iJRASET
International Journal For Research in Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 13 **Issue:** XII **Month of publication:** December 2025

DOI: https://doi.org/10.22214/ijraset.2025.76094

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International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue XII Dec 2025- Available at www.ijraset.com

Sustainable Supply Chain Management: A Cross-Disciplinary Analysis of Environmental Economics and Corporate Strategy

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Abstract: ***Sustainable Supply Chain Management (SSCM) has emerged as a critical domain at the intersection of environmental economics and corporate strategy. Traditional supply chains were designed primarily to minimize cost and maximize efficiency; today, they must also internalize environmental externalities, manage climate and resource risks, and respond to evolving stakeholder expectations. This paper offers a cross-disciplinary analysis of SSCM by integrating core concepts from environmental economics, such as externalities, public goods, and optimal resource use, with strategic management perspectives on competitive advantage, value creation, and firm capabilities. Drawing on key books in environmental economics and supply chain management, the paper develops an integrated conceptual framework for sustainable value creation along the supply chain. A brief qualitative methodology section explains the use of conceptual synthesis and illustrative case studies. The discussion analyses how instruments like carbon pricing, life-cycle costing, and extended producer responsibility intersect with strategic tools such as the value chain, resource-based view, and dynamic capabilities to reshape supply chain design and governance. Case studies of Unilever, Walmart, Patagonia, and Toyota demonstrate how leading firms leverage SSCM to reduce environmental impacts while pursuing strategic benefits, and also highlight persistent challenges and trade-offs. The paper concludes that integrating environmental economic logic into corporate strategy is no longer peripheral but central to building resilient, competitive, and future-ready supply chains.***

Keywords: Sustainable Supply Chain Management, Environmental Economics, Corporate Strategy, Triple Bottom Line, Carbon Footprint, Circular Economy, Competitive Advantage

I. INTRODUCTION

Supply chains are the circulatory systems of the global economy. For decades, management theory focused on cost, quality, speed, and flexibility as the primary drivers of supply chain performance. Chopra and Meindl define supply chain management as the integration of key business processes, from end users through original suppliers, to provide products, services, and information that add value for customers and stakeholders (Chopra and Meindl). Yet as climate change, biodiversity loss, and resource depletion intensify, this traditional view has become too narrow. Environmental impacts that were once “external” to firms now feedback as regulatory risks, reputational pressures, and physical disruptions to supply chains themselves.

Environmental economics provides a critical lens for understanding why these issues arise and how they might be addressed. Tietenberg and Lewis demonstrate how environmental problems frequently arise from unpriced externalities, such as pollution, greenhouse gas emissions, and habitat destruction, which are often exacerbated by incomplete property rights and information failures (Tietenberg and Lewis). When firms optimize their private costs in such a context, socially optimal outcomes are unlikely to emerge. In supply chains, this misalignment is magnified: emissions and ecological impacts are spread across multiple tiers of suppliers, often in jurisdictions with weak environmental governance.

At the same time, corporate strategy literature emphasizes that competitive advantage arises from unique configurations of activities and capabilities that competitors cannot easily replicate. Porter’s work on competitive advantage argues that firms outperform rivals by either delivering comparable value at lower cost or offering superior value that justifies a premium, enabled by an internally consistent “activity system” (Porter).

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Hart extends this logic into the sustainability realm, arguing that environmental and social challenges can become powerful drivers of innovation, new markets, and long-term shareholder value when integrated into core strategy rather than treated as peripheral compliance (Hart). Books such as *Greening the Supply Chain*, edited by Joseph Sarkis, and Seuring and Müller's *Handbook of Sustainable Supply Chain Management* highlight how supply chains are increasingly central to firms' environmental footprints and strategic positioning. Esty and Winston's *Green to Gold* and Laszlo's *Sustainable Value* further demonstrate that firms can "do well by doing good" when they systematically align environmental strategy with value creation and risk reduction.

This paper builds on these strands of literature to ask: How can environmental economics and corporate strategy jointly inform the design and governance of sustainable supply chains? It argues that SSCM is best understood as a cross-disciplinary field that uses environmental-economic tools to internalize ecological costs while employing strategic frameworks to translate that internalization into durable competitive advantage.

II. CONCEPTUAL BACKGROUND

A. *Environmental Economics and Supply Chain Externalities*

Environmental economics examines how markets can fail to allocate environmental resources efficiently and what policy and institutional responses might correct these failures. Tietenberg and Lewis emphasize three recurring issues: externalities, public goods, and common-pool resources (Tietenberg and Lewis). In global supply chains, these appear as:

- Negative externalities: upstream suppliers emitting CO_2, discharging effluents, or causing deforestation without bearing the full social cost.
- Public goods: climate stability and biodiversity, which are under-provided because no single firm fully captures the benefits of protecting them.
- Common-pool resources: fisheries, forests, and groundwater shared among multiple users, leading to over-extraction.

Tools such as Pigouvian taxes, cap-and-trade systems, tradable permits, and product take-back schemes aim to "price in" environmental impacts. When carbon pricing, extended producer responsibility, or eco-taxes are applied, supply chain decisions (e.g., sourcing locations, transport modes, packaging designs) change because relative costs shift.

B. *Corporate Strategy and Supply Chain Design*

Chopra and Meindl connect supply chain design with business strategy, stressing the alignment between competitive priorities (cost, responsiveness, variety, sustainability) and network configuration, inventory policies, and sourcing structures (Chopra and Meindl). Porter's value chain framework shows that a firm's competitive advantage stems from how it configures and coordinates activities such as inbound logistics, operations, outbound logistics, marketing, and service (Porter). Environmental performance is embedded in each of these activities: energy efficiency in operations, modal choice in transport, materials selection in sourcing, and circularity in after-sales services. Hart's *Capitalism at the Crossroads* proposes that firms develop "sustainability-driven capabilities" such as pollution prevention, product stewardship, and base-of-the-pyramid solutions, which require rethinking supply chains from linear "take-make-dispose" models toward circular, regenerative systems (Hart). Esty and Winston similarly show that leading firms integrate environmental criteria into supplier selection, product design, and logistics to innovate, reduce risk, and differentiate their brands (Esty and Winston).

III. METHODOLOGY

This research adopts a qualitative, conceptual methodology that integrates insights from environmental economics, supply chain management, and corporate strategy. The approach consists of three steps:

1) Literature synthesis: Key books in environmental economics (e.g., Tietenberg and Lewis), supply chain management (Chopra and Meindl), and sustainable business and SSCM (Sarkis; Seuring and Müller; Hart; Esty and Winston; Laszlo) are reviewed to identify core concepts and recurring themes relevant to sustainable supply chains.

2) Conceptual integration: Concepts such as externalities, carbon pricing, and resource scarcity are mapped onto strategic notions like value chain configuration, resource-based advantage, and dynamic capabilities. This yields an integrated framework for understanding how environmental economic logic can shape strategic supply chain decisions.

3) Illustrative case studies: Publicly available information on selected multinational firms (Unilever, Walmart, Patagonia, and Toyota) is used to illustrate how the integrated framework is applied in practice, highlighting both achievements and challenges in SSCM. These case vignettes are not exhaustive empirical studies but "theory-illustrating" examples.

This methodology is appropriate for a field that is still evolving conceptually and where cross-disciplinary integration is essential to move beyond siloed economic, environmental, or logistical analyses.

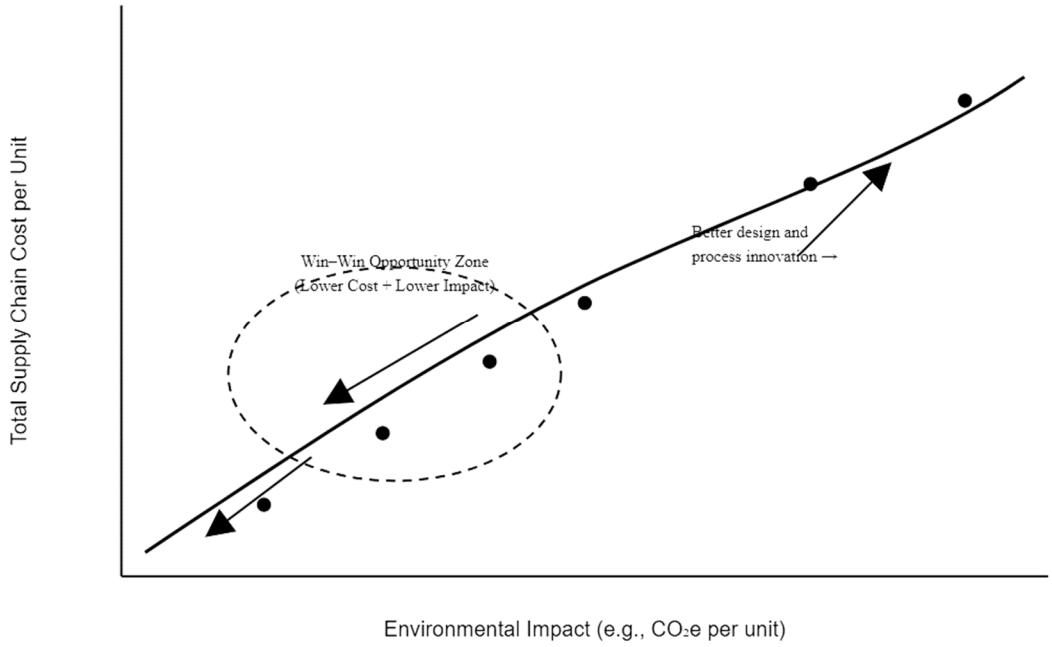
IV. DISCUSSION: INTEGRATING ENVIRONMENTAL ECONOMICS AND CORPORATE STRATEGY IN SSCM

A. From Cost Minimization to Sustainable Value Creation

Traditional supply chains optimize for cost and service level, often treating environmental requirements as constraints. A sustainability-oriented view reframes environmental performance as a source of value. Laszlo argues that "sustainable value" arises when firms simultaneously create economic, environmental, and social value for a broad set of stakeholders (Laszlo). Esty and Winston show that environmental innovation can reduce operational costs (e.g., energy savings), grow revenues (green products, new markets), and enhance intangible assets (brand, trust, employee engagement).

From an environmental-economic perspective, internalizing externalities, such as through carbon costs or material taxes, raises the private cost of environmentally damaging activities but can catalyze efficiency and innovation. When firms anticipate or voluntarily adopt such pricing in their internal decision-making (shadow carbon pricing, life-cycle costing), they begin to reconfigure supply chains to favor low-emission logistics, renewable energy, and more circular material flows.

Figure 1. Environmental–Economic Trade-Off Curve in Supply Chain Design



A conceptual graph showing on the x-axis "Environmental Impact (e.g., CO_2e per unit)" and on the y-axis "Total Supply Chain Cost per Unit." A downward-sloping frontier illustrates that, through process innovation and better design, many supply chain configurations can simultaneously reduce cost and impact (moving toward the origin), while some options yield lower impact at modestly higher cost. The figure highlights the zone where strategic "win–win" opportunities are concentrated.

B. Triple Bottom Line and the SSCM Framework

Sarkis and Seuring & Müller emphasize a perspective-economic, environmental, and social-on supply chain performance. From an environmental economics standpoint, the environmental and social dimensions largely reflect previously external costs. SSCM attempts to bring these into the decision calculus at the firm and supply chain level.

- Economic dimension: total cost of ownership, revenue growth, and risk-adjusted returns across the supply chain.
- Environmental dimension: carbon footprint, energy use, water and land impacts, waste and toxicity across product life cycles.
- Social dimension: labor conditions, community impacts, human rights in supplier tiers.

Seuring and Müller's framework distinguishes between "supplier management for risks and performance" and "supply chain management for sustainable products," highlighting that SSCM involves both managing existing suppliers and redesigning products and processes for sustainability.

C. Strategic Tools for SSCM: Value Chain, Capabilities, and Governance

Porter's value chain concept can be extended to a networked supply chain value system that integrates environmental criteria at each node. Firms may choose to:

- Re-locate production closer to end markets to reduce transport emissions.
- Collaborate with suppliers on eco-design and process improvements.
- Shift from selling products to offering product-service systems (e.g., leasing, remanufacturing) to enhance circularity.

Hart and other strategy scholars emphasize dynamic capabilities, the ability to sense, seize, and reconfigure in response to environmental and social changes, as central to sustainable competitive advantage (Hart). SSCM requires capabilities in supplier engagement, traceability, data analytics (e.g., emissions tracking), and multi-stakeholder collaboration. Governance mechanisms (contracts, codes of conduct, audits, joint ventures, and long-term partnerships) become crucial for aligning incentives across tiers. Environmental economics suggests that poorly designed contracts can leave externalities unaddressed, while performance-based and relational contracts can create shared value when properly structured.

D. Metrics, Data, and Life-Cycle Thinking

From an environmental-economic standpoint, robust measurement is essential. Life-cycle assessment (LCA), carbon footprinting, and input–output analysis are tools that attempt to trace environmental impacts throughout the supply chain. Tietenberg and Lewis argue that credible valuation of environmental damages is a prerequisite for effective policy and corporate decision-making (Tietenberg and Lewis). In SSCM, firms increasingly adopt:

- Scope 1–3 emissions accounting to capture direct and upstream/downstream emissions.
- Supplier scorecards that incorporate environmental metrics alongside quality and cost.
- Science-based targets for emissions and resource use at supply chain level.

Chopra and Meindl's emphasis on information flows becomes even more critical: traceability systems, digital platforms, and satellite monitoring now underpin efforts to track deforestation, forced labor risks, and carbon emissions deep into supplier tiers.

V. CASE STUDIES

A. Unilever: Deforestation-Free Commodity Supply Chains

Unilever's sustainability strategy offers a clear illustration of how environmental economics and strategy intersect in commodity supply chains. The company has committed to achieving deforestation-free supply chains for high-risk commodities such as palm oil, paper and board, soy, tea, and cocoa, and has invested in traceability and digital monitoring to achieve this. From an environmental-economic perspective, deforestation for palm oil production represents a massive negative externality in terms of carbon emissions and biodiversity loss. By setting a zero-deforestation goal and collaborating with suppliers and smallholders, Unilever is effectively internalizing these external costs into its supply chain decisions. Strategically, Unilever positions itself as a purpose-driven, sustainable brand. Its sustainable sourcing strengthens brand equity, aligns with consumer expectations, and pre-empts regulatory risks related to imported deforestation. The firm's partnerships with plantation companies and technology providers also build a network of capabilities that competitors may struggle to replicate quickly.

B. Walmart: Project Gigaton and Scope 3 Emissions

Walmart's Project Gigaton, launched in 2017, set an ambitious goal to work with suppliers to reduce or avoid one gigaton (one billion metric tons) of greenhouse gas emissions from its global supply chain by 2030. By 2024, Walmart announced that it had already achieved this gigaton-scale reduction target six years early through improvements in energy efficiency, packaging, transportation, and agriculture practices among its suppliers.

From an environmental-economic standpoint, Walmart's initiative addresses Scope 3 externalities by using its purchasing power to encourage suppliers to adopt emission-reducing technologies and practices. Instead of relying solely on regulation or carbon pricing, Walmart uses private governance and incentives, toolkits, recognition programs, and collaboration, to change behavior along the supply chain.

Strategically, Project Gigaton enhances Walmart's resilience to future carbon regulation, improves supply chain efficiency (e.g., reduced energy and fuel costs), and supports its public commitment to climate leadership. However, recent reports also indicate the difficulty of meeting operational emissions targets due to business growth and infrastructure constraints, illustrating that SSCM is a complex and ongoing process rather than a one-time achievement.

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C. Patagonia: Deep Integration of Environmental Responsibility

Patagonia is widely recognized for embedding environmental and social considerations into its core business model. The company's Supply Chain Environmental Responsibility Program aims to measure, reduce, and eliminate environmental impacts across manufacturing processes, emphasizing recycled and organic materials, water and energy reduction, and long-term supplier partnerships. Patagonia also donates a portion of sales to environmental causes and actively advocates for regulatory and social change.

In environmental-economic terms, Patagonia not only internalizes its own externalities but also seeks to transform consumer preferences and the broader institutional context—shifting demand toward durable, repairable products and discouraging over-consumption. Strategically, this deep authenticity differentiates Patagonia's brand and builds strong customer loyalty, allowing it to command price premiums while maintaining a relatively modest scale.

D. Toyota: Just-in-Time and Green Supply Chain Synergies

Toyota's production philosophy, built around the Toyota Production System (TPS) and Just-in-Time (JIT), originally targeted waste reduction and productivity. Over time, the company has linked JIT and TPS to its environmental and climate ambitions. Toyota emphasizes close collaboration with suppliers, efficient logistics, and reduced inventory, which can also lower energy use and emissions. Toyota's efforts to reuse parts (including hybrid batteries), reduce water and packaging use, and support remanufacturing further embed circular economy principles in its supply chain. In environmental-economic terms, JIT and lean principles reduce material and energy waste, thus lowering the environmental "shadow cost" of production. Strategically, Toyota's integrated supply chain and environmental practices support its reputation for quality and reliability while preparing it for a low-carbon mobility future.

VI. CONCLUSION

This paper has argued that Sustainable Supply Chain Management can only be fully understood-and effectively implemented - by integrating environmental economics with corporate strategy. Environmental economics clarifies why supply chains generate environmental and social harms in the first place: externalities, public goods, and common-pool resource problems manifest along globally dispersed networks of suppliers and intermediaries. It also offers tools-carbon pricing, life-cycle valuation, extended producer responsibility-that can realign private incentives with social and ecological goals.

Corporate strategy, by contrast, explains how firms can respond to these forces in ways that generate durable competitive advantage. Porter's value chain, Hart's sustainability-driven capabilities, and the broader strategy literature show that reconfiguring supply chains for sustainability is not merely a cost or constraint. It is also an opportunity to innovate products and processes, open new markets, protect brand equity, and build resilience against regulatory and physical risks.

The literature on SSCM, exemplified by Sarkis and by Seuring and Müller, demonstrates that triple bottom line performance is now an expectation rather than a niche aspiration. SSCM requires firms to extend responsibility beyond their factory gates, to manage upstream and downstream impacts, and to collaborate with diverse actors-suppliers, customers, NGOs, and policymakers. Case studies of Unilever, Walmart, Patagonia, and Toyota illustrate that leading firms are already experimenting with deforestation-free sourcing, gigaton-scale emissions reductions, deep environmental responsibility, and lean-green production systems. These examples show both the potential of SSCM and the challenges of scale, traceability, trade-offs, and evolving stakeholder expectations. Looking ahead, stronger carbon pricing regimes, stricter due-diligence laws, digital traceability, and rising climate risks will intensify the pressure on firms to integrate environmental economic logic into their supply chain strategies. Companies that build robust SSCM capabilities, combining economic rigor, ecological awareness, and strategic foresight—are likely to be better positioned to thrive in a carbon-constrained, resource-scarce, and stakeholder-sensitive world.

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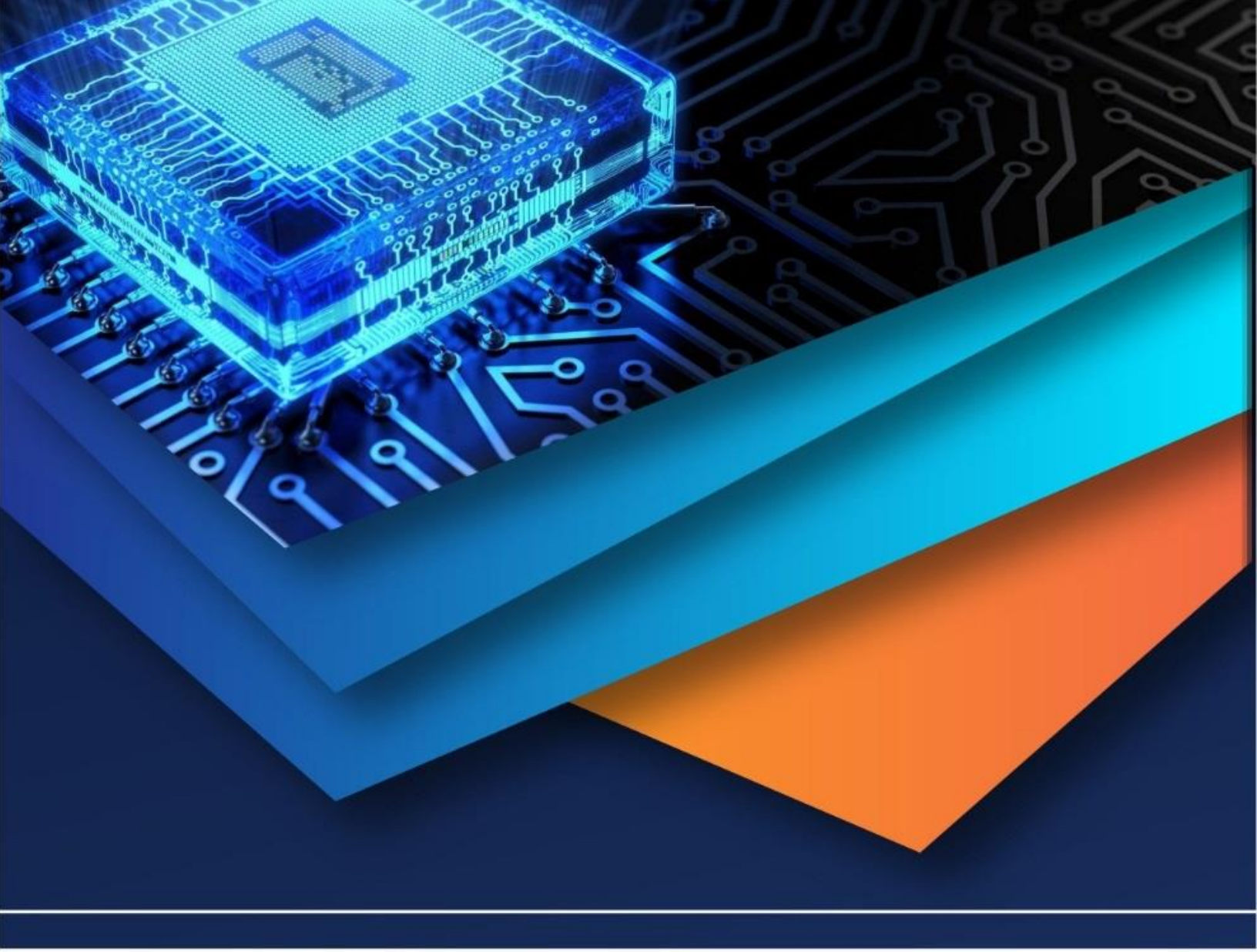

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