

Sustainability

Sustainable organizations? Start with sustainable procurement

By Bruno Berthon, Gary Hanifan, Kris Timmermans and Al Williams

Bruno Berthon is the managing director of Accenture Strategy and Sustainability Services.
bruno.berthon@accenture.com

Gary Hanifan is the sustainability supply chain lead of Accenture Sustainability Services.
gary.l.hanifan@accenture.com

Kris Timmermans is the managing director of Accenture Sourcing and Procurement Business Services.
kris.timmermans@accenture.com

Al Williams is Accenture's chief procurement officer.
al.williams@accenture.com

During the past decade, chief procurement officers have seen their agendas increasingly influenced by issues of sustainability—the environmental, social and corporate governance initiatives by which organizations seek to achieve excellence today while providing for the needs of future generations.

Sustainable procurement has risen to become a top priority among companies for several reasons, one of which is the more intense attention being paid to brand reputations. Although there might be a short-term gain to be had by cutting corners from a social or environmental perspective, markets and consumers may punish companies whose brands let them down. With problems ranging from tainted milk supplies to toxic materials that end up in children's toys, many companies in recent years have been penalized for failing to enforce sustainable principles at the heart of what they procure and how they procure it.

But beyond reputational risk factors alone, companies are also finding a host of practical benefits that result from a closer focus on sustainable procurement. One benefit comes from the necessity of dealing with the challenges posed by diminished supplies of raw materials—from agricultural items and metals to energy and water. This attention can drive both efficiency and innovation.

This article explores several distinct aspects of how sustainability is affecting the role of the procurement function. The initial section looks at the ongoing evolution of sustainable procurement. A second highlights the increased role of procurement as a tool for social and economic development. Finally, we look at the growing importance of cross-company collaboration as a means to drive a new generation of innovative procurement strategies.

The changing demands of sustainable procurement

Over the past decade, an increasingly large proportion of procurement teams have taken steps to update their purchasing criteria and guidelines as a means to more strongly emphasize supply and manufacturing factors beyond the basics of cost and quality. According to a biennial benchmark from HEC-EcoVadis, sustainable procurement in 2003 was a Top 10 priority among just 40 percent of firms; in 2011, it was a Top 5 priority at more than 90 percent of firms.

This focus on sustainable procurement is extending into a diverse range of areas—from developing a deeper understanding of how existing materials can be recycled and reused, to reducing sourcing requirements, to pursuing deeper supplier partnerships that drive innovation.

Few companies are more deeply engaged at the intersection of procurement and sustainability than Nestlé, the global food giant. For years, the company has been developing sustainable procurement practices, including a detailed supplier code. This focus on sustainability has been driven in particular by Nestlé's desire to gain a deeper understanding and knowledge of its food supply chain—from "farm to fork," as Chief Procurement Officer Kevin Petrie terms it. Over time, this focus has led to an increasingly close relationship with suppliers, working together on issues ranging from water management and nutrition to using procurement for rural development.

What is driving Nestlé and other companies toward more focus on sustainable procurement? One answer is improving risk management capabilities—risks to customers and, as noted earlier, to a company's brand. A sustainability lens can screen out suppliers that may pose reputational risks, such as a manufacturer that

uses toxic materials in its products or a supply chain partner publicly exposed as exploiting child labor.

Regulation is another driver. High-tech companies, for example, have long faced demands for the safe disposal of electronic goods, which, in turn, has affected their procurement policies.

Evolving consumer preferences are another key factor. As Nestlé's Petrie puts it, "The ability to touch more consumers, and the fact that consumers now have greater ability to voice concerns about the value chain and to demand full transparency on that, has really brought to life this area of sustainable procurement."

A final driver has to do with the fact that institutional investors are increasingly considering sustainable procurement factors as part of their assessments of a company's medium- to long-term prospects for return on equity. A growing number of global investment funds are including specific sustainability-related metrics in their portfolio allocations.

These factors add new demands and pressures that the procurement organizations will increasingly need to deal with. To meet those challenges, chief procurement officers are drawing on a range of tools and systems. Supplier codes of conduct and self-assessments, now widely implemented, were useful first steps, but complex supplier networks and growing sustainability requirements are demanding more sophisticated approaches. These approaches can range from tougher supplier scorecards, to databases that capture more granular supplier information, to more involved total cost models that incorporate sustainability criteria.

Deploying procurement as a social and economic development tool

For organizations that operate in emerging markets or that deal with suppliers stretching across such markets, there is a growing realization of the role that their procurement budgets can play in boosting social and economic development at the local level. Many organizations are realizing that their purchasing power can be a more effective tool for development than the purely philanthropic gestures of old.

This approach to more sustainable development holds great potential, for society and for businesses. As Anglo American's chief executive officer, Cynthia

Caroll, has noted, diverting just 1 percent of her company's procurement spending to disadvantaged local sources would constitute a financial boon dwarfing most state aid budgets in regions such as Africa. That spending would simultaneously help Anglo American find new sources of supply, especially for agricultural or mineral inputs. In other words, expanding into developing countries—thereby opting to work with smaller, local suppliers—can help develop new markets and build capabilities in the region.

It needs to be said, however, that sustainable development can raise numerous implementation challenges for procurement. For example, dealing with smaller suppliers that often use less formal practices can add administrative burdens and increase the need for better training and oversight.

Collaborate to innovate

To implement more sustainable practices, the chief procurement officer needs to collaborate deeply with existing partners as well as with new ones. This collaboration is important because it can improve existing operations and can also be a major source of innovation for the procurement function.

Cooperation and collaboration can also be a means of addressing resource limitations and spiraling costs. For example, the chief procurement officer of a metals and manufacturing company faces stiff challenges in obtaining adequate supplies of essential raw materials. This challenge is pushing his organization's procurement function to collaborate more closely with both internal operational teams and external suppliers to find new technologies that require fewer or less costly raw materials for the same production output.

Nestlé's Kevin Petrie highlights how better collaboration can change the role of procurement within a business, especially as the company adjusts to a world with more constrained supplies of critical resources. "As this happens," Petrie says, "procurement needs to be a strategic partner with the business to ensure that the supply we need holds steady." With greater price volatility in most markets and with pressure from consumers and regulators to achieve more supply chain transparency, the strategic role of procurement is increasing.

A major challenge in stepping up to these new responsibilities, however, relates to talent and competencies, especially in terms of the available skills within the procurement function to drive new kinds of collaborations.

Cooperative initiatives demand specific and often different skillsets, which can be in short supply even in large firms, let alone smaller ones. As such, procurement leaders need to consider how they can build a new generation of skills-development capabilities. Sustainability presents a major opportunity to move procurement into newer, more complex areas, such as product design, but this will be feasible only if the company has the requisite skills to support that move.

At many organizations, the procurement function has become a key driver of sustainability-based purchasing and partnering policies. Requirements definitions have become more wide-ranging, looking beyond just price and availability to incorporate factors such as standards compliance and resilience to supply chain disruptions. Codes of conduct and policies are increasingly covering what the company buys and who it works with.

Sustainability issues are placing new demands on chief procurement officers and their teams. This new and more strategic role for procurement requires changes in systems and processes, new considerations about the scope of procurement and its required skills, and new ways of collaborating across the supply ecosystem.

This article is excerpted from "The Sustainable Organization: The Chief Procurement Officer's Perspective," part of Accenture's "Lessons from Leaders" series. www.accenture.com/cpoperspective

Outlook Point of View
February 2013, No. 1
Copyright © 2013 Accenture
All rights reserved.

Accenture, its logo, and High Performance Delivered are trademarks of Accenture.

The *Outlook Point of View* series offers insights about leading trends and innovations across all industries.

David Cudaback, Editor-in-Chief
Craig Mindrum, Managing Editor
Jacqueline H. Kessler, Senior Editor

For more information on *Point of View* and other *Outlook* publications, please visit our website: <http://www.accenture.com/Outlook>

This document makes reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

The views and opinions in this article should not be viewed as professional advice with respect to your business.