



THIS GUIDE
IS INTERACTIVE

POSITIVE PRESSURE:

The merits of sustainable and responsible sourcing



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Introduction

In response to the climate crisis, organizations are taking more ownership of their impact on the environment. This shift comes amid additional pressures from regulators, consumers, employees, communities, and other key stakeholders for organizations to be better global citizens.

In recent years, investment firms have made such concerns—grouped under the catch-all heading of environmental, social, and governance (ESG) topics—a screening mechanism for investors looking to eliminate or reduce exposure to companies with poor records on important objectives. These objectives include preventing pollution, promoting diversity, ensuring equitable treatment of people, and maintaining safe labor practices.

To help meet these urgent expectations, business leaders are turning to their procurement leaders and teams. In a recent CPO benchmarking study, 46% of CPOs indicate that delivering on ESG and sustainability goals are a 'high priority.'¹

Procurement wields significant power and influence in driving widespread change through its purchasing decisions, particularly in supply chains that significantly impact pollution and waste.

In addition, procurement is uniquely positioned to create new sources of value, such as finding ways to enhance the organization's reputational standing and better managing associated costs and risks.

This whitepaper examines the expanding role and responsibilities of the CPO and their procurement teams in driving the organization's ESG initiatives to deliver tangible results. Explore innovative strategies that will ensure your organization is well positioned to achieve its overall ESG goals in 2024 and beyond.

What is ESG?

Environmental

- Reducing waste and pollution
- Reducing carbon emissions
- Reducing energy consumption
- Limiting the negative impact of purchasing from non-certified sources
- Restoring biodiversity and protecting wildlife

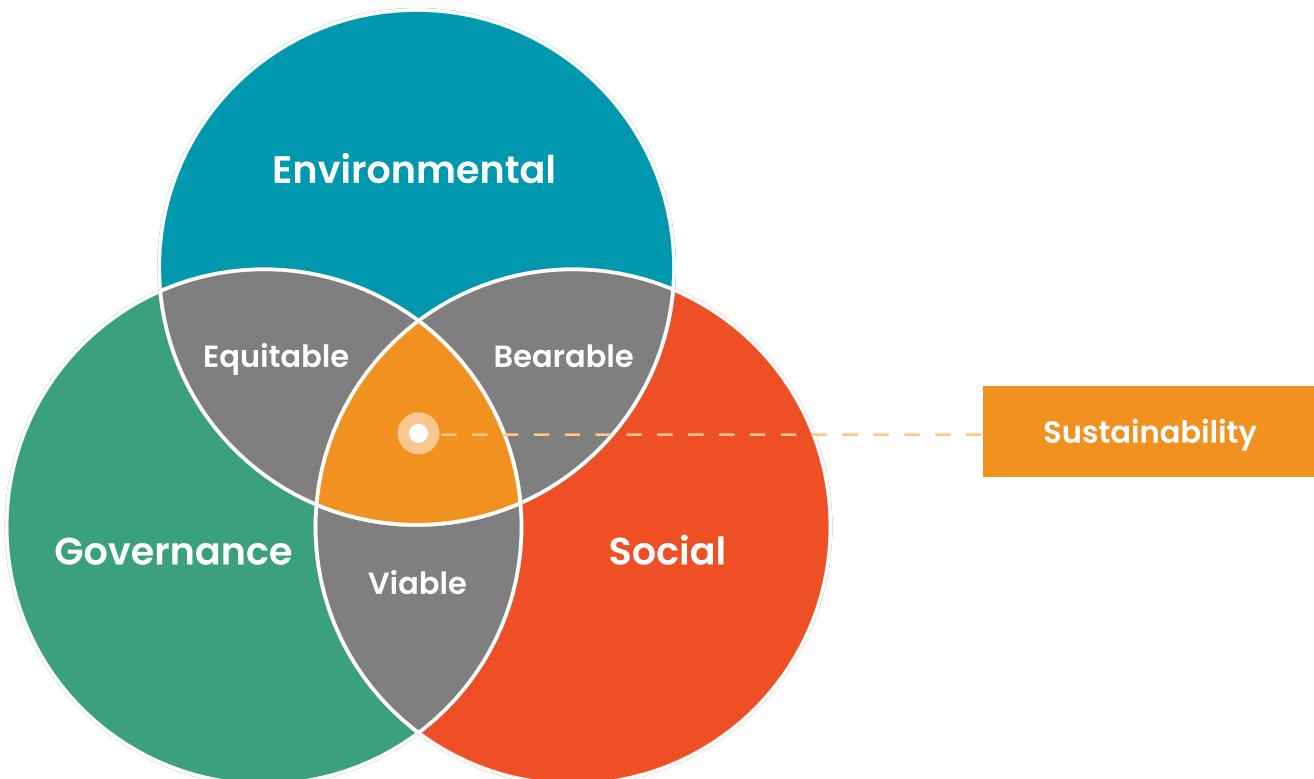
Social

- Improving living conditions and well being
- Spreading awareness about climate action
- Improving engagement, morale, and community involvement
- Putting pressure on the market to act responsibly

Governance

- Complying with regulations and applicable laws
- Ensuring business continuity and security of supply
- Minimizing business risks
- Managing reputation and customer perceptions
- Controlling costs by adopting a total cost of ownership approach
- Savings through efficient resource use and demand management

The intersection of ESG and sustainability



Many ESG objectives have direct applications for procurement.

Here are a few notable examples:

- **Environmental**

L'Oréal is ensuring its activities are compatible with a resource-constrained planet by setting a goal of using only recycled or bio-based plastic in its packaging by 2030. The company also understands that reaching its sustainability goals will require close collaboration and partnership with key suppliers. As a result, its procurement team is partnering with strategic suppliers to reduce direct emissions and use water sustainably.²

- **Social**

Pacific Gas & Electric (PG&E) spent more than \$4 billion (38.7% of its total procurement expenditures) with diverse suppliers in 2021, supporting the company's goal of promoting economic vitality and expanding opportunities for diverse and local suppliers. To drive this endeavor, PG&E embeds supplier diversity, environmental sustainability, and ethical business performance into its sourcing processes.³

- **Governance**

The Campbell Soup Company has goals of:

- Promoting peaceful and inclusive societies for sustainable development;
- Providing access to justice for all;
- Building effective, accountable, and inclusive institutions at all levels.

As part of this effort, it has organized its ESG framework into four key pillars—trusted food, vibrant communities, thriving people, and a healthy environment—all supported by its corporate ethics and governance policies, and further enabled via its supply chain and procurement programs.⁴



What is sustainable procurement?

Sustainable procurement focuses on integrating sustainable practices into the procurement process. The overarching idea is that by leveraging the organization's purchasing power, procurement can become a crucial player in advancing environmental and social benefits.

The role of procurement has evolved from merely securing the lowest price.

A procurement specialist is now a strategic advisor negotiating the "best value," which encompasses environmental and social values along with other criteria. ESG initiatives can range from simply tracking basic information, such as supplier diversity metrics or carbon emissions, to evaluating various ESG elements during the competitive selection process. A fully mature ESG program involves dedicated staff, supplier relationship management, and robust partnerships with key suppliers to drive sustainability improvements within Tier 2 and Tier 3 suppliers.

ENVIRONMENTAL

Incentivize and collaborate with suppliers to leverage sustainable raw materials, bio-based or recycled packaging, and natural resource-efficient manufacturing processes

Collaborate with key partners to innovate and drive circular supply chain opportunities

SOCIAL

Develop and enforce a supplier code of conduct, requiring partners to agree to requirements involving labor practices and workers' rights

Create a robust supplier development program to enable the long-term success of small, local, and disadvantaged suppliers

GOVERNANCE

Partner with suppliers to gather reportable and transparent performance data to increase traceability and accountability, and to enable compliance with goals and regulations

Implement a proven strategy focused on remaining compliant and engaging with top suppliers to develop joint sustainability plans



Examples of how procurement teams can contribute to ESG objectives



Benefits of adopting a sustainability program

Top ESG performers enjoy several quantifiable financial benefits, according to McKinsey & Company,⁵ including faster topline growth, lower costs, reduced regulatory and legal interventions, higher employee productivity, and more optimized investment and capital expenditures.

But there are follow-on effects as well. For an organization, demonstrating leadership in sustainable procurement can prove to be a point of differentiation with its competitors, improving the organization's ability to attract and retain environmentally conscious customers and employees.

Below, we examine some of the biggest benefits of implementing a sustainability program in procurement while adopting a total cost of ownership (TCO) approach. Evaluating TCO includes capturing all associated costs incurred by the organization when purchasing goods or services from third parties. The goal is to assess what that purchase will cost over its life span, rather than just the initial purchase price.



Cost savings

Attaining cost savings is the most direct and measurable benefit for an organization. For example, by reducing energy consumption and raw material usage across your business, you can achieve a lower environmental impact and capture savings in operating costs. Reducing the use of fossil fuels while you move your focus to renewable energy sources leads to lower carbon emissions. Savings are realized through recycling, minimizing waste, repairing and reusing materials. Energy efficiency measures include selecting services that limit the consumption of power, water, and other utilities.



Risk mitigation

Staying compliant with regulations and guidelines reduces legal issues and penalties as well as avoiding delays. Negative publicity in a supply chain network can seriously impair a company's reputation, potentially leading to customer loss, a decrease in sales, and lower profits. Incorporating ESG into procurement processes can mitigate the risk of reputational damage; developing strong supplier partnerships increases resilience in sourcing.



Management of stakeholder expectations

Demonstrating a commitment to sustainable practices fosters positive relationships with key stakeholders, such as suppliers, customers, and local communities. Further, exhibiting support for ESG goals promotes employee engagement and boosts morale. In fact, several studies show that an employer's ESG-related reputation has become an essential consideration for people making career decisions.



Community support

Making a positive contribution to the communities where you operate supports your brand and is an important part of an ESG program. Community-mindedness includes such business imperatives as eliminating child labor and paying a living wage. But it also includes initiatives such as encouraging employees to get involved in their communities and investing in projects that improve the quality of life for citizens. Steps that are good for your community are also good for business.



Innovation and continuous improvement

The adoption of environmentally friendly and innovative procurement practices elevates the importance of procurement and garners positive attention for the function. These practices will require you to challenge suppliers, and your own supply chain, to adopt ongoing innovative thinking and process optimization. For example, an organization that sells a variety of packaged foods and beverages may partner with its top suppliers to develop an innovative manufacturing approach with a goal of getting to net-zero carbon emissions by 2030.



Transparency and accountability

Transparency promotes accountability and drives compliance with ethical business practices. Implementing a robust procurement ESG program better enables the business to meet reporting requirements, provide transparency into Scope 3 environmental and social impacts, and share successes.

Providing transparency into Scope 3 emissions is one of the biggest hurdles organizations face today, as these emissions are the result of activities undertaken by assets that are not owned or controlled by the reporting organization (the organization is instead indirectly connected to the asset in its value chain). Most commonly, the sources of Scope 3 emissions are suppliers and their suppliers. Procurement and key partners must have trusting relationships to achieve the needed level of visibility.

Will there be a return on your investment?

The benefits of sustainability in procurement are often realized over the longer term. How soon and how significant the return on investment (ROI) is will depend partially on whether your organization commits to continuous improvement and adopts a company-wide approach to sustainability.

Calculating actual ROI on such initiatives is both important and elusive because the benefits can be both financial and intangible. Although you may be able to quantify actual cost savings through operational efficiencies and better use of resources, other achievements may be more subjective.⁶

Some benefits are not easily measured; you may see an improvement in employee retention, for example, which might also be the result of other factors. The same could apply to improvements in your brand image and reputation and innovation efforts.

Success is measured against clearly defined and trackable ESG metrics, and it's driven by providing your procurement teams with the necessary collaborative framework, autonomy, and data. Whether you are starting from scratch or upgrading your initiatives, procurement (in partnership with the business) has the power to influence your organization's ESG performance.



Challenges in adopting a sustainable procurement strategy

Managing sustainability across global supply chains can be difficult owing to varying regulations, cultural differences, and logistical complexity. Balancing sustainability goals with other procurement objectives, such as process efficiency, can be particularly challenging.

Below are some of the biggest issues ProcureAbility has helped chief procurement officers and their organizations address.



Up-front costs

Technology, human resources, training, and process changes can all come with high initial investments. Some sustainable raw materials and services may be more expensive at first and may affect budgets in the short term, but these costs often come down over time through increased adoption and sales growth, which brings cost efficiencies through scale.



Resistance to change

Lack of comprehensive and verified information about the sourcing and operating practices of suppliers can limit your ability to develop a robust program at the start. Resistance to change within the organization can impede the adoption of sustainable procurement practices, as can inadequate training or understanding of the benefits among employees. Similarly, suppliers may resist sustainability initiatives because of a lack of knowledge or resources, or they may be unwilling to adopt new practices or comply for some other reason. Achieving compliance among Tier 2 suppliers hinges on gaining the support of key supplier partners.



Data demands

Gathering accurate and relevant data on supplier practices and the environmental impact of goods and services can be time-consuming and complex. Meeting reporting requirements and being transparent in regularly communicating sustainability achievements to stakeholders requires the right technology. Quantifying the impact and success of initiatives and establishing meaningful and relevant metrics for measuring sustainability performance can be challenging. No universally accepted reporting standards for ESG exist yet, making it difficult to assess and compare suppliers consistently.



Regulatory and legal risks

Evolving and complex sustainability regulations may make it tough for some organizations to keep up with compliance requirements. There are often significant legal and reputational consequences for noncompliance with environmental and social regulations, adding a layer of risk to the implementation process.

Overcoming these challenges typically requires collaboration, stakeholder engagement, continuous improvement, and a commitment to integrating sustainability into the core values and operations of the organization. Establishing clear goals, communicating effectively, and fostering a culture of sustainability are crucial steps in successfully implementing a sustainable procurement program.



How to implement a sustainability program

When implementing sustainable procurement practices, the aim is to minimize your environmental footprint and eliminate negative social consequences throughout the supply chain, while staying competitive and avoiding disruptions.

Identify your current state

As with most transformation initiatives, the first step is to baseline where you are now. Some questions you might ask:

- Do we have early experience that we can use?
- Does our organization have ESG goals in place?
- Do we have initiatives already in progress?
- What progress have our key suppliers made toward their sustainability goals?

Set clear objectives

Whatever your starting point, your procurement sustainability objectives must support your organization's overarching goals. To ensure alignment, partner with leadership to tailor procurement sustainability goals that will enable the overall corporate strategy.

Procurement has the power to influence its organization's ESG performance, but prioritization will be required. Are you going to focus on environmental, social, or governance goals? Identify and prioritize opportunities and set realistic targets for the short term (one year) and the medium term (two to three years). Aim for a few quick wins, such as in areas of your business where results can be seen within one year. Suggested targets include:



Environmental

- Comply with environmental regulations and best practices in your industry
- Reduce consumption of energy by 5%, and water by 10%
- Become carbon neutral by 2030
- Eliminate purchases from uncertified or untrustworthy sources
- Decrease total waste generation by 20% in five years



Social

- Look to at least double the representation of minorities in senior-level roles
- Reduce the gender pay gap by 50% by 2027, and achieve full equality by 2030
- Implement employee wellness programs to promote physical and mental health
- Contribute to the communities in which you operate and serve, such as by prioritizing local suppliers or by creating mentorship programs to develop underprivileged talent
- Pay livable wages and eliminate the use of modern slavery in your supply chain



Governance

- Comply 100% with regulations and applicable laws, minimizing business risk
- Engage with your top 20% of key suppliers to develop joint sustainability plans

Unleash the power of data

Success can be measured only with reliable data. Programs and activities must be tracked, monitored, and reported on so that remedial action can be taken where they are not beneficial. Cloud-based software solutions can provide advanced analytics for data-driven decision-making. Identify which key performance indicators (KPIs) to utilize, and regularly assess and update them. You will need to provide transparent and accurate reporting on sustainability performance using recognized reporting frameworks.

Engage your suppliers

Any sustainable sourcing program will fail without the involvement and commitment of suppliers. Communicate your expectations. Involve suppliers early in defining targets and explain the program in a way that highlights the mutual benefits. Develop and communicate clear policies to guide future sourcing activities. This early collaboration is essential in obtaining support for the implementation of any ESG initiatives.

By leveraging the bidding and onboarding processes, companies can establish and evaluate basic requirements for potential suppliers of raw materials, products, and services. Encourage suppliers to adopt similar technology tools, or enable key suppliers to share in your tools, to support your ESG initiatives.

So that your suppliers are collaborating with a unified front, ensure that you have an internal, cross-functional commitment in the business (including procurement and finance) with equal buy-in and responsibility for tracking, reporting, and influence.

Conduct regular supplier audits and assessments to ensure ongoing compliance with your certifications and shared sustainability goals.

Questions to ask your supplier

Questions to establish supplier readiness for your program might include:

- Do you use a certified environmental management system (EMS)?
- How do you track carbon emissions, water, and energy usage?
- What are your policies on human rights, fair pay, working conditions, and diversity?
- Do you have any projects supporting the communities you work in?
- Do you have an anti-bribery and anti-corruption policy?
- Do you comply with all industry regulations and legislation?
- Have you ever been prosecuted or fined for infringements?

Adopt eco-friendly products and materials

Prioritizing the procurement of products and materials that are recyclable, biodegradable, or derived from renewable resources can shrink your organization's environmental footprint. This practice not only minimizes waste in landfills but also supports industries that are pioneering sustainable manufacturing processes. When selecting these eco-friendly options, consider the entire life cycle of the products—from production and usage to disposal—to ensure you're making the most environmentally sound choices.

Adopting a circular economy approach by seeking out products designed for a longer life span, or products that can be easily repurposed or repaired, further contributes to sustainability goals. Encourage suppliers to adopt minimal packaging or to use packaging made from recycled materials to reduce plastic waste.

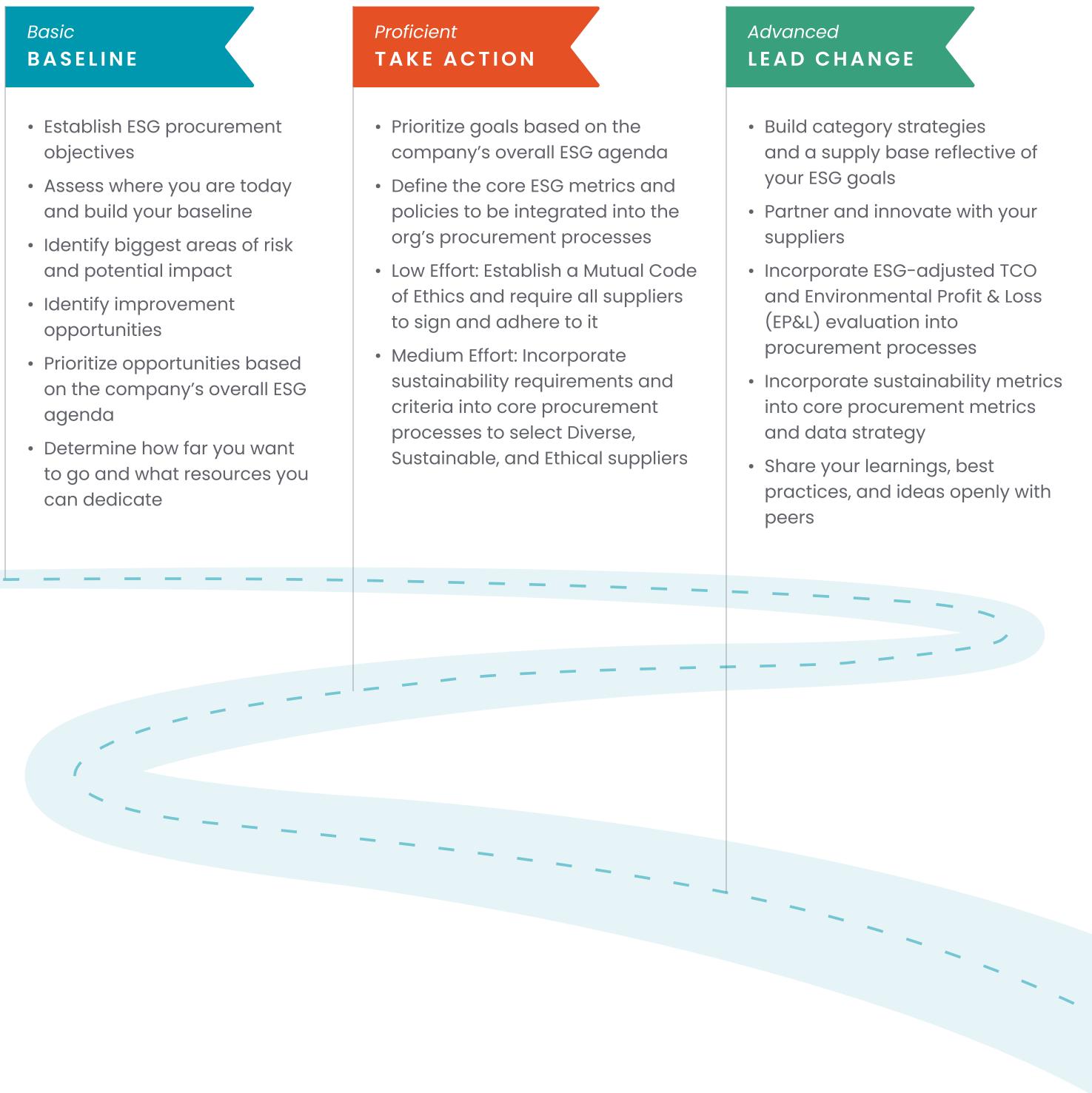
Collaborate for greater impact

Joining sustainability-focused industry groups or partnerships enhances your impact through shared learning and collaboration on larger initiatives. These networks provide insights, best practices, and opportunities for collective action, such as joint purchasing of sustainable materials or investing in green technology. Additionally, they offer resources including workshops and access

to a community aiming to shape industry standards toward sustainability. Participating boosts your organization's sustainability profile and contributes to broader environmental goals more effectively than going it alone.

START SMALL WITH A BASELINE:

Maturity in procurement sustainability initiatives



Gauging the internal desire for a procurement sustainability program

Questions to ask internal stakeholders

- Do we have a corporate sustainability policy and strategy?
- Do we have a supplier code of conduct?
- What level of commitment do we have from leadership in developing and implementing a procurement ESG program?
- What are the main environmental, social, and governance impacts of our business activities, products, and services?
- Are we in compliance with legislation related to ESG? Do we need to prepare for forthcoming changes?
- Do certain spend categories have a higher likelihood of ESG risk across our territories?
- Do we have reliable sources for risk data and tools to monitor supply chain risks?

Educate your team

To embed sustainability in procurement, ensure your team is well educated on its importance through focused training and regular updates on trends and regulations. Foster a culture that encourages discussion and innovation in sustainable practices by appointing a sustainability lead and incorporating sustainability goals into performance reviews. Recognizing achievements in this field can further motivate your team, making sustainability a key pillar in your procurement strategy and leading to more responsible decisions.

Monitor, report, and adjust

Continuously evaluate your sustainability program's effectiveness against established goals, utilizing metrics and reporting tools for comprehensive insights. Ensure transparency in sharing these findings with stakeholders—including employees, customers, and investors—through regular updates, reports, or website sections. This open communication builds trust and fosters a collaborative approach to sustainability.

Remain adaptable, adjusting strategies after performance analysis and stakeholder feedback. Celebrate your achievements to motivate your team, while also recognizing and learning from areas needing improvement. This responsive and proactive approach guarantees that your sustainability initiatives are both impactful and closely aligned with your organizational objectives.



Looking ahead

Your procurement function has a great opportunity to make a substantial contribution to your organization's ESG goals. To successfully drive this transformation to your procurement function, you must provide your procurement teams with the necessary tools, data, and processes.

As a result, the organization will see many benefits, such as unlocking cost savings, fostering innovation, and satisfying economic goals. Beyond this, the organization aims to enhance connections within its community, achieved through heightened employee engagement.

ProcureAbility understands the challenges of the evolving procurement landscape and the opportunities achieving your ESG goals present in your organization. Big or small, we'll help you make the next smart move.

When you partner with us as your third-party service provider, we'll use our extensive experience in implementing sustainability projects to mitigate the challenges of these initiatives and leverage our expertise to ensure the program's success.



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- 2 [Five ways that ESG creates value \(McKinsey\)](#)
- 3 [How Procurement and Supply Chains Drive Corporate ESG \(Thomson Reuters\)](#)

Get started on your sustainability journey

ProcureAbility understands the challenges of the evolving procurement landscape and the opportunities achieving your ESG goals present for your organization. Big or small, we'll help you make the next smart move.

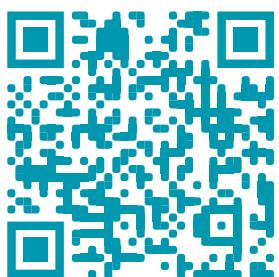
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We combine leading methodologies, analytics, market intelligence, and industry benchmarks with our uniquely flexible and customizable service delivery model. Global organizations of all sizes trust ProcureAbility to transform their procurement operations, drive growth, and reimagine what's possible.



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