

A person is running up a set of stairs. The stairs are painted with various colors including red, yellow, green, and blue. The person is wearing a grey long-sleeved shirt, black leggings, and pink and white running shoes. The background is slightly blurred, showing a metal railing and some greenery.

Building the business case for sustainable procurement

Executive Summary

Cathy Berry

Executive Summary

This report considers the business case for sustainability and examines the commercial benefits of adopting sustainable procurement principles and practices.

Global mega trends such as climate change, changing demographics and population growth, urbanisation, globalisation and rapid technological change mean it is impossible for current economic models to remain stable or continue growing without radical, adaptive change. Businesses face new and emerging risks related to environmental, social and governance (ESG) issues, meaning they must look beyond financial performance and consider wider performance, resilience and risk profiles. To succeed, businesses must ultimately transition to a more sustainable and circular model.

Driving sustainable business solutions needs top-level commitment and business leaders need to spearhead this transition. However, businesses cannot do this alone and must understand the role that their suppliers and associated supply chains will play in their success. Around 40-80% of an organisation's revenues are typically re-spent through its supply chain so proper engagement with suppliers and sub-contractors is vital.

Good procurement and supply chain management practices go beyond identifying and managing the risks that may exist deep in supply chains. If exposed, these risks could damage corporate reputation, share price and revenues. Done well, procurement can add greater value by helping organisations deliver their sustainable business goals and other commercial benefits, including:

- Enhanced consumer and/or stakeholder perception that can translate to a measurable increase in brand value, market share and shareholder value.
- Cost management and cost reduction through improvements in resource efficiency, resource management and waste reduction.
- Improved cost control and more effective decision making by adopting a wider approach to whole lifecycle costing.
- Innovation and support for new products and services by investing in and harnessing supplier expertise, which can differentiate products and services driving competitive advantage.
- Improved investor confidence that can reduce the cost of capital, increase access to capital and increase company valuation.
- Improved community engagement and relations.
- More engaged and productive staff, making it easier to hire and retain talent.
- Compliance with environmental and social legislation such as the Modern Slavery Act 2015.
- Improved supply chain security.

In other words, sustainable procurement and management of the supply chain is essential to business success. **Ultimately, we need more than just senior management 'buy-in' to sustainable procurement; we need them to lead.**

Despite the benefits it can provide, sustainable sourcing it is still not being consistently implemented throughout organisational supply chains. A paper published by the journal of the

National Academy of Sciences revealed that 52% of global companies incorporate sustainable sourcing into their business operations. However, over 70% of these practices only cover a subset of input materials for a given product, leaving many impacts unaddressed within other tiers of the supply chain.¹ This suggests that we have a long way to go to truly mitigate the risks and harness the business benefits that sustainable procurement can bring.

Sustainable procurement will assist organisations to spend their money efficiently, effectively and ethically; and this report highlights research and case studies to help readers make a compelling case to peers and senior management for undertaking sustainable procurement.

Sustainability – a driver for growth

Sustainability can go hand in hand with business growth and increasingly businesses are moving from ‘doing less harm’ to redefining products, brands and services for positive impact and seeing remarkable return on investment for doing so. This is supported by an increasing body of academic research showing positive return on investment (ROI) of corporate sustainability practices. For example, *PROJECT ROI* summarises over 300 leading research studies concluding that well-run corporate sustainability programs consistently bring multiple types of benefits, including increased sales, growing market value, higher employee productivity, and reduced risk exposure. Further examples are also provided demonstrating the commercial benefits of placing sustainability at the core of business.

Business drivers – a starting point

Understanding what is driving the organisation to pursue sustainability initiatives in the first place is an important first step in gaining management buy-in to sustainable procurement. Every organisation has a unique combination of reasons for undertaking sustainable business practices which depend on the type of organisation, the context in which they operate and their degree of ambition. It is important that an organisation analyses its own unique set of drivers to help establish relevant (and material) goals and objectives.

Establishing how sustainability can deliver business benefits and then determining which sustainability issues (commonly called impacts) are relevant to the organisation is key. This will help determine how supply chain can play its part and a supporting business case and an aligned sustainable procurement policy and strategy should then be developed.

The report evaluates 12 drivers and uses a collection of cases studies and examples to demonstrate how organisations have engaged their supply chains to respond to the sustainability impacts (risks and opportunities) relevant to their business context. Each example illustrates a differing combination of business reasons for embracing sustainability and how this has shaped the supply chain response to promote value for the organisation.

¹ Transform March 2018 p6.



Figure 1: Example organisational drivers

The report concludes that the value of an organisation is driven by factors that are not accurately captured and valued on financial statements – like people (human capital), natural resources (ecological capital) and trust (social capital)². A key component of an organisations’ commercial goals should be to ensure a quality, stable and sustainable supply chain and there’s a growing appetite for what procurement can deliver. Leaders are increasingly recognizing that sustainable procurement and supply chain management are important elements of a successful business, but we need to continue to sell these supply chain benefits in a language that commercial leaders understand.

With no quick fixes; sustainable procurement demands proper governance, visible commitment and leadership from the top team, a proper understanding of the business drivers for doing sustainable procurement and a clear understanding of the unique set of impacts relevant to the organisation and business context. Once these factors are in place, an organisation is well positioned to develop an effective sustainable procurement strategy.

² <https://www.forbes.com/sites/christopherskroupa/2017/11/01/how-intangible-assets-are-affecting-company-value-in-the-stock-market/#465f9ffe2b8e>

Introduction

We are living in a time of unprecedented technological change that will have massive implications for how we work, live and interact with one another. Global mega trends such as climate change, changing demographics and population growth, rapid urbanisation and globalisation, mean it is impossible for current economic models to remain stable or continue growing without radical, adaptive change. This requires a transition to a more sustainable and circular model.

But are organisations adequately preparing for this ‘seismic shift’? How are they re-thinking their business strategy to stay relevant in an ever-changing market? *Creative destruction*, a term coined by Joseph Schumpeter in 1942, describes the process of industrial mutation in which new technologies, new kinds of products, new methods of production and new means of distribution make old ones obsolete, forcing existing companies to quickly adapt to a new environment or fail. Technology is changing business, and this can help deliver a more sustainable business model. Think about how online streaming and on-demand entertainment has changed the way we consume TV entertainment. Blockbuster’s CEO once passed up the opportunity to buy Netflix for only \$50m and 14 years on, it had a market valuation of \$32.9 billion and over 50 million subscribers to its paid service³

Sustainability is expected to become as big and disruptive in every sector over the next 15 years as digital technologies have become over the past 15. These two disruptive forces will increasingly converge.

Source: World Economic Forum 2016

Likewise, the hotel industry has been disrupted by more privatised options such as Airbnb and VRBO. Many hotels are adopting technology that enables more engaging, customised and immersive guest experiences; these systems have become the Trojan horse for the hotel industry to embrace higher-tech sustainability practices.

So how are organisations preparing to reinvent themselves? How will they deliver the sustainable goods and services needed to cater for a population estimated to reach 8 billion by 2024? And how can this be done without exceeding the earth’s capacity to provide us with the raw materials and eco-system services needed to sustain life?

Driving sustainable business solutions needs top-level commitment and we need business leaders to spearhead this transition. However, we cannot rely on this alone and must understand the role that our suppliers and associated supply chains will play in our success. Many are still not convinced about the business case, continuing to place short-term profitability ahead of long-term sustainable growth.

This report considers the business case for sustainability and examines the commercial benefits of adopting sustainable procurement principles and practices. Around 40-80% of an organisation’s revenues are typically re-spent through its supply chain. So to deliver sustainable business solutions, it is critical that suppliers and subcontractors are properly engaged to support

³ <http://uk.businessinsider.com/blockbuster-ceo-passed-up-chance-to-buy-netflix-for-50-million-2015-7>

organisational goals and deliver business success. We need more than just senior management ‘buy-in’; we need them to lead.

Sometimes we use language which is not easily understood outside the sustainability field; so this report adopts a ‘traditional’ business narrative to help connect business leaders with the commercial benefits, risk and shared value that can be gained through sustainable procurement and supply chain management. It aims to provide you with evidence through research and case studies that will help you make a compelling case to peers and senior management for undertaking sustainable procurement within your organisation.

“We need more than just senior management ‘buy-in’; we need them to lead”

Sustainability – a driver for growth

We know that sustainability can go hand in hand with business growth and there is an increasing body of evidence demonstrating the business case for sustainable products and services. Businesses are moving from ‘doing less harm’ to redefining products, brands and services for positive impact and seeing remarkable return on investment for doing so.

For example, Unilever has claimed there’s a £853 billion opportunity for brands that make their sustainability credentials clear⁴. Their ‘Sustainable Living’ brands combine a strong social or environmental purpose, with products that contribute to achieving the Unilever Sustainable Living Plan goals. These are driving unprecedented value and growth for the business, with 18 Sustainable Living brands in the top 40 Unilever brands in 2016, an increase from 12 in 2015. Strong consumer demand saw these brands deliver 70% of its turnover growth, growing 46% faster than the rest of the business in 2017.⁵



Image: Unilever Sustainable Living

Paul Polman, Unilever CEO, said:

“We have made great progress. Our results show that sustainability is good for business, with increasing evidence that our ‘Sustainable Living brands’ do better... There is no doubt that the Unilever

⁴ Profit Beyond Purpose IEMA Transform Dec 2017

⁵ <https://www.edie.net/news/7/Sustainable-Living-brands-delivered-70--of-Unilever-s-turnover-last-year/>

Sustainable Living Plan is making us more competitive by helping us to build our brands and spur innovation, strengthen our supply chain and reduce our risks, lower our costs, and build trust in our business. It is helping Unilever to serve society and our many consumers, and in doing so, create value for shareholders.”⁶

Unilever has also commissioned consumer research to help gain a better understanding of the issues that are driving people’s purchasing habits and behaviour. The research showed that over half of all consumers already buy or want to buy sustainably. One in three (33%) already purchase products with sustainability in mind, and a further 21% do not currently, but would like to.⁷

There is an increasing body of compelling research showing positive return on investment (ROI) of corporate sustainability practices. The examples below may help connect senior leaders with the commercial benefits of placing sustainability at the core of business:

Meaningful Brands® is Havas Media Group’s index that measures the potential business benefits gained by a brand when it is seen to improve wellbeing and quality of life. In its 2017 survey of 1,500 global brands, over 300,000 people in 33 countries and across 15 different industry sectors demonstrate that Meaningful Brands have outperformed the stock market by 206% over the last 10 years.

Source: <http://www.meaningful-brands.com/en>

⁶ <https://www.edie.net/news/7/Unilever-s-Sustainable-Living-brands-outstrip-rest-of-business/>

⁷ <https://www.unilever.com/news/press-releases/2017/unilevers-sustainable-living-brands-continue-to-drive-higher-rates-of-growth.html>

1. PROJECT ROI

The project summarised over 300 leading research studies and concluded that well-run corporate sustainability programs consistently bring multiple types of benefits, including increased sales, growing market value, higher employee productivity, and reduced risk exposure, among others. The findings demonstrate value creation in 3 areas:



Firm Value, Share Price & Risk

- Increase market value by up to **6%**
- Over a 15 year period, increase shareholder value by **\$1.28 billion**
- Reduce systematic risk by **4%**



Sales and Reputation

- Increase revenue by up to **20%**
- Charge up to a **20%** price premium
- Build a “reputation asset” based on CR worth up to **11%** of total firm value



Human Resources

- Reduce the company’s staff turnover rate by up to **50%**
- Increase employee productivity by up to **13%**
- Increase employee engagement by up to **7.5%**

2. HARVARD BUSINESS SCHOOL: SUSTAINABILITY AND ORGANISATIONAL PERFORMANCE

This study investigated the effect of corporate sustainability on organisational processes and performance. Using a matched sample of 180 US companies, the research found that corporations who voluntarily adopted sustainability policies by 1993 (termed as High Sustainability companies), exhibited by 2009 distinct organisational processes compared to a matched sample of firms that adopted almost none of these policies (termed as Low Sustainability companies). In addition, they also found that the Boards of Directors of these companies were more likely to be formally responsible for sustainability and top executive compensation incentives are more likely to be linked to sustainable performance metrics.

High Sustainability companies were shown to be more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of nonfinancial information. **Finally, the paper evidenced that High Sustainability companies significantly outperformed their counterparts over the long-term, both in terms of stock market as well as accounting performance.**

3. PURE STRATEGIES: BENEFITS OF PRODUCT-LEVEL SUSTAINABILITY

Pure Strategies surveyed 100 global food and beverage, apparel and footwear, home and personal care, toy, and electronics companies involved in product sustainability in 2014 to find out what financial and organisational benefits they are reaping from product-level sustainability efforts. The reported business benefits were:

- 79% of respondents reported having already achieved manufacturing cost savings
- 74% had measured a rise in employee engagement and productivity
- 71% saw trust and brand enhancement
- 64% registered logistical and supply chain savings
- 62% were able to better meet consumer demands

4. HARVARD BUSINESS SCHOOL: MATERIALITY AND VALUE CREATION

This study distinguished between investments in material versus immaterial sustainability issues. The authors mapped data on sustainability investments classified as material for each industry into firm-specific performance data on a variety of sustainability investments. This allowed them to present new evidence on the value implications of sustainability investments. The research found that firms with **good performance on material sustainability issues significantly outperform firms with poor performance on these issues, suggesting that investments in sustainability issues are shareholder-value enhancing**. Further, firms with good performance on sustainability issues not classified as material did not underperform firms with poor performance on these same issues, suggesting investments in sustainability issues are at a minimum not value-destroying.

How procurement can support sustainability business goals

As a minimum an organisation has an obligation to manage the negative impacts of its business i.e. 'do no harm'. This should go beyond managing the negative impacts directly linked to its product or service provision and means managing all material impacts associated with its operations. This includes addressing the ethical, environmental and social issues within its often long and complex supply chains. This responsibility has been made clear in a number of ways:

1. Increasing environmental and social national regulation such as the Climate change Act 2008, Bribery Act 2010, Social Value Act 2012 and the Modern Slavery Act 2015
2. International consensus and societal expectations such as those provided by United Nation Conventions including the influential UN Guiding Principles on Businesses and Human rights and the UN Sustainable Development Goals
3. Customer, investor and other stakeholder pressures

UN Guiding Principles on Businesses and Human Rights

The “Protect, Respect and Remedy” Framework rests on three pillars:




	<p>The first pillar is the state duty to protect against human rights abuses committed by third parties, including business, through appropriate policies, regulation and adjudication. States have the primary role in preventing and addressing corporate-related human rights abuses.</p>
	<p>The second pillar notes the corporate responsibility to respect human rights this means companies need a human rights due diligence process, whereby they become aware of, prevent, and address their adverse human rights impacts</p>
	<p>The third pillar requires greater access by victims to effective remedy, both judicial and non-judicial Even where institutions operate responsibly, adverse human rights impacts may still result from a company’s activities and victims must be able to seek redress. Effective grievance mechanisms play an important role in both the state duty to protect and the corporate responsibility to respect</p>

Figure 2: UN Guiding Principles on Businesses and Human Rights provides a framework that clarifies both state and organisational responsibilities in relation to human rights

Good procurement and supply chain management practices go beyond just identifying and managing the risks that may exist deep in supply chains that if exposed, could damage corporate reputation, share price and revenues. Done well, procurement can help organisations deliver their sustainable business goals, provide commercial benefits, increased revenue and competitive advantage.

Effective sustainable procurement will assist organisations spend their money efficiently, effectively and ethically. This must look beyond ‘up front’ cost and should consider the entire lifecycle of the product, including costs, social and environmental risks and benefits.

ISO 20400:2017 the world’s first international sustainable procurement standard sums this up in its definition as ‘Procurement that has the most positive environmental, social and economic impacts possible over the entire lifecycle.’

Despite the benefits it can provide, sustainable sourcing it is still not being consistently implemented throughout organisational supply chains. A paper published by the journal of the *National Academy of Sciences* revealed that 52% of global companies incorporate sustainable sourcing into their business operations. However over 70% of these practices only cover a subset of input materials for a given product, leaving many impacts unaddressed within other tiers of the supply

ISO 20400 Sustainable Procurement Standard is one of the voluntary International Standards developed by the International Organisation for Standardisation (ISO) –it provides guidance on delivering sustainability objectives through an organisations’ supply chain.

The standard is designed for all organisations, in all sectors, of all sizes, on the assumption that all organisations procure something. It is a guidance standard like ISO 26000, not a requirements standard like ISO 14001. This means an organisation cannot be certified for compliance but can be evaluated and/or advised by a competent third party.

chain.⁸ It seems we have a long way to go to really mitigate the risks and harness the business benefits that sustainable procurement can bring.

Understanding business drivers

How can we help top management understand how suppliers and subcontractors can contribute to organisational sustainability goals, and in doing so, create value for the organisation? An important first step involves understanding what is driving the organisation to pursue sustainability initiatives in the first place. Every organisation has a unique combination of reasons for undertaking sustainable business practices which depend on the type of organisation, the context in which they operate and their degree of ambition. For example, a business in a highly competitive market may be driven to differentiate their offer around sustainability to win new business; therefore, their sustainability goals need to be better than the competition. A retail business may be strongly driven by reputational risk and brand protection, a public body by government policy, and so on. It is important that an organisation analyses its own unique set of drivers to help establish relevant (and material) goals and objectives.

Establishing how sustainability can deliver business benefits and then determining which sustainability issues (commonly called impacts) are relevant is key. Only once this is clear can we identify how the supply chain can play its part. A supporting business case and an aligned sustainable procurement policy and strategy should then be developed.

⁸ Transform March 2018 p6.



Figure 3: Example organisational drivers

An organisation’s sustainability goals and objectives should address its key impacts (including both the biggest sustainability risks and the biggest opportunities to make progress). Different types of businesses have different impacts. Goals and targets that are most important for, say, a property developer, will differ to those for an architecture firm, or an engineering firm.

For example, if you work for an architecture or design firm you are unlikely to have major supply chain risks or employ large numbers of temporary labourers. But your advice to your clients on what materials they use could be critical to shaping places where people can live and work with minimal impact on the planet.

The following collection of cases studies and examples demonstrate how organisations have engaged their supply chains to respond to the sustainability impacts (risks and opportunities) relevant to their business context. Each example illustrates a differing combination of business reasons for embracing sustainability and how this has shaped the supply chain response to promote value for the organisation.

Case Studies

Furniture retail:

For IKEA, a sustainable business model is key to maintaining **competitive advantage**, driving **revenue growth**, **reducing risk** and **securing long term supply of raw materials**, whilst meeting **customer** and other **stakeholder expectations**. Despite being the largest furniture retailer globally with an impressive sales growth of over 5.7% in FY17, IKEA is now looking to completely transform its business model and double its sales by 2020. Becoming more circular and targeting closed-loop solutions is key to achieving this ambitious growth which cannot be achieved without using sustainable procurement to drive innovation and adapt its supply chain to reduce environmental impacts and overcome the risk of raw material constraints.



IKEA was recently awarded the “Accenture Strategy Award for Circular Economy” which applauded the company’s efforts to implement circular design principles and adapt its supply chain to reduce environmental impact and increase re-usability.⁹

Globally, IKEA has already trebled the sales from its 'sustainable life at home' products.

Hege Sæbjørnsen, IKEA Sustainability Manager for UK and Ireland explains:

“A linear system is one that has made us the largest furniture retailer in the world with 175,000 employees, so we have inevitably been asked why we would want to change it. We want to be around for another 75 years and given the sheer scale of our business, wanting to not be reliant on virgin materials and to have a net positive effect is core to the business going forward.”¹⁰

Becoming more circular is not purely an economic decision, IKEA also sees the need to remain relevant to customers over time and to serve their specific needs. This transformation cannot happen without:

- Re-thinking product design processes so all products can be repurposed, repaired, reused, resold or recycled
- Engaging sustainable procurement practices to develop suppliers’ competence and re-structure supply chains to establish new sources of supply of recycled materials, promote product take back schemes and to experiment and manufacture using more innovative and more sustainable materials. (Note, IKEA already partners with suppliers to source 100% recycled plastic for its products)

IKEA recognises that the supply chain is a key lever for change and that partnering with suppliers

⁹ <http://www.climateactionprogramme.org/news/ikea-receives-circular-economy-award>

¹⁰ <https://www.edie.net/news/12/How-circular-economy-is-fuelling-business-growth-for-Ikea/>

and setting demanding performance targets is an important mechanism for maintaining supply chain competitiveness and achieving its ambitious goals. The average length of contractual engagement across IKEA is nine years.

"Part and parcel of doing business with IKEA is driving improvement. The supply chains are very powerful — you can share best practice, you can co-invest, you can share education around techniques and you can give a gentle nudge through the procuring business to encourage people in the right direction. I think that's a huge lever for change." - Steve Howard Chief Sustainability Officer IKEA

Increased public pressure and stakeholder scrutiny from NGOs is playing a crucial role in helping shed light on supply chain labour standards. [China Labor Watch](#) has pushed companies such as Apple, Home Depot, Walmart and Mattel to address issues in their supply chains. Similarly, [The Enough Project](#) has forced technology companies to address the use of conflict minerals.

IKEA also actively harnesses its supply chain expertise to drive innovation. It has a track record of helping scale-up smaller, start-up companies with new, creative ideas on sustainability. For example, in 2016 IKEA signed a 20-year plastic purchase agreement with Newlight Technologies. The company — which also has a partnership agreement with IT giant Dell — makes AirCarbon, a plastic produced via a process which captures methane-based greenhouse gases, meaning the resulting material actually has a negative carbon footprint. Committing to longer-term supply contracts can provide the security for suppliers to invest in new technology and plant to deliver competitive solutions aligned to business goals.

Either way, Howard is clear on IKEA's role and responsibility for driving change in business practices more widely: *"You can partner with entrepreneurs and innovators, you can be a provider of finance and you can use your supply chain to drive change. I think you've got to try and use all of those tools at once."*¹¹

Fashion and food retail:

Customer pressure and brand reputation are key drivers for many retailers of food and fashion to engage in more sustainable supply-chain management and procurement practices. For many consumers, there's a growing shift towards more conscious, ethical purchasing decisions. This is reflected by a Nielsen poll of 30,000 consumers in 60 countries who were asked to indicate what factors had the most influence on their purchasing habits of a wide range of products. The 2015 results showed that consumers are increasingly willing to pay more for socially responsible products. 66% of respondents say they're willing to pay more for products and services that come from companies who are committed to positive social and environmental impact, up from 55% in 2014 and 50% in 2013.

Consumers are increasingly interested in where the products they buy come from and the conditions under which they were farmed or made. Anti-slavery legislation, disasters like the Rana Plaza factory collapse in Bangladesh that killed more than 1100 people five years ago, and the European Horsemeat scandal of 2013, have increased focus and awareness on the treatment and condition of

¹¹ <https://www.greenbiz.com/article/ikea-argues-businesses-go-all-sustainability>

workers and the desire to know what we're eating, wearing and buying. Brand trust is key and is now widely regarded as the most sought pillar for long term competitive advantage¹²

Brands cannot divorce themselves from what is happening in their upstream supply chains, and sustainable procurement is essential to identify, monitor and address risk and protect against reputational damage associated with unethical environmental, social and labour practices.

It is also increasingly being recognised as an opportunity to generate revenue by promoting supply chain provenance. This means disclosing information about where, how and who produced the products to improve brand trust.

Transparency will be a fundamental requirement for success in the future and good procurement is key to providing information on supply chain standards that could create competitive advantage. Brands like Adidas, ASOS, Primark and Marks & Spencer publish supplier maps so customers can now see where their workers are located. ASOS for example, has published a 30-page list of hundreds of factories it uses with a world map that details the number of employees and the male/female split of staff at each site. This helps to protect corporate reputation, builds brand image and trust with consumers, investors and suppliers, which can lead to more efficient sourcing relationships. (The Ethical Trading Initiative)¹³

¹² <https://www.accenture.com/gb-en/insight-un-global-compact-consumer-study-marketing-mattering>

¹³ Supply Management July/August 2018 p35-37

Non-retail:

Non-consumer facing businesses with lower brand exposure may not be driven by customer or societal pressure to adopt more sustainable business practices and the business case for sustainability (and sustainable procurement) may come down to employee engagement and retention. Those who get it right will secure competitive advantage by attracting and keeping the best talent. This has a direct impact on the bottom line as losing and replacing a good employee costs companies between 70% and 200% of an employee's annual salary¹⁴).

A well-known professional services organisation considers staff recruitment and retention as its main driver for adopting more sustainable procurement practices. With intense competition to attract and retain the best talent it recognises the need to demonstrate corporate social responsibility to its staff. This extends to the products and services it procures and the way in which it treats its supply chain.

This is supported by research such as **B Corp** which shows that sustainability is an increasingly important factor in attracting and managing talent as employees are increasingly seeking out companies who are driven by purpose beyond profit. In 2013, **Bain & Company surveyed** about 750 employees across industries in Brazil, China, India, Germany, the UK, and the U.S. Roughly two-thirds of respondents said they care more about sustainability now than three years ago, with almost that many saying sustainable business is extremely important to them. Interest peaks among employees age 36 to 40 — a young group but not the youngest.

Employees also expect employers to continue to improve sustainability performance. When asked which group should take the lead on sustainability, more respondents cited employers than they did consumers, employees, governments, or all equally. The survey also concluded that a small but growing segment of the workforce view sustainability as a major factor in job choices and are willing to accept lower compensation to work for an employer that meshes with their beliefs.

Employees who feel like their work creates positive impact are more likely to feel fulfilled, promote their company and stay on the job longer. Studies have shown that inspired employees are almost three times more productive than dissatisfied employees.

HBR 2015



Nathan Blecharczyk, co-founder of room-sharing website Airbnb, which has over 2,000 employees, says in the technology arena in which they operate, the competition for staff is very intense. In a bid to attract more millennials Blecharczyk says the firm makes it very clear what its core values are to help make it stand out to would be employees.

"Millennials are known to be more purpose-driven, so as a company both internally and externally

¹⁴ <https://www.theguardian.com/sustainable-business/2014/oct/15/employee-engagement-millennials-social-responsibility-innovation-value-social-responsibility>

we're always communicating what our values are and trying to be true to those things," he says.¹⁵

Procurement's role in helping deliver organisational sustainability goals can also provide the added benefit of improved engagement and motivation of procurement staff when it is done well. For example, Nestlé procurement function contributes to the organisation's CSR goals by supporting a number of supply chain sustainability initiatives including a programme to develop and support young dairy farmers.

Over the last two years the team has been working with eight farmers who are starting out in their careers, helping to educate them on financial responsibility, best farming practices and looking at how they work with the firm's supply chain. This commitment to CSR has made procurement a more attractive place for young Nestlé recruits.



Matt Beddoe, Head of Procurement at Nestlé comments:

"It's about how we make it relate to our market and how it inspires people, and now I get a lot of particularly commercial apprentices and graduates wanting to work in procurement because they see it as an attractive place.... It's about what we can do as individuals and how we make it real. We can talk about the corporate things – and we do do them, it's not greenwash – but personally, what I am doing to make a difference, is the most important thing."¹⁶

Utilities:

United Utilities Group Plc (UU) is the sole provider of water and wastewater treatment services to around 3 million households and 400,000 businesses in northwest England. Operating in a regulated market with no competition, it has a different set of business drivers for pursuing sustainable business solutions. In 2008, UU embarked on a 5-year sustainable supply chain programme to maintain its **societal license to operate, achieve its regulatory targets** through the supply chain, and demonstrate its commitment to delivering **value for money** through improved efficiency and cost-effective sustainable solutions.



Action Sustainability were engaged to help implement BS8903 the sustainable procurement standard (which has subsequently been converted into ISO 20400 the international standard on sustainable procurement) as a management system throughout their procurement process. Within 2 years, UU achieved savings in excess of £6 million through sustainable procurement initiatives and a year later won the Business in the Community Responsible Supply Chain Management Award and were recognised as global sector leaders for sustainable supply chain management in the Dow Jones Sustainability Index.

¹⁵ <https://www.bbc.co.uk/news/business-35460401>

¹⁶ <https://www.cips.org/en/supply-management/news/2018/may/social-responsibility-starts-with-the-individual/>

Cost optimisation is an important driver for undertaking sustainable procurement which is primarily about doing business more efficiently, more effectively and with reduced supply chain risk. Cost savings can be easily attributable to consuming fewer resources, using less energy and generating less waste for example. However, procurement is not just about creating hard-nosed savings, sustainable procurement is about delivering value for money. This includes delivering social benefits, reducing harm to the environment and people, which in turn, can impact access to and cost of capital.

A report published by the World Economic forum in collaboration with Accenture called '**Beyond Supply Chains: Empowering Responsible Value Chains**' evaluated how leading companies are achieving profitability while benefiting society and the environment (coined the triple supply chain advantage). Modelled on consumer goods supply chains, the report identified 31 practices that could deliver triple advantage improvements. By implementing these measures, the report identified the following benefits could be achieved:

- **Profitability:** Revenue uplift of 5-20%; supply chain cost reduction of 9-16%, brand value increase of 15-30%, significant company risk reduction
- **Local development and societies:** Improved customer health, local welfare and labour standards (wages, working conditions)
- **Environment:** Carbon reduction of 13-22% on overall footprint

The investment community is also taking a growing interest in organisational sustainability performance (known as environmental, social and governance (ESG) performance). This can impact access to, and cost of capital and is evidenced in a study by Oxford University and Arabesque which revealed that 90% of studies showed that sound sustainability standards lowers the cost of capital for companies.

Investors now realise that many of the issues and risks sit within the supply chain. Whilst these issues used to be considered 'non-financial' risks, they are beginning to be seen as 'non-direct financial' risks. This puts procurement and supply chain at the centre of investment decisions.

A recent report by the UN-supported *Principles for Responsible Investment (PRI)* advises investors to ask companies detailed questions about supply chain complexity, how ESG issues are embedded in contracts, and how people are trained in managing specific ESG risks. It also advises investors to engage with procurement decision makers to find answers to technical supply chain management questions. This is significant, as the PRI signatories represent more than \$70 trillion worth of global investment and ESG performance is firmly on their agenda. Organisations will be expected to answer searching questions about how these risks are managed. This means procurement will be put in the spotlight to demonstrate how such risks are identified and managed throughout multiple tiers of the supply chain.

Infrastructure:

The Thameslink £7 billion upgrade project (TLP) was completed in 2018. The investment covered construction of new track, new stations, longer platforms, better signalling and new trains. A

significant portion was spent redesigning Farringdon and redeveloping Blackfriars and London Bridge stations –the latter was the biggest project in the programme of works.

The first stage (Key Output 1) covered Farringdon and Blackfriars and was completed in 2012. The second stage (Key Output 2) included the redevelopment of London Bridge station.

The project itself was about sustainability. Its main goal was to improve the public transport experience by improving access, increasing the number of trains and encouraging people to move to a cleaner mode of transport. It also supports commerce and businesses by aiming to increase the number of people in and out of the capital.

Alongside this was a requirement, to deliver the upgrades and improvements in a sustainable way. As such the project sustainability objectives were designed to ensure that the project could be delivered on time and on budget as well as leaving a positive environmental, social and economic legacy for the surrounding community, users of the network, Network Rail and contracting partners. The main project sustainability drivers were:



- **Financial:** to promote cost reduction, process efficiencies and lower whole life cost performance
- **Innovation:** to stimulate the use of new technologies and process improvements
- **Corporate policy:** to align with, and deliver against Network Rail Corporate Sustainable Development commitments
- **Legislation:** to meet all legislative requirements. Legislation typically represents minimum requirements and there is no one single piece of sustainable legislation. However, there are a wide range that have sustainable requirements embedded within them. These include the Transport and Works Act, Environmental Protection Act, Climate Change Act, Equality Act 2010.
- **Local and central government policy:** a key role in driving sustainable procurement and rigorous management of contractors' sustainability performance across the project. The government has been driving more sustainable construction practices by encouraging the industry to become leaner, cleaner and more profitable. Strategies such as the Sustainable Construction strategy ensure taxpayers' money is spent carefully; projects are delivered on time and to budget; and the government as a client is using its muscle to help the economy become more competitive –helping SMEs bid for contracts and requiring contractors to invest in workforce skills and create local jobs.

Delivering social value on public infrastructure projects is an increasingly important part of public sector procurement requirements. These requirements are also becoming increasingly demanding. London Bridge Station was set, challenging section 106 requirements on local employment and apprenticeships. This required employing a dedicated workplace coordinator to identify employment opportunities and encourage applications from suitable local candidates within the

Borough of Southwark. This involved liaising closely with local employment and skills agencies, the local Jobcentre Plus and voluntary community sector training providers, and careers service providers. The role also required provision of basic skills and site safety training and providing support to enable an effective transition into work.

Minimum annual requirements (with financial penalties for non-compliance) were set over the 5-year project to:

- Bring workless Borough residents into construction related jobs
- Provide training for workless residents including provision of Construction Skills Certification training opportunities and NVQ qualifications
- Provide local apprenticeship posts in construction trades on site equivalent to a minimum of 3% of full-time construction jobs
- Give written quarterly progress reports detailing delivery and outcomes

Additional requirements were put in place necessitating that contractors:

- Consider applications to tender from SMEs and cooperate with the council to increase opportunities for local firms and people
- Encourage their subcontractors to liaise with local economic development teams and to ensure cooperation with these objectives as a prerequisite to accepting subcontract tenders
- Advertise and offer contracting opportunities to SMEs through local business networks and the local press
- Resource and deliver a minimum of six seminars on procurement policy targeted at local firms to inform them of opportunities, timescales and procedures to successfully tender for work

These requirements formed part of the contracting strategy, contract terms and contractor performance management strategy. Contractors were also required to specify how they could deliver against all other relevant project sustainability objectives and submit sustainable delivery statements detailing commitments and actions plans.

Successful delivery of social value across the project has been externally recognised. This could not have been delivered without a robust sustainable procurement and contract management strategy that promoted collaboration with the TLP contractors and subcontractors. The TLP sustainability awards included:

- Gold award for ‘community commitment’ in recognition for the programme of community outreach at the International Corporate Social Responsibility Awards, June 2017 (Thameslink Programme)
- Awarded ‘Greatest Contribution to London’ by the Institute of Civil Engineers, for the team behind the £1 billion London Bridge station redevelopment project. Socially beneficial features identified included: improved station accessibility for a wider range of people and design that connects communities on both sides of the station (Network Rail and Costain)
- Highly commended for ‘Sustainability’ at the National Rail Awards, for the London Bridge Station Redevelopment Project, 2016

- Bronze ‘Green Apple Award’ for the Built Environment Community Project, 2016 (Balfour Beatty)
- Additional awards for wider sustainability work, including CEEQUAL ‘excellent’ awards (Thameslink Programme)

This programme provides an excellent example of how a commitment to sustainability across all the project stakeholders can create shared social value.

SMEs: Construction sector

Upwards of 80% of a construction project cost is usually spent with the supply chain, so the way products and services are procured and managed has a profound effect on the outcome of the project - not only in terms of profitability for all parties, but also the way in which the completed facility meets the client’s expectations of cost, quality and functionality. Leading players in the UK construction sector have recognised that it is not possible to deliver client, legislative, and their own sustainability goals, without the support of its complex and fragmented supply chain (which is largely made up of SMEs).

Small businesses accounted for 99.3% of all private sector businesses at the start of 2017 and 99.9% were small or medium-sized (SMEs). The combined annual turnover of SMEs was £1.9 trillion, 51% of all private sector turnover in the UK.

Small Business Statistics FSB

In 2012, seven organisations collaborated with Action Sustainability to create the Supply Chain Sustainability School. Today, this collaboration has grown to 78 Partners who all have a mutual interest in building the skills of their multiple, diverse supply chains. Partners fund the School, making all resources and events free to supply chain members, who are awarded bronze, silver or gold accreditations as they progress their learning and develop sustainability competence. The **customer** is a clear business driver in this example. Partners measure how active their suppliers and sub-contractors are within the School and some monitor their progress towards bronze, silver and gold accreditation as a demonstration of competence.

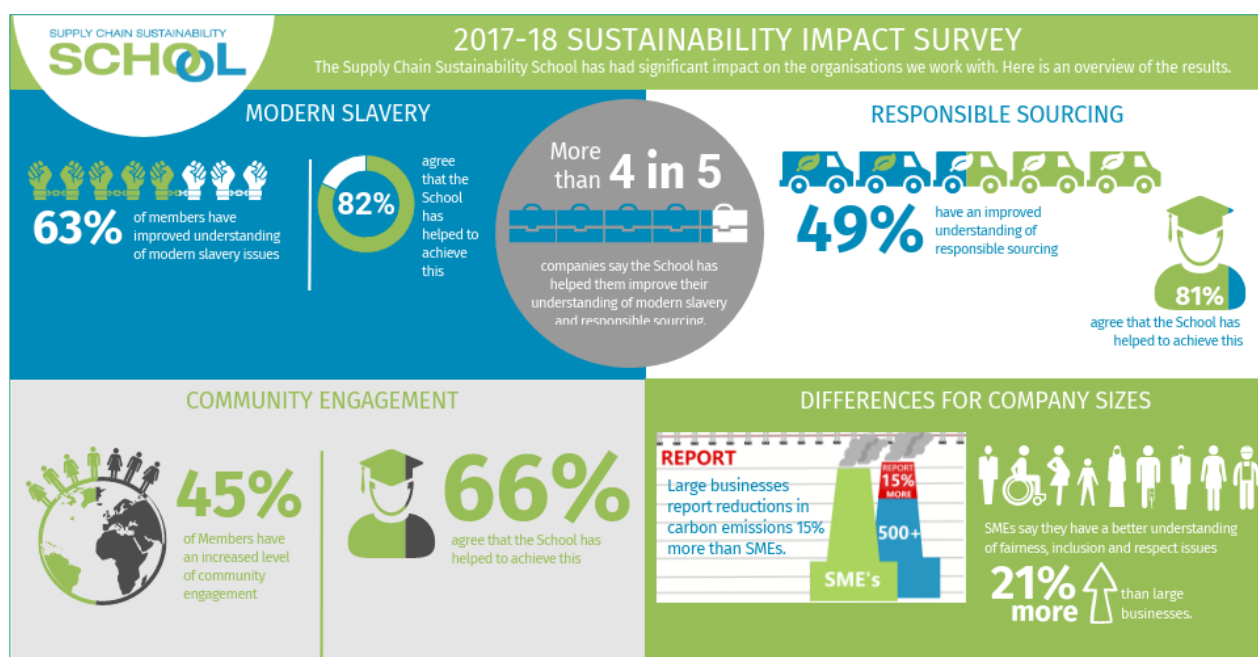


Figure 4: Supply Chain Sustainability School impact survey results, 2017-2018

A 2017-18 impact survey of members demonstrated that the School is making a difference; with over 4 in 5 companies saying that the School has helped them improve their understanding of responsible sourcing and modern slavery. Two out of three (66%) also attributed their increased levels of community engagement to assistance received from the School.

Anne Smales, Head of Procurement and Supply Chain for London South East at Bouygues UK commented:

“The Supply Chain Sustainability School plays a key role in helping our supply chain to better understand major industry themes such as Modern Slavery and Responsible Sourcing, and as a Partner Member we are very pleased to support their work and continue to encourage our supply chain to use the plethora of great quality, free resources available.”

This example demonstrates how organisations in the construction sector are collaborating to exert a greater influence across its diverse supply chains. This unified approach enables the School Partners to jointly improve the practices and management of their supply chains to deliver a more sustainable built environment and meet both legislative and client requirements as well as their own organisational sustainability goals.

Conclusion

The value of an organisation is largely driven by factors that are not accurately captured and valued on financial statements – like people (human capital), natural resources (ecological capital) and trust (social capital). In fact, a study by KPMG in 2013 showed that over 80% of the S&P 500 stock market valuation is driven by these factors. There’s increasing recognition that sustainable procurement has an important role to play, but we need to be able to sell these benefits in a language that commercial leaders understand. Benefits include:

- Reduction in risk across a company’s business practices, supply chains including improved supply chain security.
- Compliance with environmental and social legislation such as the Modern Slavery Act 2015.
- Enhance consumer and/or stakeholder perception that can translate to a measurable increase in brand value, market share and shareholder value.
- Cost management and cost reduction through improvements in resource efficiency, resource management and waste reduction.
- Improved cost control and more effective decision-making by adopting a wider approach to whole life costing.
- Innovation and support for new products and services by investing in and harnessing supplier expertise. This can differentiate products and services driving competitive advantage.
- Improved investor confidence which can reduce the cost of capital, increase access to capital and increase company valuation.
- Improved community engagement and relations.
- More engaged and productive staff, making it easier to hire and retain talent.

A key component of an organisations' commercial goals should be to ensure a quality, stable and sustainable supply chain and there's a growing appetite for what procurement can deliver. However, this is not easy. Poor working conditions persist in global supply chains despite increased stakeholder and media scrutiny for well over a decade. Even Apple, the world's most admired company by *Fortune* magazine, continues to struggle to address this issue.

There are no quick fixes. Sustainable procurement demands proper governance, visible commitment and leadership from the top team, a proper understanding of the business drivers for doing sustainable procurement, and a clear understanding of the unique set of impacts relevant to your organisation and business context. Only then are you in a good position to start developing a sustainable procurement strategy.

Cathy Berry is a Senior Consultant with Action Sustainability and UK lead author of ISO 20400 Sustainable Procurement- Guidance.

E: cathy@actionsustainability.com

