say that a sustainable lifestyle is important to them” (Am et al., 2023). Growing consumer demand for corporate responsibility will further drive competitiveness in our industry. Companies can differentiate themselves in this highly competitive market by offering relevant ESG-related products and services (Am et al., 2023). Consumer accountability and expectations are rising, and we must ensure we have the right culture, processes, and governance in place to achieve our ambitious goals.

After conducting an internal ESG assessment, we identified four main areas of focus with correlating actions attached to each one. The focus areas shown below represent the top priorities for Lineage Logistics to improve our current level of sustainability throughout our entire value chain.



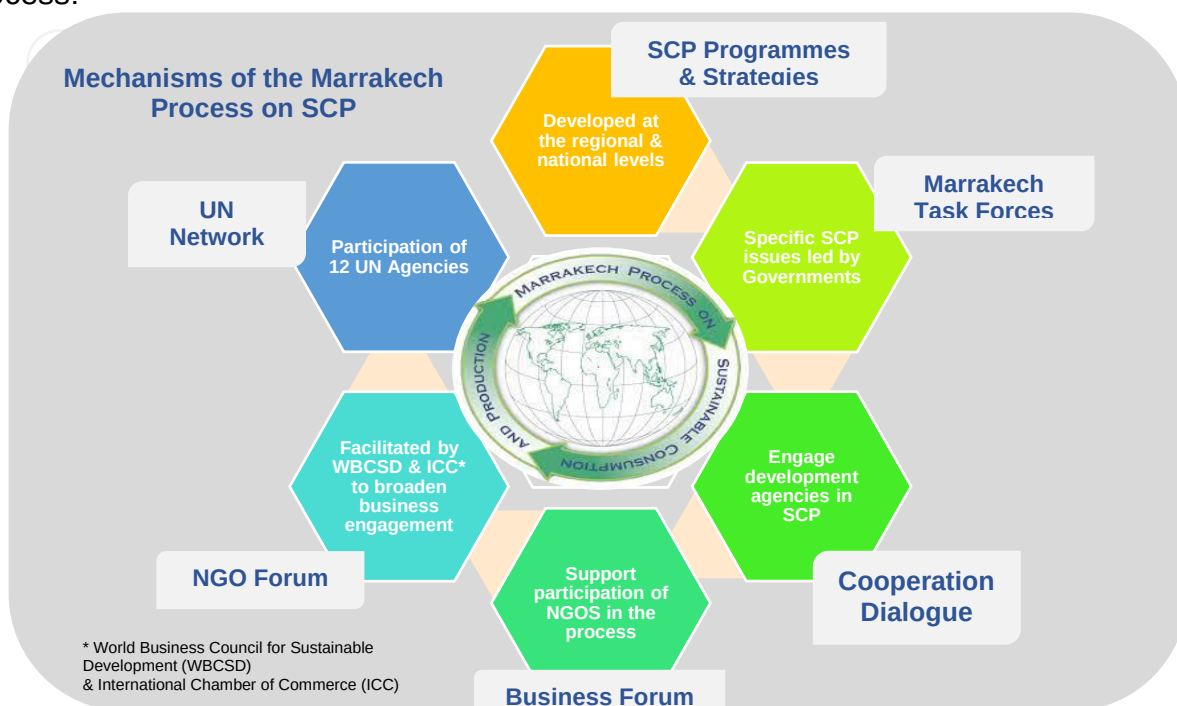
(Lineage Logistics, 2022)

To achieve our four focus areas, we need to better leverage our support functions to optimize our efficiency and drive transformation across the organization. According to a report from Boston Consulting Group, “excellent functional level strategies can yield cost savings and greater customer satisfaction as well as provide a more responsive platform for driving transformation” (Rehse et al., 2022). At Lineage Logistics, our core supporting functions are Finance, Continuous Improvement, Human Resources, Technology and Procurement.

Lineage Logistics has a strong culture of continuous improvement, which we promote through our values of safety and respect. The Continuous Improvement function is made up of 25 project managers based in the US headquarters. The project managers are deployed on annual assignments to carry out projects to improve our operational efficiency. Each project manager is responsible for a specific warehouse or a regional cluster of warehouses. This model has been a success, as we have either met or exceeded all operational efficiency targets in the last three years since the Continuous Improvement function was created in 2020. The operational efficiency objectives are developed by the central leadership team based on data and feedback from regional operations leaders. The projects related to these objectives are led by the Continuous Improvement project managers.

The success of our Continuous Improvement function can be leveraged to take our sustainability initiatives to the next level throughout the organization. We can reference the success of the framework developed through the Marrakech Task Force on Sustainable Lifestyles. This program was created in 2005 by the Swedish Ministry of the Environment, with support from the United Nations Environment Programme (UNEP). The mission was created to help spread and implement sustainable consumption and production (SCP) in regional markets around the world (UNEP, 2023).

According to UNEP, “the Marrakech process is a dynamic multi-stakeholder platform for the implementation of SCP and the elaboration of a 10-Year Framework of Programmes on SCP” (UNEP/DTIE, 2023). The graphic below is from the UNEP’s project brief on the process:



This framework of the Marrakech Task Force “has provided effective tools and capacity building activities” (UNEP/DTIE, 2023). A framework and task force such as this is transferable to Lineage Logistics. The ESG focus areas identified in our Sustainability Report can be executed globally through our Continuous Improvement project managers. They will serve as the bridge between the corporate central functions and the global operations teams. As globalization and acquisitions take our business to new places, we need to manage push back and confusion from our globally dispersed teams and value chain. It will be essential for the project managers to involve and communicate with local stakeholders every step of the way. This will help drive the effectiveness and adoption of the sustainability objectives.

Potential issues may emerge between our ESG initiatives and the operational and economic objectives of the warehouses. A solution to this potential conflict of interest is to motivate employees to focus on our ESG initiatives through their performance bonuses. Performance bonuses are paid based on the achievement of overall company key performance indicators (KPI) as well as individual KPI achievement. Starting in 2025, we propose to add at least one ESG-related KPI to the company and individual objectives. From an economic perspective, this will help drive accountability and increased focus on ESG initiatives. This sends a message that sustainability initiatives are a performance expectation at Lineage Logistics, and everyone needs to take responsibility and accountability.

While economic motivation is important, education and communication are needed in parallel to ensure wholistic understanding. Research suggests that if we push ESG initiatives without explaining why they are important, the initiatives will fall flat and not be sustainable or impactful in the long run. Corporate sustainability management needs to be embedded into our culture through education and awareness, with an outward lens on the context of economic competitiveness and the overall business environment of society (Schaltegger, S. and Horisch, J., 2015). Embedding ESG into our culture is an integral part of fulfilling the four sustainability focus areas.

Every employee at Lineage Logistics should feel accountable for and understand our ESG objectives. According to the most recent employee feedback survey, only 40% of employees reported feel part of the company’s sustainability solutions. There is a substantial amount of opportunity to increase this number. The Human Resources function can serve as a catalyst in driving awareness of the company’s ESG objectives. Increased awareness and understanding can help employees to feel more accountable for the part they play in our sustainability solutions.

The Human Resources function at Lineage Logistics is a global team of 150 employees split between three sub-functions: Corporate HR, Plant HR, and Talent & Performance Management. Corporate and Plant HR partners currently run a monthly training program called Leading in the Lineage Way for new hires to learn about the company values, purpose, processes, and organizational structure. There is currently no content in the training related to ESG. Leading in the Lineage Way can be a great opportunity to provide education to employees on our ESG focus areas and the corresponding actions associated with them. “Research has shown how ESG or CSR initiatives support a company’s positive reputation which may be positively related to employee’s commitment” (Singh et al., 2023). Furthermore, research shows that a positive reputation also increases the identification employees feel towards the company they work for (Singh et al., 2023).

In 2021, Lineage Logistics signed The Climate Pledge (Lineage Logistics, 2022). This is a commitment to achieve net zero carbon emissions by 2040. While we recognize there is a long road ahead, we want to acknowledge the solutions that have already been successfully deployed to reduce our carbon emissions. Our warehouse in Colton, California, USA “is our first facility to produce 100% of its own energy consumption on-site on a net basis via linear generators and solar power” (Lineage Logistics, 2022). We have developed a blueprint to replicate this framework in all new warehouses moving forward. We currently have over 70 automated facilities. Automation allows us to build narrower warehouses which leads to a smaller footprint and less heat infiltration into the building, therefore, reducing our energy consumption (Lineage Logistics, 2022).

While we are proud of the progress that has gotten us to this point, we know that we need to continue innovating and creating new solutions to reach our objectives. Lineage Logistics has an award-winning Data Science program based in San Francisco, California, USA. The work of the Data science team was acknowledged by the United States Department of Energy in a 2021 article titled, “Lineage Logistics: Data Science Team Drives Energy Savings in Cold Storage” (U.S. Department of Energy, 2021). The Data Science team gives Lineage Logistics a competitive advantage in reaching our goal to be the industry leader in sustainability, and to create innovative solutions to decrease our carbon emissions. To take it a step further, we can also share these solutions with the rest of the industry, as well as our entire value chain of suppliers and clients.

The Data Science team has worked on numerous energy-reducing projects since the team was formed in 2013. These projects “address racking configuration, warehouse operations algorithms, blast freezing, control system optimization, and rate structure selection” (U.S. Department of Energy, 2021). To build upon these innovative solutions, the company needs to optimize the talent of this team by providing the right support, growth, and development. A potential issue is the competitive employment landscape, especially for in-demand skills such as data science. Data Scientists were the seventh most in-demand career last year (Ziv, 2022). To prevent retention turnover of this in-demand team, we must ensure that their compensation is competitive, and they have well-crafted development plans for future career trajectory at Lineage Logistics.

Lineage Logistics must fight against the notion that companies only exist to make “as much profit as possible within the rules of the game”, as stated by Milton Friedman in his famous New York Times essay in rules (Friedman, 1970). The business environment and consumer expectations of corporate social responsibility have changed. We now know that boundless capitalism comes at a great cost to society and the environment (Patel, 2011). Businesses and society must systematically change to be part of a future that is regenerative and distributive, not growth at any cost. This requires a change in the way we think.

Deep design is a concept of Doughnut Economics, created by Kate Raworth, who is part of Oxford University’s Environmental Change Institute. Raworth authored the book *Doughnut Economics: Seven Ways to Think Like a 21st-Century Economist* (Monbiot, 2017). This concept proposes that business can transform their deep design “through innovations in its purpose, networks, governance, ownership, and finance” (Monbiot, 2017). An initial proposal of how Lineage Logistics can work towards adopting Doughnut Economics is listed below:

PURPOSE	Lineage Logistics needs to live our purpose of transforming the world's food supply chain to eliminate waste and help feed the world. Beyond our words, this needs to be instilled in everything we do; from the corporate functions to warehouse operations.
NETWORKS	Create a supplier code of ethics that requires our partners to uphold our ESG targets related to environmental sustainability and employee wellbeing. We can also share our carbon reduction insights with the industry.
GOVERNANCE	Build upon the foundation of our first Sustainability Report in 2022 by broadening our reporting and measurement capabilities.
OWNERSHIP	Drive accountability by adding at least one ESG-related objective to the overall company KPIs and individual employee KPIs that are linked to performance bonuses.
FINANCE	Adapt our financial planning and reporting to support a regenerative and distributive business model.

More research is needed to determine the company's path forward towards a deep design transformation, however, the information outlined above is a starting point for our journey.

ESG expertise is a key element to take us where we want to go. The company currently does not have internal expertise in this area. Outside consultants were leveraged to help us create our first sustainability report, however, now is time to hire an internal ESG specialist who can help us drive the cultural shift that is needed to achieve our sustainability goals. The proposal is to hire a director-level ESG expert who will be tasked with shaping a 10-year framework for initiatives related out four focus areas and the correlating actions. In parallel, they will research and propose solutions for deep design transformation across the entire value chain. This is a pivotal role that will work closely with the executive leadership team on overall ESG strategy, and partner with cross-function teams to understand areas of opportunity. They will be supported by a team of two dedicated project managers from the Continuous Improvement function.

Based on the research and analysis of Lineage's current level of sustainability, our recommended actions to the leadership team are listed below:

- Hire one additional headcount in the headquarters for an ESG Director to drive overall strategy and planning
 - In partnership with the executive leadership team and cross-functional feedback, the ESG Director will be tasked with shaping a 10-year framework for initiatives related out four focus areas and the correlating actions
 - The framework will be implemented at a regional / local level by the Continuous Improvement Project Managers
- All employees will go through Leading in The Lineage Way training, with a specific focus on ESG topics
- Create a supplier code of ethics that requires our partners to uphold our ESG targets related to environmental sustainability and employee wellbeing
- The overall company KPIs and individual employee KPIs will have at least one ESG-related objective that will be linked to annual performance bonuses

Lineage Logistics humbly started our sustainability journey five years ago. We have learned and achieved a lot since that point, but we still have a long and challenging road ahead related to globalization, increasing consumer awareness, and an ever-changing business environment. By implementing the actions proposed in this report, the company can build upon our strong ESG foundation and future-proof our business. This will create a long runway of many successful years ahead living out our purpose of transforming the world's food supply chain to eliminate waste and help feed the world.

CITATIONS

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