



Sustainable procurement: How to get stakeholders buy in?

Engaging with stakeholders for better
cultivation of sustainable supply chain

Dec 2019

The current barriers for sustainable procurement

LACK OF TOP MANAGEMENT BUY-IN

LACK OF INTERNAL AWARENESS

DIFFICULTY IN DEFINING SUSTAINABILITY CRITERIA

LACK OF GOVERNMENT INCENTIVES

COST CONCERNS

LACK OF SUSTAINABILITY PROCUREMENT POLICIES AND STRATEGIES

LIMITED AVAILABILITY OF SUSTAINABLE PRODUCTS/ SUPPLIERS IN THE MARKET

LACK OF TOOLS/ GUIDELINES/ MANUALS

LACK OF TRAININGS AND EDUCATION TO BOTH PROCURERS AND SUPPLIERS

DIFFICULT IN MONITORING SUPPLIER PERFORMANCE

PROCUREMENT PERSONNEL HAVE LIMITED KNOWLEDGE ON SUSTAINABLE PROCUREMENT

RISK OF LIMITING COMPETITION AND SUPPLY BASE

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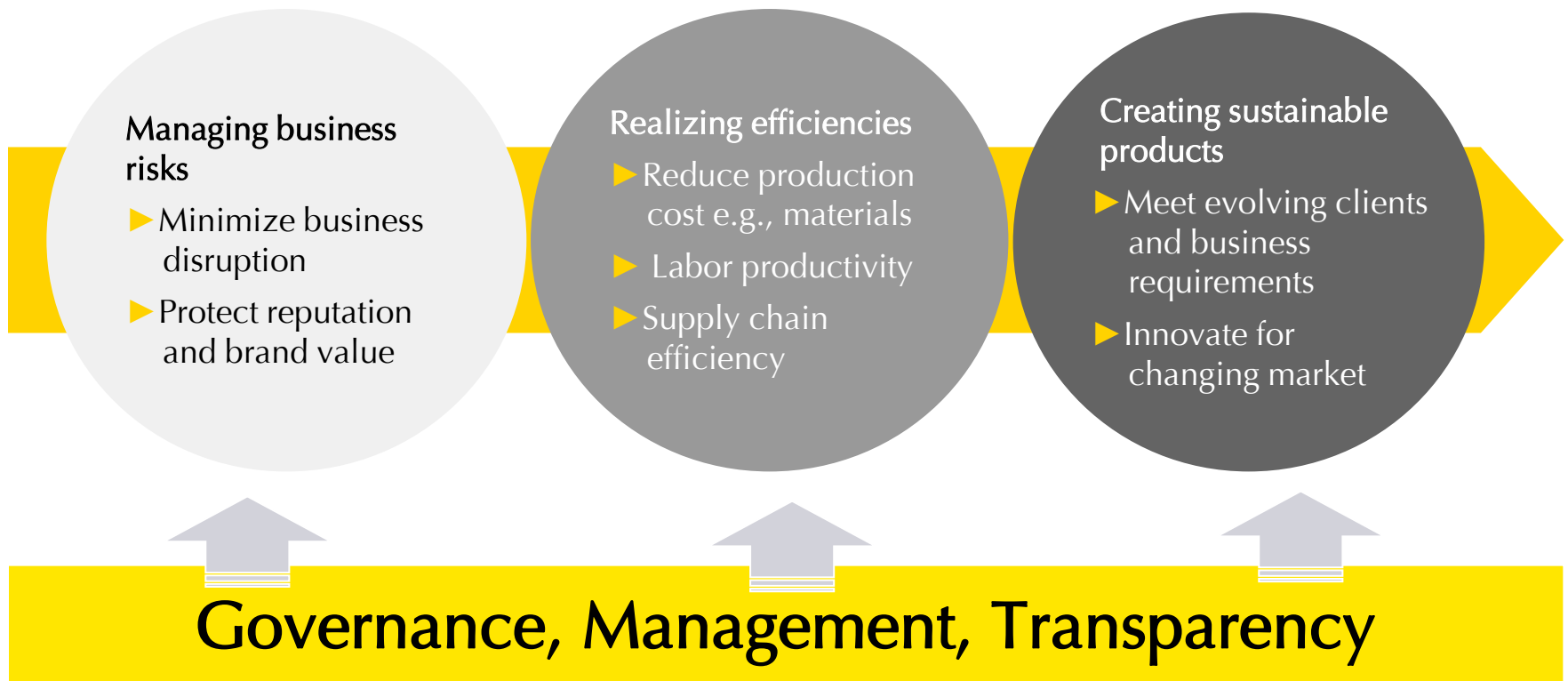
RISK OF LIMITING COMPETITION AND SUPPLY BASE

How to get stakeholders buy in?

Step 1. Commitment

- The commitment of the top management is key to sustainable procurement. Top management should understand the importance of sustainable procurement on supporting the organizational goals and improving performance.

Business drivers for sustainable procurement



How to get stakeholders buy in?

Step 2: Policy and governance

Company can express their commitment in the form of:

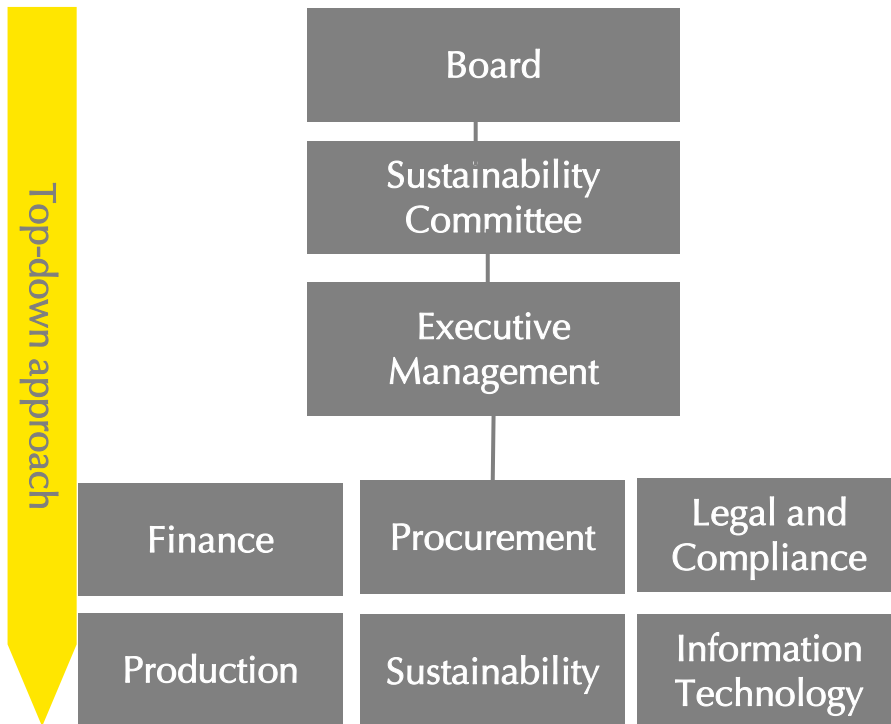


Strategy or Goal:

Outlines how a company's procurement intentions align with key objectives and targets and include a basic work plan

Company shall integrate sustainable procurement into existing governance instead of developing a new governance structure

Governance with accountability



Supply chain governance structure



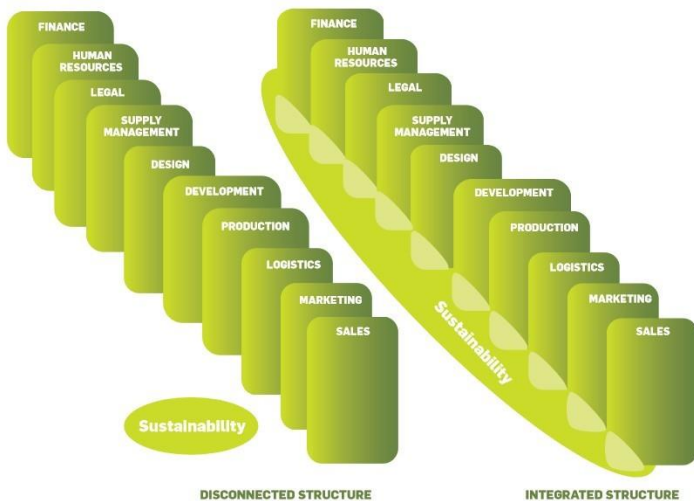
Source: HP Supply Chain Sustainability

How to get stakeholders buy in?

Step 3: Building organization culture

Cross-functional department collaboration

Company shall adopt a multi-department approach, bringing a wide variety of functional departments to work together to align their business requirements with the supply chain sustainability objectives.



Source: UNSDG Supply Chain Sustainability

Sustainability

Regularly assess and monitor sustainability risk within supply chain

Procurement

Ensure supplier's compliance with production schedules

Legal

Ensure supplier's full compliance with relevant laws and regulations

Finance

Conduct supplier spending analysis

The collaboration shall be supplemented by:

Performance evaluation and reporting

IT system facilitation

Capacity building

Defining of roles and responsibilities

Case Study:

Integrate sustainability procurement into existing ERM system

The chart below demonstrates, at a high level, how we can support integration of sustainability procurement in ERM.

ERM governance and planning	Identify sustainability risks	Assess and respond to risks	Monitor and report risks
<ol style="list-style-type: none">1. Conduct maturity diagnostics and identify the desired level of maturity2. Develop a road map based on EY sustainability-ERM diagnostic tool, including:<ul style="list-style-type: none">▶ Risk governance model▶ Risk appetite and language▶ Risk identification, assessment, response and communication3. Develop a detailed governance operating model based on the ERM governance framework and support implementation of the framework	<ol style="list-style-type: none">1. Identify sustainability risks based on business context and strategy<ul style="list-style-type: none">▶ Perform megatrend analysis to identify emerging risks▶ Conduct interviews with key stakeholders to identify “blind spots” in risk inventory▶ Incorporate risk areas from the materiality assessment and compare to existing risks on the risk register▶ Map the value chain impacts and dependencies2. Define the sustainability risks<ul style="list-style-type: none">▶ Root cause analysis▶ Precisely define based on business context	<ol style="list-style-type: none">1. Prioritize risks2. Quantify risks when feasible using agreed-upon rating criteria3. Conduct scenario modeling, sensitivity analysis, etc. through cross-functional collaboration<ul style="list-style-type: none">▶ Analyze results and executive responses▶ Develop an enterprise risk profile and assessment report4. Determine a high-level risk response<ul style="list-style-type: none">▶ Determine risk response given the risk profile (in context of the risk appetite)▶ Co-develop risk response action plans5. Deploy risk response	<ol style="list-style-type: none">1. Track and monitor progress of sustainability risk action plans<ul style="list-style-type: none">▶ Receive periodic updates on the progress against plan from risk owners▶ Re-assess action plans and metrics for appropriateness▶ Incorporate metrics into business unit communications as needed2. Report on progress of sustainability risk action plans<ul style="list-style-type: none">▶ Consider TCFD guidance for reporting▶ Develop a portfolio view of risks and consider using scenario analysis▶ Facilitate use of data for decision making through collaboration with management

Cross-functional approach incorporating both risk and sustainability professionals

How to get stakeholders buy in?

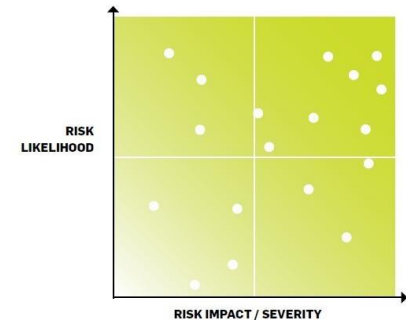
Step 4: Supplier assessment

Supply chain segmentation:

- ▶ Societal risk: Where are the biggest risks to human rights, labor, the environment and ethics in your supply chain?
- ▶ Business risk: What are the risks in your company's supply chain that could impact ability to do business and meet the vision set forth for supply chain sustainability?
- ▶ Economic risk: What are the risks for exclusion of small and medium sized enterprises (SMEs) when introducing code demands, monitoring and auditing schemes?

Supply chain risk mapping:

- ▶ Identifying risk events
- ▶ Assessing the likelihood and severity of risk events



Walmart - Supply chain risk mapping

- ▶ Walmart's supply chain management system has categorized its suppliers into **green**, **yellow** and **red** flags based on supplier's risk level;
- ▶ Suppliers beyond acceptable risk level might be subject to contract termination.



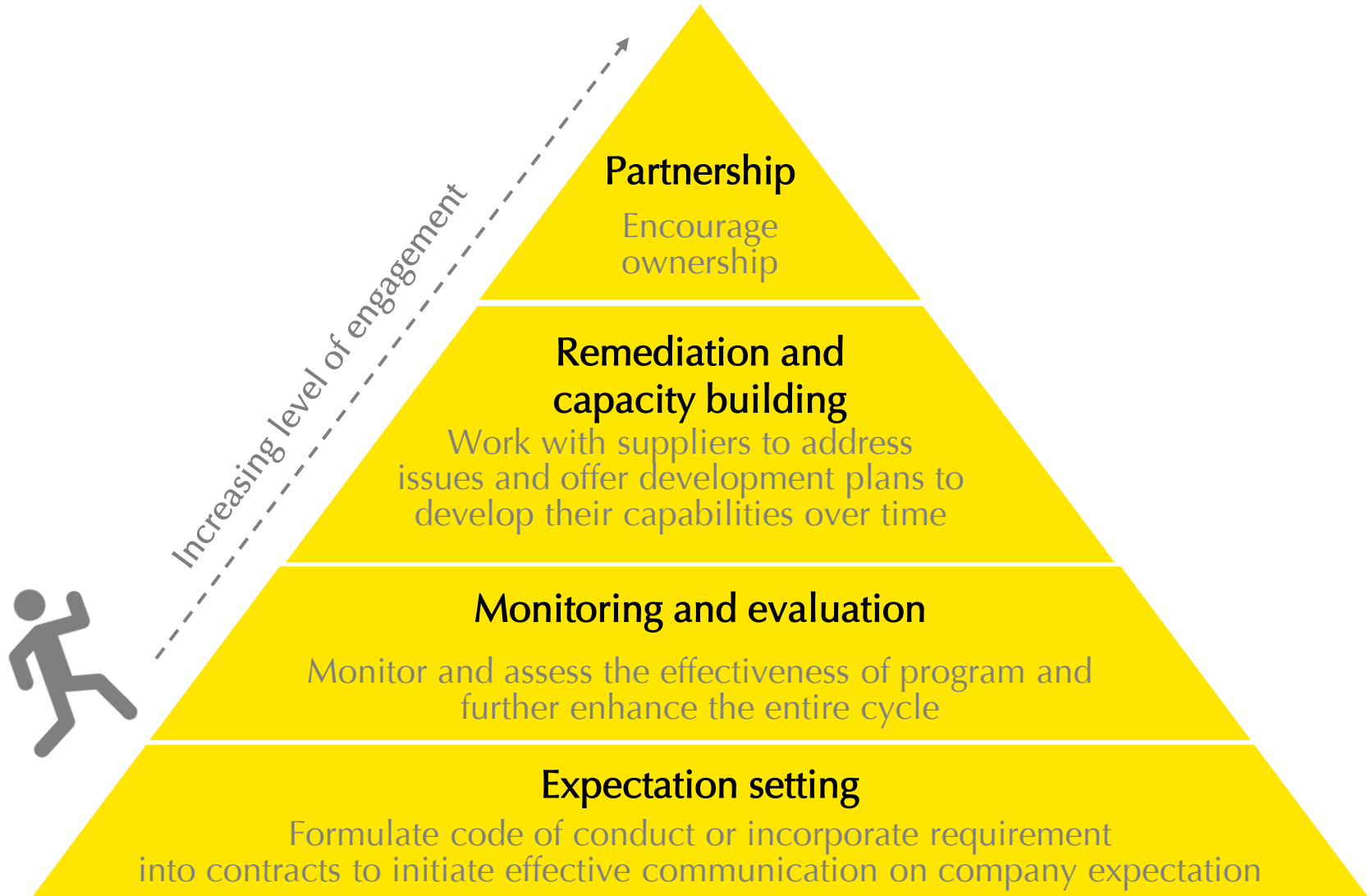
SUPPLIER CONTROL LEVELS

Control Level	Guidelines
LEVEL 1	Low impact on CSR & compliance, no impact on production
LEVEL 2	Some impact on CSR & compliance, no impact on production
LEVEL 3	Some impact on CSR & compliance, indirect impact on production
LEVEL 4	Some impact on CSR & compliance, direct impact on production Alternative supplier available
LEVEL 5	Some impact on CSR & compliance, direct impact on production Alternative supplier not available, major problems maintaining production

Source: UNSDG Supply Chain Sustainability

How to get stakeholders buy in?

Step 5: Supplier relationship management



Case Study: HSBC and Walmart

Sustainable supply chain financing

Sustainable supply chain finance program

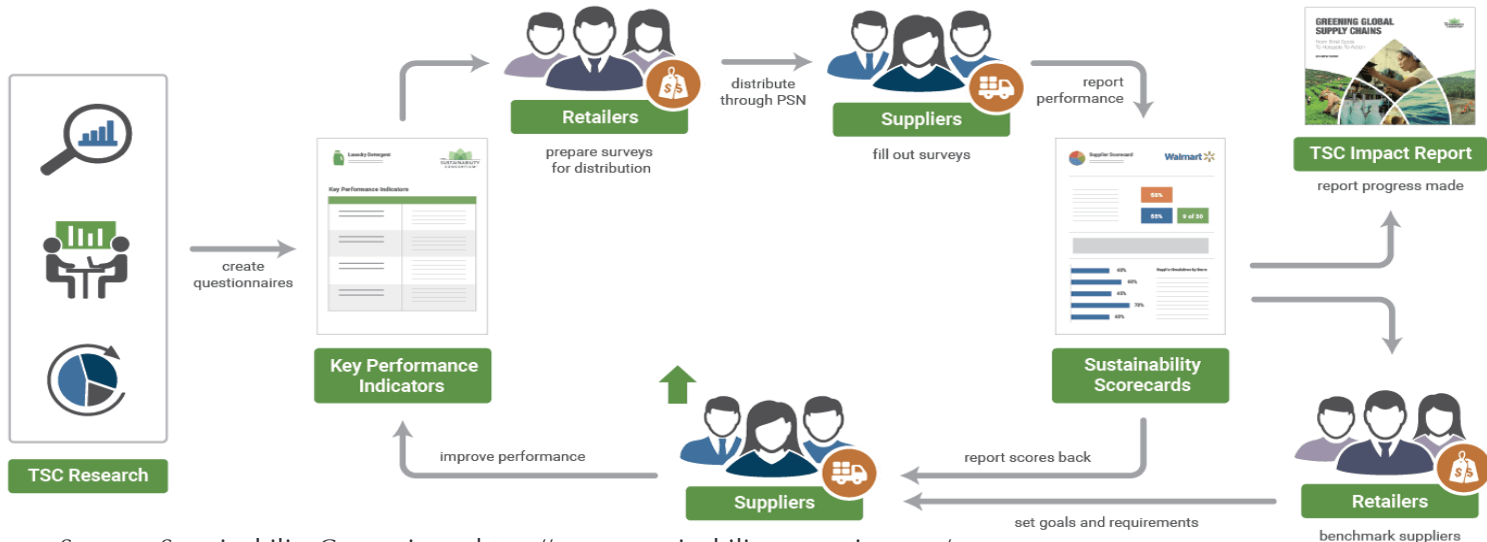
HSBC and Walmart jointly launched a sustainable supply chain finance program in 2019 that linked a supplier's financing rate to its sustainability performance.

Project Gigaton:

Walmart initiative to **avoid one billion metric tons (a gigaton) of greenhouse gases** from the global value chain by 2030 through supplier commitments.

Walmart's Sustainability Index Program:

Gather and analyze information across a products life cycle to help benchmark suppliers and encourage continuous improvement.



Source: Sustainability Consortium - <https://www.sustainabilityconsortium.org/>

How to get stakeholders buy in?




Step 6: External engagement – Customer and investors

- ▶ Customer and investor demand is a primary driver, their concerns and suggestion can help ensure that company create the maximum return for the company by certain initiatives.
- ▶ Besides, they also take reference to various rating agencies when making investment or procurement decision.

Case study – EcoVadis :

Assess supplier's CSR performance then give CSR Ratings and Scorecards, covering 21 CSR Indicators, 190 commodities, and 150 countries

Since 2008, over 55,000 companies in over 155 countries have completed CSR assessments, and over 300 multinational companies use the result to make sustainable procurement decisions.

 ENVIRONMENT	 LABOR & HUMAN RIGHTS	 ETHICS	 SUSTAINABLE PROCUREMENT
Operations <ul style="list-style-type: none">• Energy Consumption & GHGs• Water• Biodiversity• Local & Accidental Pollution• Materials, Chemicals & Waste Products <ul style="list-style-type: none">• Product Use• Product End-of-Life• Customer Health & Safety• Environmental Services & Advocacy	Human Resources <ul style="list-style-type: none">• Employee Health & Safety• Working Conditions• Social Dialogue• Career Management & Training Human Rights <ul style="list-style-type: none">• Child Labor, Forced Labor & Human Trafficking• Diversity, Discrimination & Harassment• External Stakeholder Human Rights	<ul style="list-style-type: none">• Corruption• Anticompetitive Practices• Responsible Information Management	<ul style="list-style-type: none">• Supplier Environmental Practices• Supplier Social Practices

Source: EcoVadis - <https://www.ecovadis.com/>

How to get stakeholders buy in?

Step 6: External engagement – Industrial peers

Industrial peers collaboration are also important tools for advancing the company's supply chain sustainability objectives, and help addressing issues particularly that are too challenging and complex to tackle alone.



Apparel, footwear, and textile industry's leading alliance for sustainable production.

The Higg Index, a suite of tools that enables brands, retailers, and facilities of all sizes to measure and score a company or product's sustainability performance.



The world's largest industry coalition dedicated to corporate social responsibility in global supply chains.

The RBA, has their own standard for onsite compliance verification and audits - Validated Assessment Program (VAP), and a risk index database for performing supplier's due diligence

Aspects to consider when assessing your readiness

Before entering the sustainability procurement development process, a company shall fully identify its current status and establish its sustainable supply chain. There are several aspects company shall pay attention to:

Business strategy

- ▶ How is company's future business strategy?
- ▶ What sustainable procurement setting can help company attain its goal?

Business position

- ▶ Which level of progression the company strives to achieve? Basic compliance or Lead performance

Understanding and commitment of top management

- ▶ Is current understanding of top management adequate to realize the importance of sustainable supply chain?
- ▶ What resources need to be devoted to support the work?

Customer and investor concerns

- ▶ What issues customer and investor place the most significant focus on?
- ▶ How company sustainability supply chain can effectively respond to their concerns?

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