

# Building a Sustainable Procurement Program Based on Best Practices

By Mélanie Flores and Laura Gibbons

## EXECUTIVE SUMMARY

This year, for the first time, supporting corporate sustainability appears in the list of procurement's top 10 agenda items in our annual Key Issues study. Meeting environmental, social and corporate governance (ESG) compliance objectives has become a critical element of procurement's value proposition. On the other hand, organizations that want to do more than just meet internal KPIs can find themselves in challenging and uncertain territory. Understanding best practices to support long-term sustainability goals is key.

## ALIGNING SUSTAINABLE PROCUREMENT WITH CORPORATE SUSTAINABILITY

In the past few years, corporate environmental, social and corporate governance (ESG) initiatives have taken on new prominence. In fact, supporting corporate sustainability goals appears in procurement's top 10 agenda items for the first time in this year's Key Issues Study.

Procurement is being asked to support three categories of corporate sustainability: economic development, social well-being and environmental protection (Fig. 1). By 2023, 92% of enterprises expect to have sustainable procurement programs in each category (Fig. 2, next page).

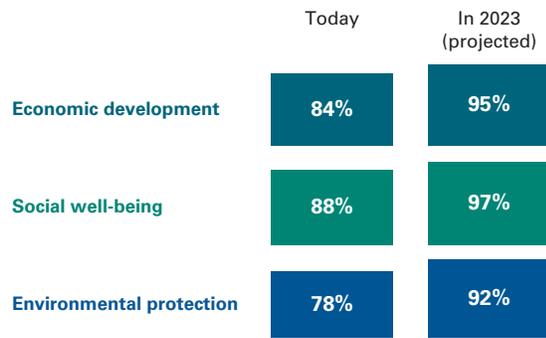
There is much to do, however, if companies are going to meet their projections in this area. At present, only 40% of sustainable procurement strategies are clearly aligned with the enterprise's corporate social responsibility (CSR) or ESG strategy; further, 33% of procurement organizations don't even have a formal program. Closing these gaps is critical for long-term success.

FIG. 1 Alignment of sustainable procurement's and corporate sustainability

	Corporate sustainability		Sustainable procurement
<b>Economic development</b>	Economically viable business model along the value chain		<b>Business ethics:</b> Anti-competitive practices, corruption, etc.
<b>Social well-being</b>	Enterprise impact on staff and society		<b>Labor and human rights:</b> Child labor, diversity, working conditions, etc.
<b>Environmental protection</b>	Environmental impact of business activities		<b>Environmental:</b> Waste, energy consumption, pollution, etc.

Source: The Hackett Group

FIG. 2 Sustainable procurement categories in scope



Source: Sustainable Procurement Study, The Hackett Group, 2020

### UNDERSTANDING THE VALUE PROPOSITION OF SUSTAINABLE PROCUREMENT

Although there are many benefits to a sustainability strategy, most procurement organizations cite compliance as their top objective (Fig. 3). Reducing risk exposure, increasing savings and improving brand value are core objectives for over half of respondents to our Sustainable Procurement Study (2020). While only 55% of organizations cite brand value as a main objective, we expect this percentage to grow, given current high levels of media and consumer attention to "green" brands.

It might be easier to convince company management to get behind procurement sustainability initiatives if they understood that doing so does not hurt the bottom line. Based on a set of indicators (including productivity levels, adoption of best practices and

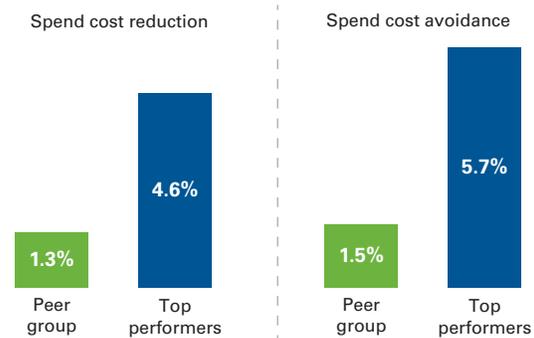
FIG. 3 Main objectives of sustainable procurement strategy



Source: Sustainable Procurement Study, The Hackett Group, 2020

value generated for the company), top-performing sustainable procurement programs create strategies that enable both increased spend savings and delivery of sustainability-related targets (Fig. 4).

FIG. 4 Incremental spend savings attributable to sustainable sourcing activities (as a percentage of total spend)



Source: Sustainable Procurement Study, The Hackett Group, 2020

Before companies and their procurement organizations can align on sustainability objectives, they must first agree on goals. Depending on their different circumstances, programs might vary in their design and areas of focus.

For those new to sustainability, goals might include:

- Ability to track key metrics.
- Ensure an efficient process with limited resources.

For those focusing on risk mitigation:

- Compliance with regulations.
- Proactive identification of potential risk events.
- Avoidance of bad press.

For those seeking a competitive advantage:

- Secure product and technology innovations.
- Collaborate within the supply chain ecosystem.
- Differentiate products and services.

Additionally, supplier innovation is expected to grow alongside sustainability as programs mature and supplier relationships become more strategic. Quick action is essential, as results from innovation and sustainability processes require time to achieve.

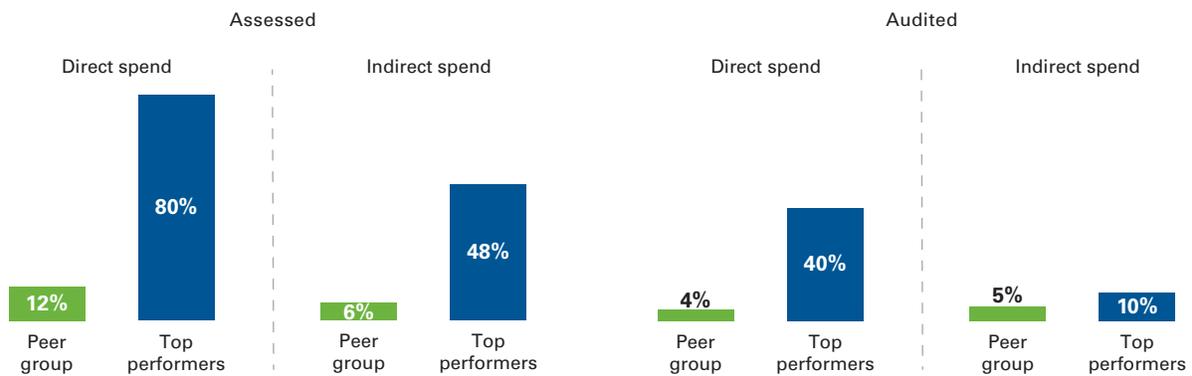
### LAYING THE FOUNDATION FOR SUSTAINABLE PROCUREMENT

To ready the organization for long-term success, make sure policies are updated across the procurement lifecycle. Ensure data collection and reporting processes are up to par. Top performers in our Sustainability Study assess and audit their suppliers for sustainability compliance at higher rates than the peer group (Fig. 5).

While key benefits will be driven by some processes more than others (e.g., sourcing, contracting and onboarding), meaningful change and value contribution require a comprehensive and systematic approach to sustainability. Extending visibility across the supply chain (Fig. 6) necessitates collaboration and communication with business partners and making use of technology to document and analyze their practices.

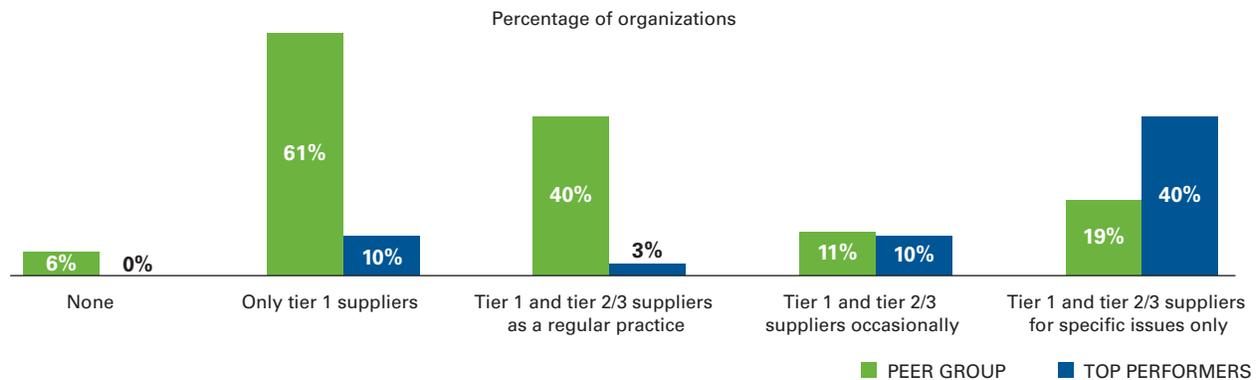
The Hackett Group has identified a number of best practices throughout the procurement operating model that can help organizations achieve top performance in sustainable procurement, as discussed beginning on the next page.

FIG. 5 Percentage of suppliers assessed and audited for sustainability compliance



Source: Sustainable Procurement Study, The Hackett Group, 2020

FIG. 6 Scope of responsibility across the supply chain



Source: Sustainable Procurement Study, The Hackett Group, 2020

### **Governance and organization**

- Implement a cross-functional governance mechanism to create alignment of initiatives and actions.
- Define accountability of sustainable procurement activities with clear roles and responsibilities.

### **Policies**

- Establish or expand the supplier code of conduct to lay out the expected third-party supplier behaviors and obligations related to sustainability.
- Establish a mutually agreed upon buyer-supplier code with obligations for both parties.
- Formally communicate supplier responsibilities, audit and reporting mechanisms, including identification and review of risks and materiality.
- Require suppliers to manage their network of suppliers (e.g., multiple tiers of suppliers).
- Make policies and guidelines available electronically in local languages for suppliers.

### **Talent**

- Provide sustainable procurement training to procurement staff, with content adjusted depending on roles and responsibilities.
- Consider sustainability goals as part of the procurement staff's targets and objectives.
- Align staff recognition and compensation incentives with achievement of goals, supported by transparent, fair and well-understood policies.

### **Performance management**

- Design a sophisticated sustainable procurement performance management process.
- Ensure adequate scope and quality of sustainable procurement metrics and scorecards.
- Integrate external sustainability-related content/knowledge with core procurement applications.
- Incorporate sustainability-related metrics into supplier scorecards.

### **Category management**

- Ensure the category management approach considers the major sustainability objectives.
- Manage spend categories according to complexity and risk exposure on sustainability aspects.
- Conduct cost implication analysis of major sustainability-related changes.

### **Sourcing and contracting**

- Enrich the TCO analysis with sustainability criteria.
- Agree on sustainability policies and guidelines during supplier pre-qualification.
- Mandate agreements within the contracting process and ensure suppliers understand penalties for non-compliance.
- Incorporate sustainability-related clauses to specify supplier conduct within supplier contracts.

### **Supplier management and partnering**

- Monitor, assess and audit suppliers for sustainability factors on a regular basis.
- Expand scope of sustainability beyond tier 1 suppliers
- Create a joint sustainable procurement strategy with applicable suppliers.
- Create a strategy to attract and manage sustainability-driven innovation from suppliers.

### **Technology**

- Automate sustainable supplier performance management.
- Enable supplier self-service for performance management.
- Make use of online collaborative platforms to access, compare and share performance data.

# Measuring and managing a sustainable procurement program

Many procurement organizations monitor metrics that never get reported in scorecards. This leads to missed opportunities to communicate the benefits of their sustainability initiative. Instead, select

metrics that represent the benefits of the program and report on them, along with data on supplier and program performance. A variety of options are shown in below.

FIG. A Sustainability measurements

Overall sustainability benefits	Supplier sustainability performance and compliance	Sustainable procurement program performance
<ul style="list-style-type: none"> <li>• Tons of CO<sub>2</sub></li> <li>• Volume of waste</li> <li>• Percent of waste recycled</li> <li>• Spend cost reductions as a percentage of spend</li> <li>• Spend cost avoidance as a percentage of spend</li> <li>• Income from recycling programs</li> <li>• Water consumption</li> <li>• Tons of CO<sub>2</sub> per unit of product</li> <li>• Percentage of revenue at risk</li> <li>• BTU per unit</li> <li>• Cycle time</li> <li>• Penalties paid as a percentage of revenue</li> <li>• Percentage of revenue increased through innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption and bribery</li> <li>• Child labor</li> <li>• Forced labor</li> <li>• Carbon emissions (CO<sub>2</sub>)</li> <li>• Discrimination</li> <li>• Energy usage</li> <li>• Usage of recycled materials</li> <li>• Material waste</li> <li>• Working hours and holidays</li> <li>• Use of sustainable sources</li> <li>• Freedom of association</li> <li>• Harassment and abuse</li> <li>• Material toxicity</li> <li>• Grievance mechanism</li> <li>• Tier-2/tier-3 supplier performance</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of supplier base audited</li> <li>• Percentage of high-risk suppliers</li> <li>• Percentage of employees trained</li> <li>• Percentage of spend with audited suppliers</li> <li>• Percentage of supplier base risk assessed</li> <li>• Percentage of high-risk spend</li> <li>• Percentage of action plans in place with high-risk suppliers</li> <li>• Percentage of non-conformities closed</li> <li>• Percentage of supplier base certified</li> <li>• Percentage of contracts with sustainability clauses</li> <li>• Percentage of events where suppliers have been deselected due to sustainability practices</li> <li>• Percentage of suppliers supported for developing capabilities</li> </ul>

Source: The Hackett Group

## CONCLUSION

Given that procurement budgets are expected to remain flat for the foreseeable future, any sustainability program must be as cost-efficient as it is effective. The ability to deliver a productive sustainability program will enable greater program coverage over spend and suppliers.

Many procurement organizations have digital transformation initiatives underway, making this an ideal time to make changes to sustainability programs: New digital tools being deployed as part of the transformation can be leveraged at little to no additional cost to construct new processes and policies within project's scope.

## RELATED RESEARCH

[2021 Supplier Diversity Study Results, May 2021](#)

[Strengthening the Procurement-IT Partnership, July 2020](#)

[Top Procurement Initiatives in 2021, February 2021](#)

## About the Advisors



### MÉLANI FLORES

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Ms. Flores has over 25 years of experience in business consulting and benchmarking. In her current role, she advises senior executives in implementing established and emerging best practices across the source-to-settle spectrum. Before joining The Hackett Group, Ms. Flores spent 13 years supporting Fortune 500 companies in Europe and America in their procurement transformation efforts, leading operating model design, process optimization, strategic sourcing and operational strategies implementation. Ms. Flores is a frequent speaker at industry events.



### LAURA GIBBONS

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Ms. Gibbons has over 10 years of industry and consulting experience in areas such as procurement and supply chain strategy, organizational and process design, digital transformation, strategic sourcing and category management. She previously worked in The Hackett Group's Strategy and Operations consulting practice, specializing in sourcing, procurement and supply chain. Before joining The Hackett Group, she worked in product development and strategy and operations at Groupon.

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