

A close-up photograph of a hand holding a magnifying glass. The lens of the magnifying glass is focused on a dense forest of tall, thin trees with green foliage. The background is blurred, showing the skin of the hand and the handle of the magnifying glass. The overall lighting is warm and natural.

Sourcing a sustainable future

Procurement is now pivotal to turning ambition into action, resilience and profitability



Supply constraints, climate change, human rights and ongoing global health care concerns are among a broad set of issues intensifying the importance of sustainability strategies across communities, businesses and governments. Organizations are taking action. More of the world's Chief Executive Officers (CEOs) are making sustainability goals public, and procurement is quietly becoming a barometer of an organization's progress.

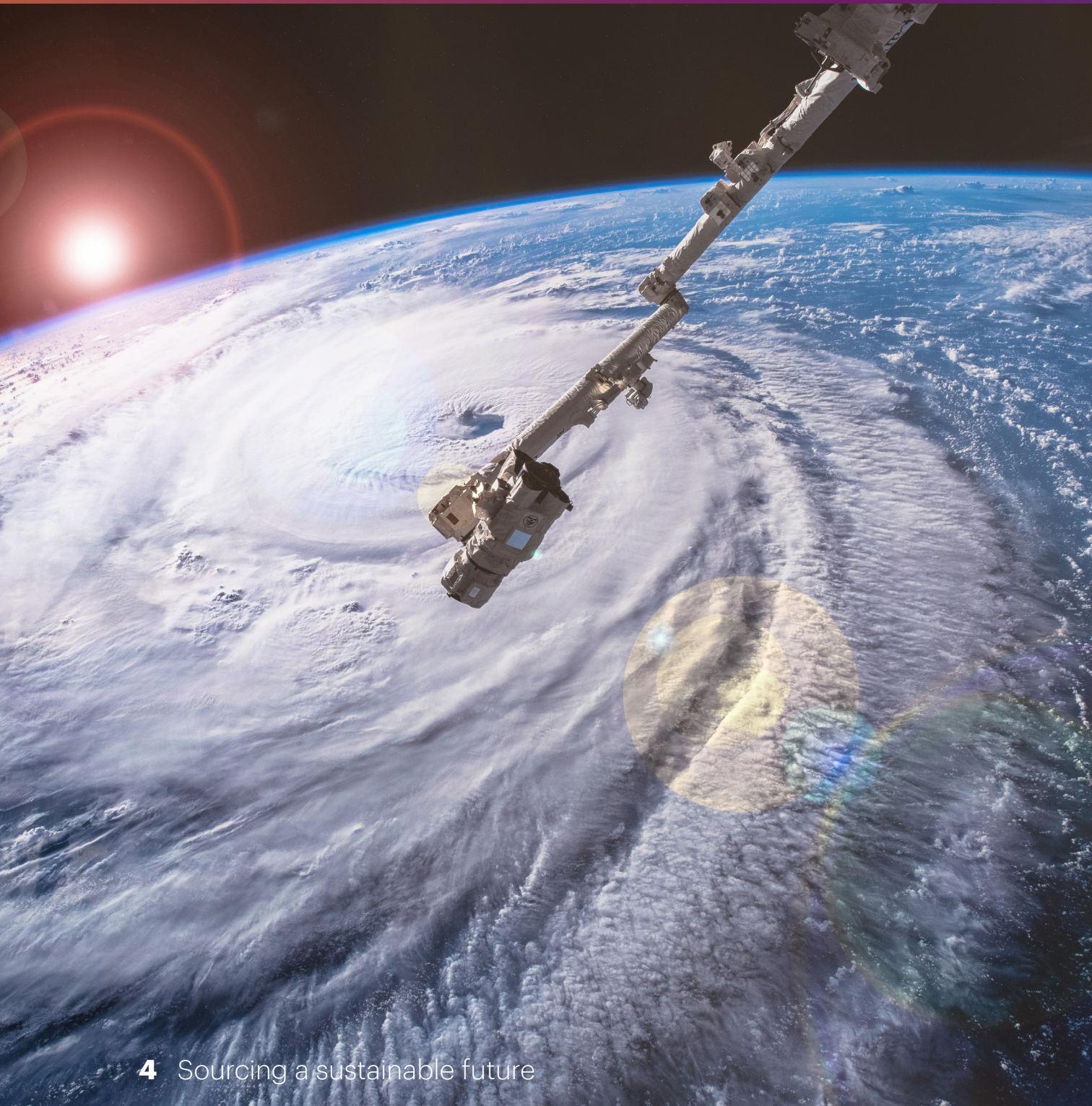


With up to 90 percent of an organization's **environmental, social and governance (ESG) risk** residing within the suppliers a procurement team manages, this once back-office function is now pivotal to enabling sustainability.

ESG metrics have gained traction as ways to hold companies—including their suppliers—accountable for sustainability efforts. These metrics vary widely, including: tracking carbon emissions, addressing human rights risk like zero child labor in the organization's supply chain or understanding the circularity of materials used throughout the supply chain.

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Climate reporting is already **mandatory in Europe**, and this past March the U.S. Securities and Exchange Commission (SEC) officially proposed its much-anticipated mandatory climate-related disclosure rules for publicly-traded companies in the U.S. Other regulations are taking shape around the world. These can include such things as preserving water and marine resources, or protecting and restoring biodiversity and ecosystems.

With procurement teams on the front lines of sourcing and securing goods and services throughout the supply chain, it is critical to adopt a sustainability mindset in all decisions. This means everything from monitoring the materials that go into products or services to tracking suppliers and ecosystem partners and assessing their overall environmental impact as a result of how they do business.

Yet many procurement teams aren't equipped with the strategy, expertise, tools and incentives to execute their organization's sustainability goals. This disconnect surfaced in a recent Accenture and HFS Research (HFS) study of 350 enterprise leaders, including Chief Procurement Officers (CPOs)¹. The study examined how sustainability links to procurement and the entire supply chain. The findings also reinforce themes that emerged at the recent **COP26 UN Climate Summit**—that leaders need to think bigger and more holistically to turn sustainability aspirations into action. For all the talk about striving to be green, what has become clear is that sourcing and procurement are integral to an organization's sustainability agenda, and preparation is key.

¹ North American and European organizations with more than \$1 billion in revenue



Understanding ESG: Climate change and beyond

We define sustainability as all actions tied to ESG principles that impact building a more responsible future.

For businesses, sustainability hinges on reducing carbon dioxide emissions from operations, implementing circular business practices that keep materials in use instead of in landfills and reducing the risk of environmental and social aspects of their supply chain. Common areas to address include responsible sourcing of raw materials, recycling, renewable energy, water management, human rights, diversity and inclusion, supply chain and logistics, lessening the impact of corporate travel and securing green IT programs.

Metrics range widely across climate change, labor practices and supply chain transparency. But all require the ability to track, audit, report and apply a thorough governance program to understand and manage these risks.



Mind the gap

According to Accenture's research with HFS, 60 percent of CEOs see the need for sustainability but significantly overestimate their organization's ability to adopt these practices throughout the business.

Only 27 percent of organizations see their CEO or board supporting sustainability and even fewer, 12 percent, see those same CEOs or boards leading the effort. Only 40 percent of organizations have dedicated sustainability teams, and about one-third say procurement is actively supporting their organization's sustainability efforts. These findings mirror **related research** that exposes a similar misalignment between business leaders and their stakeholders. Nearly 70 percent of executives say they track and monitor progress against measurable sustainability goals, while only 34 percent of employees rate these goals as 'realistic.'

In other words, to drive real change, executives should champion credible initiatives at every level of the organization.

Accenture's research with HFS further revealed that executives need to better align with their leadership peers across different areas of the business. **Over half of organization leaders outside of procurement see sustainability as a top-three procurement priority, while only 22 percent of procurement leaders feel the same way.**

Executives also underestimate the level of work that needs to be done to enable sustainability in procurement processes and teams. Organizations are spending less than 2 percent on ESG activities, and more than half of leaders don't see that changing, with some even believing it may decrease.

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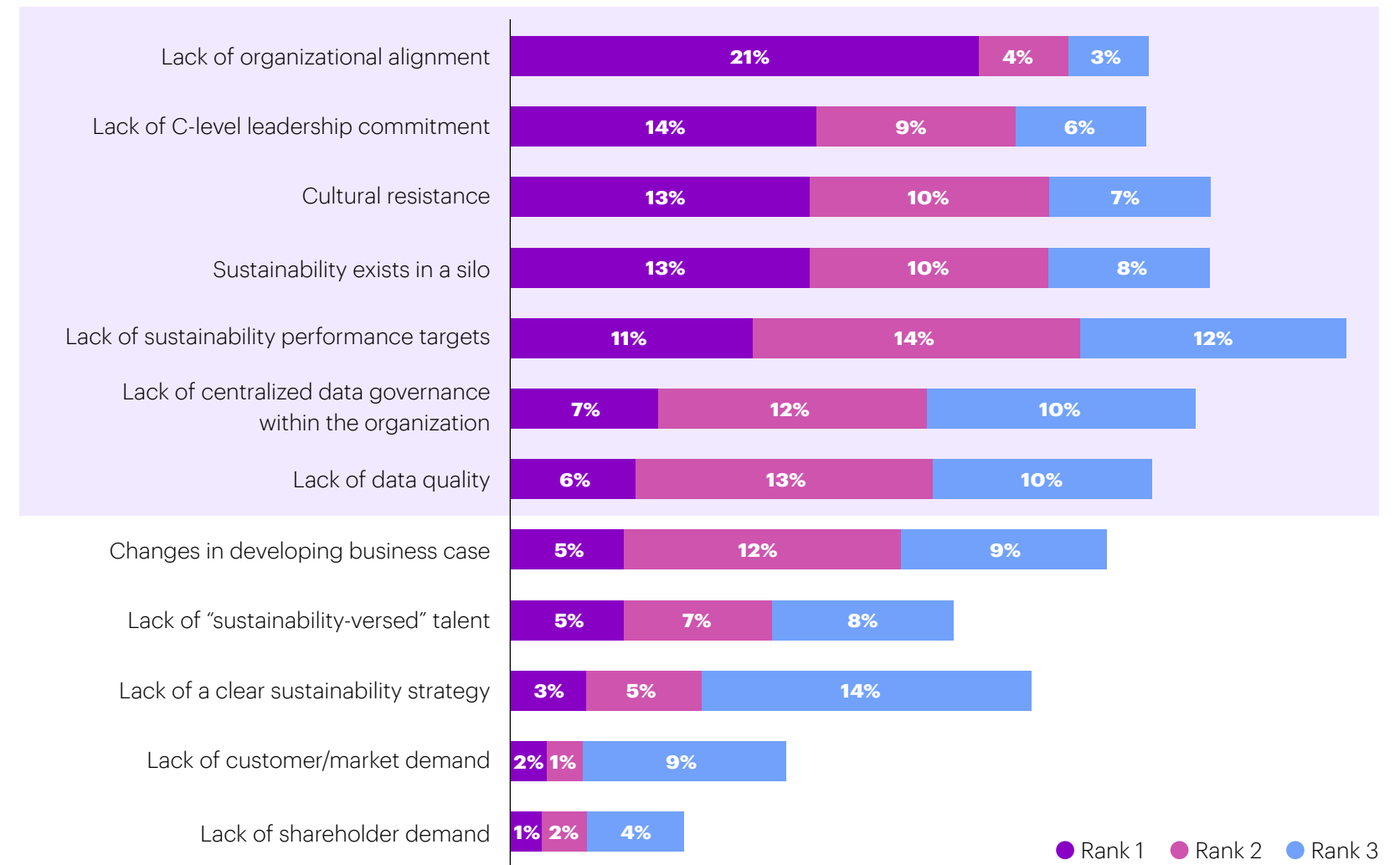
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ESG progress faces familiar challenges

Change is never easy, but the challenges to sustainability progress are similar to the ones companies have already faced from digital transformation and emerging technologies.

What are your company's challenges to meeting your ESG goals?





Consider that the top barrier to meeting ESG goals is that regardless of CEO mandates, the naming of Chief Sustainability Officers or high-level strategies, organizations are not aligned and neither are their data, business processes or ecosystem relationships. Concerns about the investments that would be required and increased costs add to this lack of C-level leadership commitment and cultural resistance to change.

The result: Pursuing ESG goals becomes even more daunting and further isolates sustainability in organizational silos.

For many sourcing and procurement teams, there is no common definition of success and little incentive to do anything other than drive down costs. These teams may also be challenged by a lack of sustainability metrics, awareness or the resources needed to embed sustainability into every aspect of the procurement process. Further complicating matters is the absence of trusted data sources.

Progress demands a different mindset, more detailed data, governance tools, collaboration across organizations and sustainability targets.

The good news is that enabling technology like cloud, artificial intelligence (AI) and predictive analytics already exists. They offer opportunities to capture, track and analyze relevant data across an organization to gain insights that increase transparency, inform decisions and help build resilience in operations.

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Seize opportunities through procurement

In its role to source and secure goods and services throughout the business and manage supplier relationships, procurement is well positioned to enable sustainability.

In fact, it is a huge opportunity. Managing scope 3 emissions and social risks can feel overwhelming because it requires companies to influence ESG factors outside of their operational control. To help drive sustainability, leaders need to reset expectations and begin taking key actions.

01. Reduce emissions

Many organizations begin their sustainability journey by focusing on emissions, which are divided into three categories:

Scope 1 emissions are direct greenhouse (GHG) emissions resulting from what you are combusting, such as natural gas, refrigerants or transportation fuel, at your own facilities and owned fleet.

Scope 2 includes indirect GHG emissions associated with the electricity that you buy and use, from utility providers, and where renewables would fall.

Scope 3 are indirect emissions from both your upstream and downstream supply chain and typically represent the largest amount of emissions. They often start with Scope 1 & 2 emissions.



02. Adopt an ESG mindset

Depending on the industry, scope three emissions can be a big challenge—and where procurement teams can have a big impact. Consider that companies hiring services cannot control the operations of their suppliers, yet they are accountable for their suppliers' emissions. This means procurement teams should now view suppliers with an ESG perspective and consider how they may fit within the organization's ESG goals. For example, teams may look at whether suppliers are buying renewable energy, investing in electric vehicles or offering recyclable materials. Understanding their own carbon footprint and establishing sustainability considerations as part of the procurement process are good first steps.

About 40%

of organizations report targeting scope two and three emissions

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Embed sustainable practices

Some companies are already establishing strategies to reduce emissions. A pharmaceutical organization set a goal to reduce its scope three emissions 30 percent by 2030. Accenture identified priorities within its supply chain and collaborated on how to embed ways to remove carbon into existing procurement practices. The result is a roadmap outlining how procurement will help achieve its corporate goals, such as getting to net-zero emissions.

03. Capture better data

Managing to ESG metrics also requires quality and in-depth data on a whole new level. At the beginning of the process, create a data-collection strategy to identify and gather the right kind of data and analyze how to measure ongoing progress. This includes training internal teams and suppliers on the metrics needed to substantiate sustainability reporting.

To understand the level of detail that is required, consider energy. An invoice from an energy supplier can now be used to analyze the monthly carbon emissions of that supplier by reviewing two metrics included on the invoice: the monthly consumption and the generation mix of the provider. Integrating these metrics with new or existing technology tools would enable reporting on emissions with greater confidence, as well as providing a proven audit trail.

There are other benefits, too. Incorporating sustainability into everyday practices can help organizations deliver financial value in addition to a lasting positive impact on society and the environment. In fact, **a recent study** found that earnings before interest, taxes, depreciation, and amortization (EBITDA) of top companies in its research were 21 percent higher than those at the bottom. So, too, is their sustainability performance.

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A leading manufacturer is forging a sustainable future

Accenture is working with a leading manufacturer of packaging products to create a global data collection framework that reports progress against its public sustainability goals. To start, the client needed help mapping its existing process of capturing data across the globe, in order to understand where it could gain efficiencies. Now it has a program that will include a new global team efficiently collecting ongoing energy, water and waste data, culled from their invoices and directly from suppliers. This data is entered into a central software platform that converts it into a carbon emissions profile.



04. Build an intelligent operating model

Building a sustainable future demands that organizations, led by their executives, step back to see a bigger picture and think creatively about existing resources. Once procurement has the targets, processes and tools in place, an intelligent operating model can mine the data, surface insights and enable tracking and assessing supplier progress to better manage those relationships. Current information would also make it easier to have strategic conversations with various organization stakeholders and suppliers to achieve goals and continuously improve.

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05. Invest in 'green skilling'

Another key step is making sure sourcing and procurement teams are equipped with the tools and knowledge they need. Consider training teams to understand the nuances of sustainability within each supply chain area, the importance of supplier diversity and how to identify opportunities. Position this upskilling as a way to grow each team member's career trajectory, giving them new skills that are essential in this new sustainability era.

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06. Re-evaluate spend categories using ESG

Apply an ESG lens to assess sustainability hot spots for the organization, including suppliers to prioritize. Add sustainability to your procurement scorecard and develop short-, medium- and long-term plans to set and achieve ESG goals.

Adopting a more holistic view, beyond cost, also means resetting boundaries for procurement purchases in different disciplines and tapping broader expertise.

Already, companies are beginning to weigh sustainability at 20 percent within their overall decisions. and they indicate this will increase

In other words, it takes a team. For example, switching to new and recyclable packaging may mean getting engineering and product design on board to create a more holistic perspective and as a result, enable more informed decisions on packaging. Also, embedding new facilities practices such as switching from daytime to nighttime cleaning or utilizing green cleaning chemicals may require a collaboration with the real estate team who is responsible for landlord procurement decisions.

Because each organization is different, assess how best to balance sustainability with other priorities. Already, companies are beginning to weigh sustainability at 20 percent within their overall decisions. and they indicate this will increase.

07. Build momentum

Most importantly, start somewhere. According to our study, respondents see energy, travel and logistics as three main priorities.

For many, energy has become low-hanging fruit. Consider a transition to renewable energy.

Many companies are focusing on their travel programs. They are being more thoughtful about how and when to travel for in-person meetings. Others are taking advantage of emerging fuel trends by working with airlines to earmark sustainable aviation fuel purchases to their organization and get the credit for greening up their corporate travel programs. Additionally, companies are arming employees with upgraded travel booking tools to help them consider the carbon implications when selecting airline trips, hotels and rental cars.

The key is to get the momentum going and then evolve sustainable procurement practices into other areas of the organization, such as logistics. For example, some companies already consider whether the fleet of trucks on the road carrying their products are electric or are pursuing last-mile electric strategies. They are asking questions such as whether the fuel being used can be greener. Increasingly, companies are considering if and how to transition from more carbon-intense delivery like airlines to less harmful modes of operation like road and ocean options. Others are looking for opportunities to use technology in scheduling, such as implementing a reverse logistics program that ensures transportation vehicles never travel empty.



A global automotive giant embraces renewable energy

One global automotive giant set renewable energy goals for its facilities of 80 percent by 2030 and 100 percent by 2050. It is now pursuing a solar project at its largest manufacturing plant that is projected to achieve more than half of its 2030 goal, while adding new, localized, renewable power to the energy grid and driving estimated savings of \$26 million over 15 years. It will also help the organization hedge against future volatility in the traditional energy market.

Preserve the future

There has never been a more urgent time to turn ambition into action—or more opportunity.

Organizations building sustainability into their DNA can create a competitive advantage by becoming more efficient, transparent and profitable, with workforces and operations equipped for the future. Take those first steps, leveraging procurement to influence and manage the supply chain's impact and helping to drive a more responsible, sustainable future.



Sources

HFS Research

Title of HFS Research final draft PPT: The state of sustainability and procurement

HFS Research and Accenture, 2021, 352 enterprise leaders—Josh Matthews, Practice Leader, HFS Research; Saurabh Gupta, President, Research and Advisory Services, HFS Research

Accenture Research

Shaping the Sustainable Organization

<https://www.accenture.com/us-en/insights/sustainability/sustainable-organization>

Other Links

EPA Center for Corporate Climate Leadership—Scope 3 Inventory Guidance

<https://www.epa.gov/climateleadership/scope-3-inventory-guidance>

ESG: The EU's Agenda for 2022—What You Need to Know

<https://www.jdsupra.com/legalnews/esg-the-eu-s-agenda-for-2022-what-you-7804760/>

Authors



Kristin Ruehle
Managing Director,
Procurement Business
Process Global Business Lead



Vivek Luthra
Managing Director,
Strategy & Consulting,
Supply Chain & Operations

Contributors

Keyra Morales
Procure-to-Pay Lead,
Procurement Business
Process Services

Rebecca Sternberg
Sustainability Lead,
Operations

Rachel Shafer
Sustainability Lead,
Procurement Business
Process Services

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