VIEW POINT

BEYOND ESG COMPLIANCE: TRANSFORMING PROCUREMENT INTO A DRIVER OF SUSTAINABILITY

Abstract

Meeting ESG compliance has often been seen as synonymous with sustainable procurement. As procurement evolves to be a network builder for businesses, the concept of sustainable procurement needs to evolve to embrace a more transformative and responsible approach driving long term impacts.

Historically, procurement departments were driven by cost and efficiency, focusing on maximizing value while minimizing expenses. While environmental, social, and governance (ESG) compliance establishes a baseline for responsible sourcing, leading organizations are increasingly setting more ambitious targets.

True sustainable procurement goes beyond the confines of mere ESG compliance, offering companies the opportunity to innovate, build resilience, and align business practices with societal and environmental imperatives.

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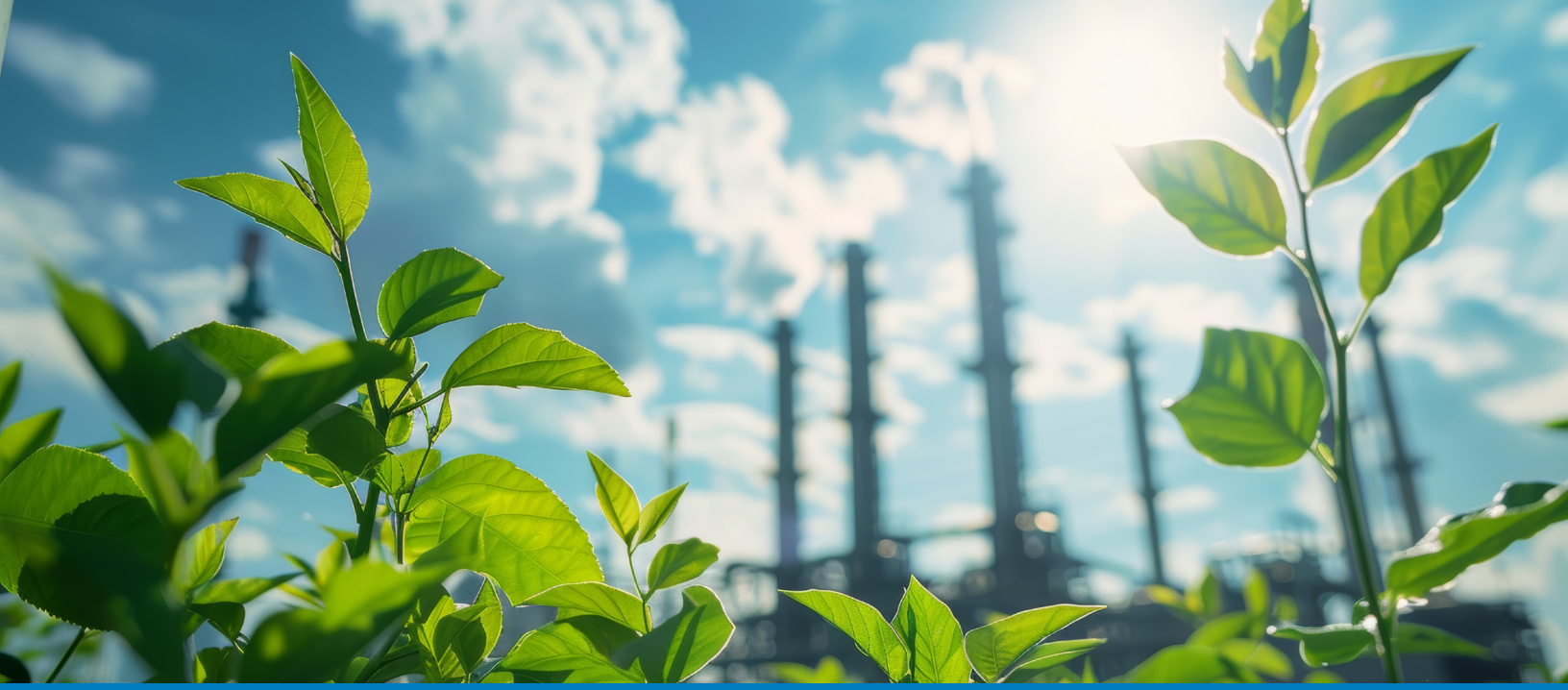


While environmental, social, and governance (ESG) compliance has become a standard benchmark, it is no longer enough. Merely meeting ESG requirements does not guarantee real, measurable impact—especially in an era where companies face increasing pressure to decarbonize supply chains, regenerate ecosystems, and ensure ethical sourcing beyond tier-1 suppliers.

Procurement has the power to shape industries, influence markets, and drive systemic change. The key is moving from a compliance-based approach to an impact-driven strategy—one that does not just minimize harm but actively contributes to sustainability.

This in-depth perspective goes beyond conventional discussions and highlights often-overlooked strategies that procurement leaders can use to drive meaningful, long-term sustainability transformations.

1. Going beyond Scope 1 & 2 and embracing programs to reduce Scope 3 emissions

According to Greenhouse Gas Protocol (GHG Protocol) Scope 3 emissions, which are generated indirectly by a company's supply chain, often make up 90% or more of a company's total carbon footprint. Yet, most companies focus only on reducing Scope 1 & 2 and at most, tracking supplier emissions and reducing transportation impacts, leaving significant sustainability gaps unaddressed. A more holistic approach should consider:

End-of-life product impact

- Procurement should influence product design and material selection to ensure that products can be easily recycled, repaired, or upcycled rather than discarded
- Companies can implement supplier take-back schemes where vendors remain responsible for end-of-life product management.

Social carbon cost

- Companies must not just track emissions but also price the true social and environmental cost of carbon into procurement decisions. This means incorporating the long-term societal damage caused by emissions when evaluating suppliers.

Emissions from digital supply chains

- In its report, CO2 Emissions in 2023, the International Energy Agency (IEA) mentioned that AI-driven procurement, cloud computing, and blockchain solutions have hidden carbon footprints, with cloud computing alone contributing 2% of global emissions.
- Data centers, AI computations, and cloud storage generate significant emissions, yet these are often ignored in sustainability reports. Procurement teams must ensure that their tech vendors use carbon-neutral cloud services.

Key Action Point

Companies must expand their carbon tracking models beyond traditional reporting to include end-of-life impact, digital supply chain emissions, and the broader social cost of carbon.

2. Transforming procurement into a regenerative force

Most sustainability strategies focus on reducing harm—lowering carbon footprints, reducing deforestation, and minimizing pollution. However, this is not enough to address the scale of environmental degradation. A regenerative procurement strategy focuses on actively restoring and replenishing ecosystems rather than just reducing harm. Below are a few measures on how procurement can drive regeneration:

Sourcing from regenerative agriculture suppliers

- Traditional farming depletes soil health and contributes to biodiversity loss.
- Procurement teams can prioritize suppliers practicing regenerative agriculture, which includes:
  - Cover cropping and no-till farming to restore soil.
  - Agroforestry to promote biodiversity.
  - Carbon sequestration to capture and store CO_2 naturally.

Investing in natural solutions and incentivizing suppliers to measurable ESG improvements

- Procurement contracts can be modeled to enable suppliers to be incentivized for funding reforestation, and ocean regeneration projects as part of their partnerships.
- Companies can create "carbon negative" procurement strategies, where sourcing decisions are tied to environmental restoration.
- Setting clear sustainability KPIs with suppliers and monitoring and rewarding progress.

Upcycling & industrial byproduct utilization

- Companies can partner with suppliers who use waste streams as raw materials. For example, a fashion retailer could source textiles made from recycled ocean plastics, discarded cloth waste, etc. while a construction company could use reclaimed steel rather than newly mined materials.

Key Action Point

Companies must expand their carbon tracking models beyond traditional reporting to include end-of-life impact, digital supply chain emissions, and the broader social cost of carbon.

3. Ethical sourcing 2.0: Rethinking material ethics & geopolitical risks

Traditional ethical sourcing focuses on fair wages, worker safety, and human rights compliance. However, procurement leaders must now address the ethical implications of material sourcing itself by addressing the below critical issues in material ethics

Geopolitical risks in raw material sourcing

- Many essential raw materials (e.g., cobalt, lithium, rare earth elements) are sourced from politically unstable regions with human rights violations, forced labor, and environmental destruction.
- Procurement must diversify supplier networks to reduce dependency on conflict-heavy supply chains.

AI-driven supply chain traceability

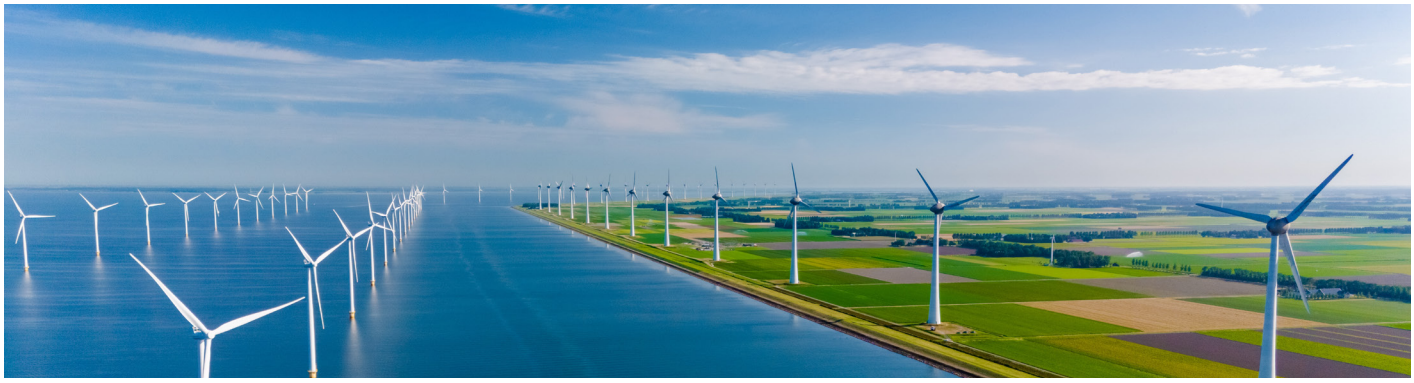
- Many unethical practices occur deep within supply chains, beyond tier-1 and tier-2 suppliers.
- Companies should use AI-powered risk assessments and blockchain verification to ensure that every supplier in the chain meets ethical standards.

Supplier dependency risks

- Over-reliance on a single region (e.g., semiconductors from Taiwan, rare earth metals from China) creates economic, ethical, and operational risks).
- Procurement strategies must incorporate geopolitical risk mitigation by establishing alternative sourcing hubs.

Key Action Point

Companies must go beyond supplier audits and develop AI-powered ethical risk tracking to ensure every tier of the supply chain meets sustainability and ethical standards.



4. Circular procurement: Redefining ownership & waste

Traditionally, procurement follows a linear model: Buy > Use > Dispose
Circular procurement shifts this to a closed-loop system:
Source > Use > Reuse > Recycle > Remanufacture
In other words, Circularity focuses not only on minimizing waste but also on designing out waste and regenerating resources through closed-loop systems.

Therefore, it is essential to move from liner to circular procurement. A few strategies to Implement Circular Procurement are:

Supplier take-back programs

- Require suppliers to take back and recycle or repurpose their products at end-of-life.

Procurement-as-a-service models

- Instead of purchasing equipment, companies can lease high-value assets (e.g., machinery, electronics), ensuring that products are maintained, upgraded, and reused rather than discarded.

Circular economy KPIs for suppliers

- Procurement contracts should include mandatory circularity requirements, such as minimum recycled content, recyclability rates, and material recovery commitments.

Key Action Point

Organizations should embed circular economy principles into supplier contracts, ensuring waste reduction and closed-loop supply chains.

5. AI & autonomous sourcing: Embedding sustainability into procurement algorithms

AI-driven procurement optimizes for cost, efficiency, and speed. However, without careful design, these models may ignore sustainability considerations. This creates a need to embed sustainability into AI procurement systems

Automated sustainability risk scoring

- AI models should automatically assess sustainability risks when evaluating suppliers.

Real-time sustainability tracking with blockchain

- Blockchain integration ensures that supplier sustainability claims are continuously verified.

Carbon pricing in AI decision-making

- AI-driven sourcing tools should factor in carbon pricing, giving priority to low-carbon suppliers.

Key Action Point

AI procurement tools must be designed to prioritize sustainability KPIs alongside cost and efficiency, ensuring that sustainability is embedded into autonomous decision-making models.

Conclusion: Procurement as a catalyst for true sustainability

Procurement is one of the most powerful forces for driving global sustainability transformation. Moving beyond ESG compliance requires:

- Regenerative supply chains
- AI-driven sustainability intelligence
- Circular economy principles
- Ethical and geopolitical risk mitigation

Companies that make these shifts will not only reduce their environmental impact but also gain competitive advantage in a rapidly evolving business landscape. Is your procurement strategy ready to go beyond ESG compliance?

Author

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Riya has over 20 years of experience in various functional domains of Supply Chain Management with over a decade of S&P solution design experience and currently heads the Solution Design and Center of Excellence (CoE) at Infosys BPM. In her past assignment, she 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.

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