



SUSTAINABLE PROCUREMENT: A FUTURE-ORIENTED CPO'S AGENDA

Abstract

This paper explores the concept of sustainable procurement, identifying its environmental, social, and governance dimensions, and providing strategy design and implementation recommendations.



Sustainability: a procurement agenda

Industrial, mining, and agricultural practices with high carbon emissions over the last 100 years have contributed to global warming and an alarming depletion of natural resources and the ozone layer. However, a steep rise in awareness over the last decade has led to a better understanding of the business case for sustainable practices.

Today, sustainability is no longer merely

a fashionable term finding only fleeting mentions in corporate CSR agendas. Rather, even as nations across the globe rise up to the daunting challenges of sustainability, top organizations too are committing to the cause. Several global giants including Apple, Microsoft, Nike, Unilever, and Monsanto are working towards becoming carbon neutral and making bold steps towards pioneering new processes, reducing plastic packaging, and

sourcing sustainably.

Towards today's serious corporate sustainability goals, procurement organizations are uniquely positioned to make an impact through responsible sourcing, waste elimination, holistic life cycle cost considerations, and access to wider supplier horizons – in other words through sustainable procurement.

The concept and the practice

Sustainable procurement is both a concept and a practice.

As a concept, it involves looking beyond just 'value for money' — traditionally the prime objective of all procurement efforts

— to being proactively mindful of 'value for environment' and 'value for society' as additional dimensions for consideration.

As a practice, it means integrating sustainability aspects, risks, and

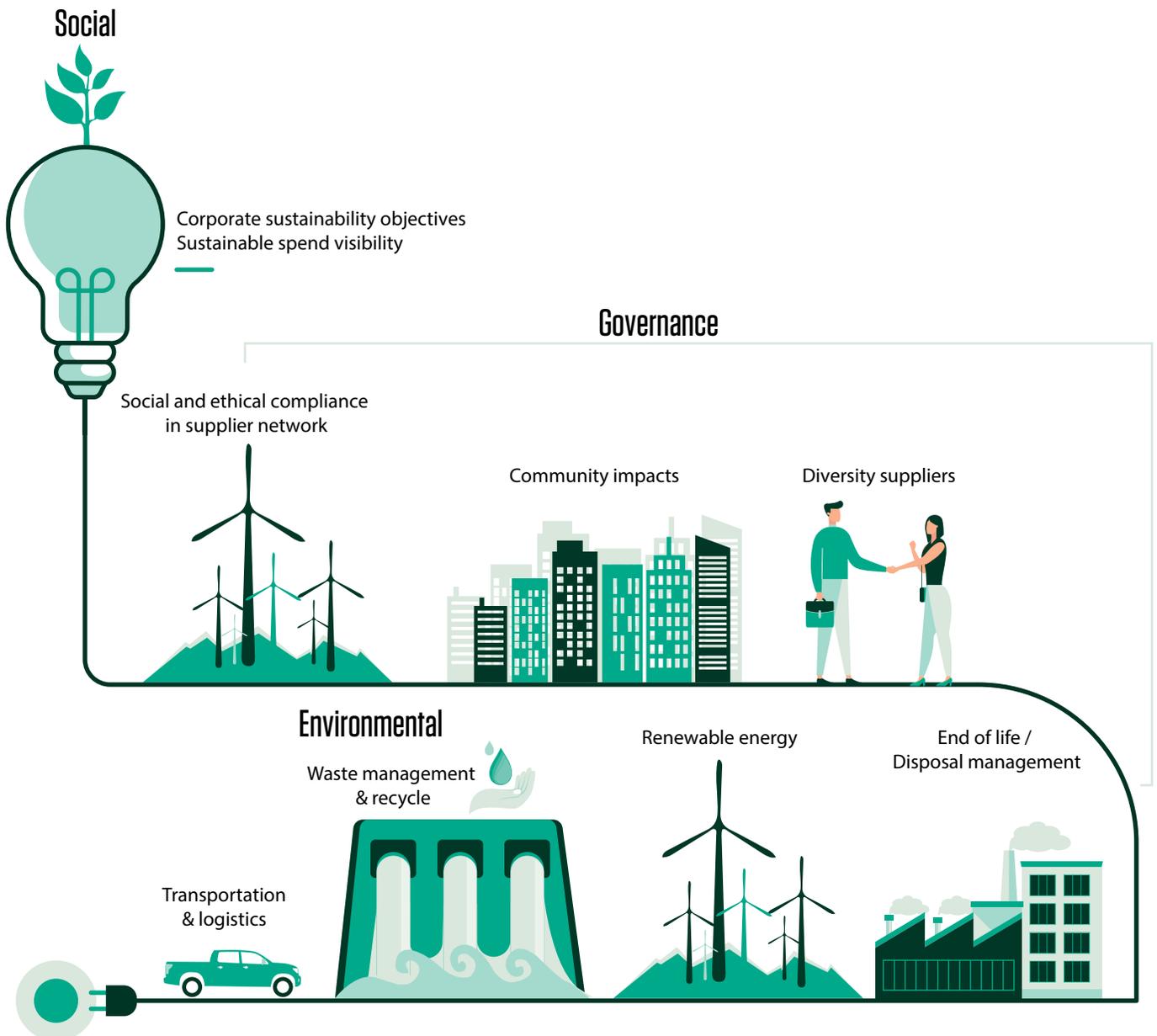
opportunities at every stage of supply chain process, right from specifications building, sourcing, and procurement, to securing logistics, ensuring correct usage, and end of life disposal.

ESG: the triple bottom line

What a company spends on, how it purchases, and from whom, are questions

that have a direct bearing on the three parameters of sustainability, namely ESG

(environmental, social, and governance).



The environmental dimension of sustainability is impacted by green procurement initiatives including:

- **Sourcing of environment friendly products and raw material:** Quality is often considered sacrosanct with environment friendly products. An eco-efficient product translates to one which is energy efficient or long lasting, thereby reducing resource dependency and lowering wastage. Procurement managers and category experts can play a significant role in enhancing environmental consciousness by considering whole life costs, recycling possibilities, and sustainable sources

like cradle-to-cradle certified manufacturers.

- **Resource efficient products:** Many organizations have significantly reduced energy consumption and waste disposal through deploying energy- and resource-efficient machinery and products. Sustainability conscious procurement teams can be mindful of these aspects while sourcing and explore alternative options.
- **Redefining product and packaging specifications and strategy:** Category professionals can work closely with business to develop long-term strategies for incorporating sustainable

material including packaging material in the supply chain. Procurement can also play a key role in initiatives to reduce environmental impact through recycling and circular economy, in cases where the use of plastics and other non-biodegradable material cannot be completely eliminated.

- **Impact through supplier selection:** By virtue of access to suppliers and partners, procurement can drive the agenda of sustainability with a wider network – i.e. not just sourcing sustainably, but also in enabling and developing suppliers to develop their own sustainability programs.

In the social dimension of sustainability, procurement can pose as a key catalyst through focusing on:

- **Inclusion of social enterprises:** Many global organizations have a focused procurement strategy with provisions for inclusion of social enterprises, encouragement of small and medium businesses and local business communities that have been championing social causes. Organizations have been working at the grass roots level with small land holders and farmers, helping them improve their agricultural practices by giving them access to information,

training, and even financial support. These practices while seemingly difficult to implement have long lasting impact and often lead to cost reduction and strengthening of the supplier network.

- **Enabling network sustainability:** Procurement can encourage suppliers across the network to also develop their own sustainable plans through policy mandates, audits, and evaluation criteria for awarding business based on sustainable practices.

Procurement key role in the governance dimension of corporate sustainability agendas involves:

- **Mechanisms to ensure compliance:** Through keeping a sharp focus on safeguards incorporated in policies for supplier evaluations and checks during the RFP process, procurement can help in keeping unfair pricing, labor malpractices, and other risks associated by unethical suppliers at bay.
- **Contributing to a Sustainability board:** For organizations embarking on their sustainability programs, procurement teams can bring in key insights and recommendations linked to the business case to the table.



A sustainable procurement strategy

As a practice, sustainable procurement means embedding 'sustainability – awareness' at each step of the procurement process, which is a journey with several stages:

1 Understanding and alignment with organization wide agenda

Embarking on a sustainable procurement strategy needs to first identify the core objectives of the larger organizational

sustainability agenda and then identify those areas where procurement processes can support. Identifying this linkage is the

first key step to ensure that objectives are clearly defined and documented.

2 Outlining clear milestones

Alignment to the organizational vision can only be achieved by breaking down the objectives into tangible milestones. A 'sustainable procurement charter and action plan' would help lay down the short,

medium, and long-term vision which can be revisited every few months and aligned as the larger organisation wide agenda evolves. Another area to lay down clear sustainability milestones is in terms of

how sustainability aspects are embedded in procurement strategy and through incorporating consistently evolving metrics in the procurement scorecard to measure success.

3 Establishment of business case

There are three main drivers for a sustainable procurement business case: cost reduction, risk reduction and revenue growth:

- **Cost reduction:** A business case focusing on savings through reducing wastage, investing in long lasting products, reducing energy consumption etc. can be a short-term milestone, while leveraging full lifecycle cost could be part of long-term planning. It is relatively easier to demonstrate cost reduction in quantifiable terms for e.g. the 20% reduced lifecycle operating costs of using energy efficient

machinery, or the impact of reducing packaging, and so on.

- **ESG risk reduction:** Similarly, another starting point could be the inclusion of ESG risk analysis and audit for suppliers wherein in the long run, risk analysis can be performed across the entire supply chain network to assess and reduce supplier environmental footprint through collaboration. In financial terms, risk could be expressed in terms of impact on brand value from bad supplier practices, the cost of penalty imposed for non-compliance, and so on.

- **Revenue generation:** These metrics are generally more difficult to obtain and require CPOs to work closely with business and R&D. Revenue from recycling programs, eco-waste disposal proceeds through contractual agreements and the like would fall under this bucket.

Our experience has shown that the cost reduction over the long run could itself supply the business case to cover CSR and sustainability costs. Also, the relationship between sustainability and long-term value added is a critical enabler for a strong business case.

4 Policy and Process Revisions

Policy and process documents — for example, supplier guidelines or evaluation

criterion — need to be reviewed for areas needing strengthening and incorporation

of interventions, to create sustainability awareness in all aspects of functioning.

Focus Area	Traditional approach	'Sustainability' dimension
Whole Life Costs	Intrinsic considerations of cost, quantity, & quality	Extrinsic considerations included viz. environmental, economic, & social
Savings/ Value Focus	Maximizing value for business	Maximizing value for business as well as the society and environmental set up
Category Strategy	Aligned with company's growth objectives, savings target. Typically one way- frozen specifications are conveyed to suppliers	Aligned with corporate sustainability agenda, business case based on cost vs sustainability tradeoff Plan of action linked with directing more spend through sustainable alternatives or suppliers Allows room for vendor creativity and iterations
Spend Analytics	Data analytics based on pricing, quantity, & periodicity to predict consumption and spend	Included analysis to track spend through sustainable products and suppliers, identification of opportunities for sustainable sourcing.
Sourcing	Based on category strategy, market assessment. Supplier shortlisting based on traditional criteria, including risk, regulatory, capability, and scale	Incorporated checks for environmental and other certifications for suppliers as a prerequisite Evaluation criteria include awarding more weightage for suppliers meeting sustainability requirements or those with their own sustainability charter in place
Contracts	Standard clauses, commercial construct, & other T&Cs	Clear terms defining aspects such as logistics, use of ecofriendly packaging, reuse and recycle, & product disposal as relevant
Performance Monitoring & risk assessment	Delivery & quality aspects, other risk areas	Additionally monitoring for sustainability impacts Joint innovation discussions to identify alternatives / lay roadmap for reducing impact, carbon footprint, emissions etc.
Purchase Order management	Monitoring compliance to buying channels, contracted pricing etc.	Monitoring adherence to purchases from identified network of suppliers Incorporation of paperless processes for PO and invoicing

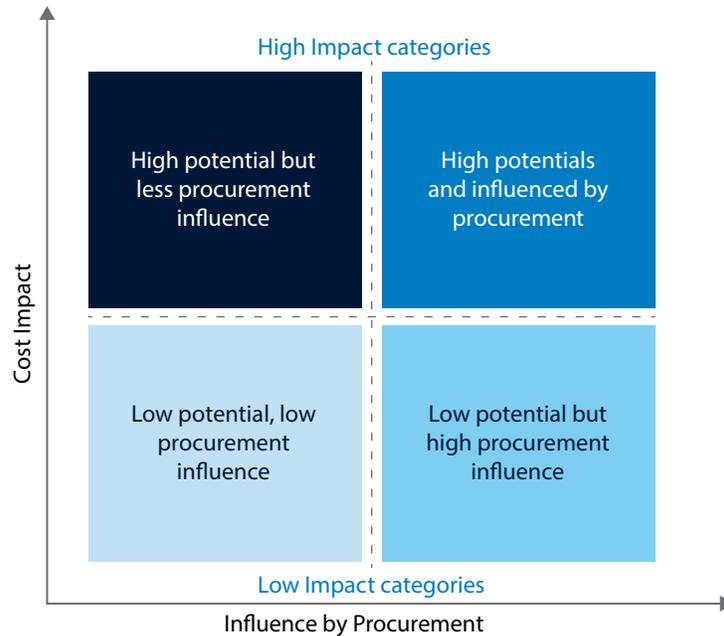
Table: Incorporating Sustainability in your value chain – The process dimension

5 Analysis and identification of categories

Next, spend analysis can identify categories or commodities where significant impact can be delivered through alternative

sourcing or 'make vs buy' decisions. This would help identify categories with ease of implementation for replacing with green

products, local vendors, or ecolabels vis-à-vis the feasibility to achieve cost reduction and other value additions.



This mapping would help lay down a pipeline – and procurement teams could

carry out further analysis on whole life costs to drive these projects in close

discussions with business.

6 Monitoring Progress

Lastly, the success of sustainable procurement programs would depend on strong project management as well

as monitoring of deliverables and agreed targets. A focus group with representation from procurement, the organization

sustainability sponsor, and other senior stakeholders will help ensure success.



Towards more green

Many global companies are gradually rising up to commit to the climate change agenda and pledging huge investments towards climate innovation funds. As a prime instrument of change, the time is ripe for procurement organizations to set in place mechanisms to support this new imperative.

At Infosys, our focus on [sustainability](#) focus has been recognized with the [UN Climate Change Award 2019](#) and the 2020 Green Building Council (USGBC) award. In addition, our 'sustainability conscious' sourcing and procurement services have helped several clients realize their green goals, for instance, a mining giant which not only reduced industrial water wastage but also gained ~1.4 Mn in annual savings.

About the Author



Srikrishna Koneru - Strategic Business Practice Head, Sourcing & Procurement Infosys BPM

Srikrishna (Kris) has over 30 years of experience in Sourcing and Procurement (S&P) in Manufacturing Consulting and EPC companies with exposure across wide variety of equipment, commodities, and services. As a global practice head for S&P at Infosys BPM, Kris is one of the pioneers for building and offering next generation procurement systems, services, and innovative delivery models for Infosys' clients.



Riya Nehra, Principal Consultant, S&P Center of Excellence, Infosys BPM

Riya has 16 Years of experience in various functional domains of Supply Chain Management with over 9 years of S&P solution design experience. At Infosys BPM, she is currently responsible for managing the Center of Excellence function within the S&P practice, and supports the knowledge building initiatives. In her past assignment, she has worked as procurement lead manager for a UK-based charity organization and as a Captain in the Supply Chain vertical (Army Ordnance Corps) of the Indian Army.

Riya is an alumnus of Officer's Training Academy, a premier Defence training establishment, Army College of Materials Management and Management Development Institute – Gurgaon.

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For more information, contact infosysbpm@infosys.com



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