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Sustainable Business

# Sustainable Procurement Barometer 2019

From Compliance to Performance







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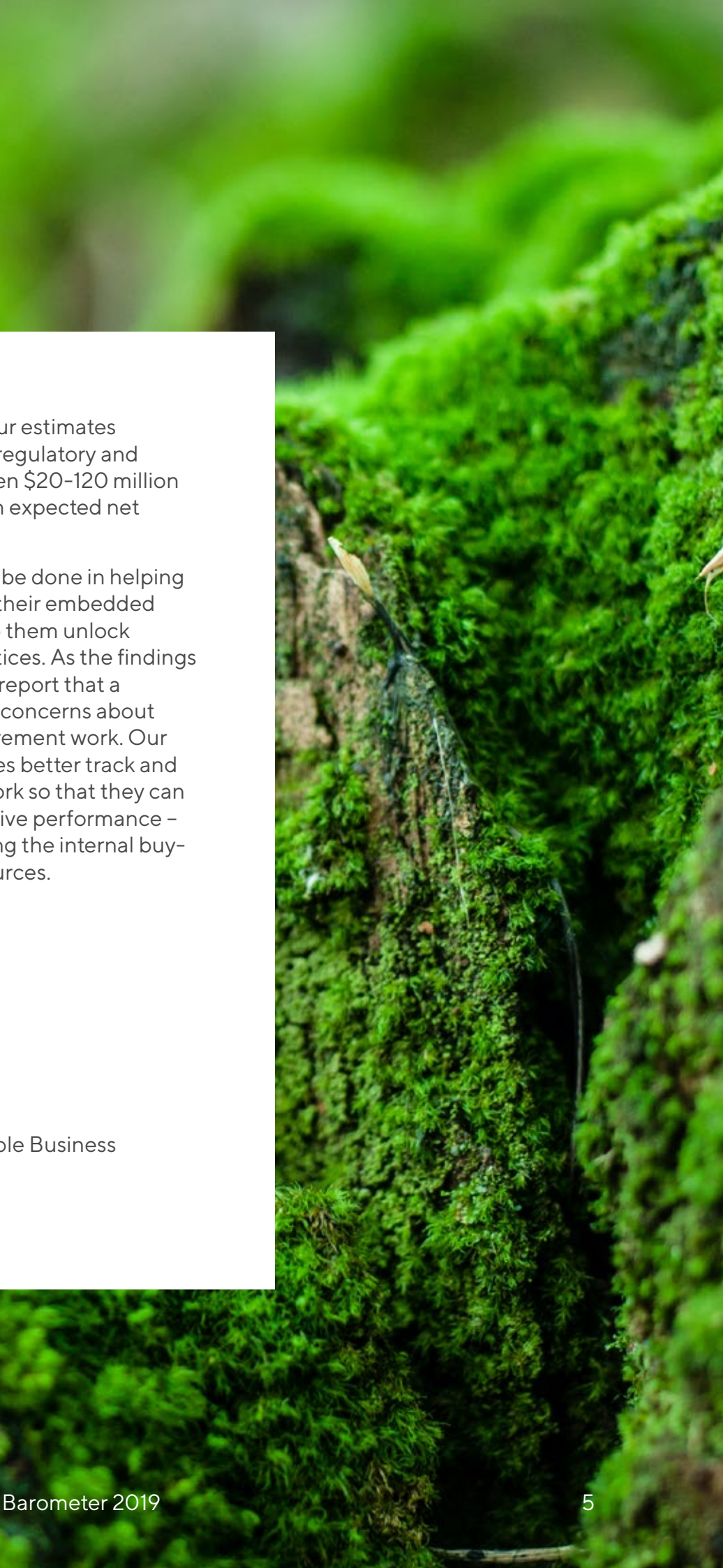


## Foreword

Many companies face material risks throughout their supply chain, ranging from manufacturing disruptions due to extreme weather events, to reputational risk from human rights violation in factories. While companies' greatest sustainability risks and opportunities exist within their supply chains, this year's Barometer found that most companies are still managing these issues from a compliance standpoint only, not realizing the more innovative or strategic approaches that might help them drive competitive advantage.

At NYU Stern Center for Sustainable Business (CSB) we believe that this disconnect is in part because there is lack of understanding of how sustainability strategically drives corporate financial performance. Our research focuses on helping companies quantify the full range of costs and benefits from embedded sustainability strategies, or, their return on sustainability investment. Our Return on Sustainability Investment (ROSI™) methodology provides CFOs and investors with a framework to better integrate, measure and report on financial performance resulting from

an embedded focus on sustainability issues. We find that companies that implement sustainable procurement practices are better positioned to manage their physical, reputational and regulatory risk along their supply chain. We find that companies who engage with stakeholders along their supply chain, aiming to co-create and not just extract value from them, are able to realize competitive advantage through this unique corporate ecosystem. We find that companies that invest in sustainability throughout their companies are able to ensure loyal suppliers, and thus a more secure and reliable supply chain. In fact, our research on deforestation-free supply chain commitments in the Brazilian beef industry found that ranchers adopting new sustainable practices increased productivity 2.3X and profitability nearly 7X. It also found that meat processing facilities with a focus and commitment to sustainability could now sell a premium-quality product, priced 20-30 percent above average quality beef in super-markets. This translates into increased revenues for the meat processing facilities that can market higher quality



and deforestation-free beef. Our estimates showed reduced reputational, regulatory and supply continuity risks – between \$20–120 million (depending on the company) in expected net present value over ten years.

We know there is more work to be done in helping companies to better monetize their embedded sustainability strategies, to help them unlock financial value from these practices. As the findings below indicate, companies still report that a lack of internal resources – and concerns about costs hinder sustainable procurement work. Our research aims to help companies better track and monetize their sustainability work so that they can demonstrate how it yields positive performance – which may assist with generating the internal buy-in needed to secure more resources.



**Sophie Rifkin**

Senior Associate Director,  
NYU Stern Center for Sustainable Business





## Executive Summary

Following the success of the previous five editions, The Sustainable Procurement Barometer 2019 analyzed data from 210 buying organizations across all industries and geographies. This was complemented, for the second time, by an independent study of suppliers, conducted, this time, among 399 companies.

Against the backdrop of an increasingly stringent regulatory landscape and a growing pressure from stakeholders, it is evident that sustainability awareness is expanding among both buying and supplying organizations. This year's Barometer survey saw the participation of more small companies than in previous editions as well as companies that are much less mature when it comes to their sustainable procurement practices. While in itself this is a positive change and a sign of a growing interest in sustainable procurement, it has impacted some of the trends observed in previous editions, which were based on an analysis of companies that were more mature.


Some of these results include a marked difference in the adoption of sustainable procurement tools and policies, with the use of a supplier code of conduct, for instance, reported by 64 percent of respondents compared to 88 percent in 2017.

Overall, however, commitment to sustainable procurement has increased among the vast majority of buying organizations surveyed (81 percent) and stayed the same among 18 percent.

When it comes to implementing sustainable procurement practices, the top three challenges have remained the same over the past two years: A lack of internal resources, inability to effectively and efficiently track supplier sustainability performance and concerns around costs.

On a positive note, executive board support has increased greatly in the past six years and is now seen as a challenge by only 13 percent of the respondents.

However, there is still a large percentage of respondents struggling with tracking supplier sustainability practices. With a growing number of assessment tools available this is somewhat surprising. We can hypothesize that businesses get stuck in a kind of *compliance trap*, whereby they under-invest in programs, which essentially come down to "ticking boxes" and collecting documents, but do not drive suppliers to embrace long-term performance improvement. This *compliance mindset* misses the opportunity to drive supplier improvement and incentives. It thus fails to realize the full potential of initiatives which could otherwise return positive net value to the organization. This is evident in the results of the "Sustainable Procurement Leadership" analysis, which shows that organizations with significantly more mature and well-developed programs are able to harvest considerably more value from them.



The *compliance trap* hypothesis is further supported by the fact that as many as 39 percent of suppliers see their customers' sustainability commitment as being important "only on paper."

In terms of results and benefits from sustainable procurement investments, more than half of respondents (58 percent) say they are better able to mitigate risks thanks to their sustainable procurement program, whereas 30 percent have been able to save costs. A quarter of respondents found that their sustainable procurement programs contributed to innovation and enabled access to new categories and price premiums from differentiation. A similar proportion of respondents said they benefited by way of improved procurement metrics and increased sales revenue.

At the same time, companies generally do not measure these benefits in any quantifiable way, which became apparent in the follow-up interviews. This raises the question: What is the threshold for beyond-compliance investment which will result in positive net return – and how to quantify these results, especially if they are realized by other departments, i.e. outside of procurement? NYU Stern Center for Sustainable Business and other leading research institutions believe successful sustainability initiatives can be effectively tracked through financial metrics and sustainability-related issues should no longer be siloed as special projects or limited to efficiency-related sustainability efforts. With solid examples of how such metrics work in practice already in place it remains to be seen how soon they may be implemented on a wider scale.

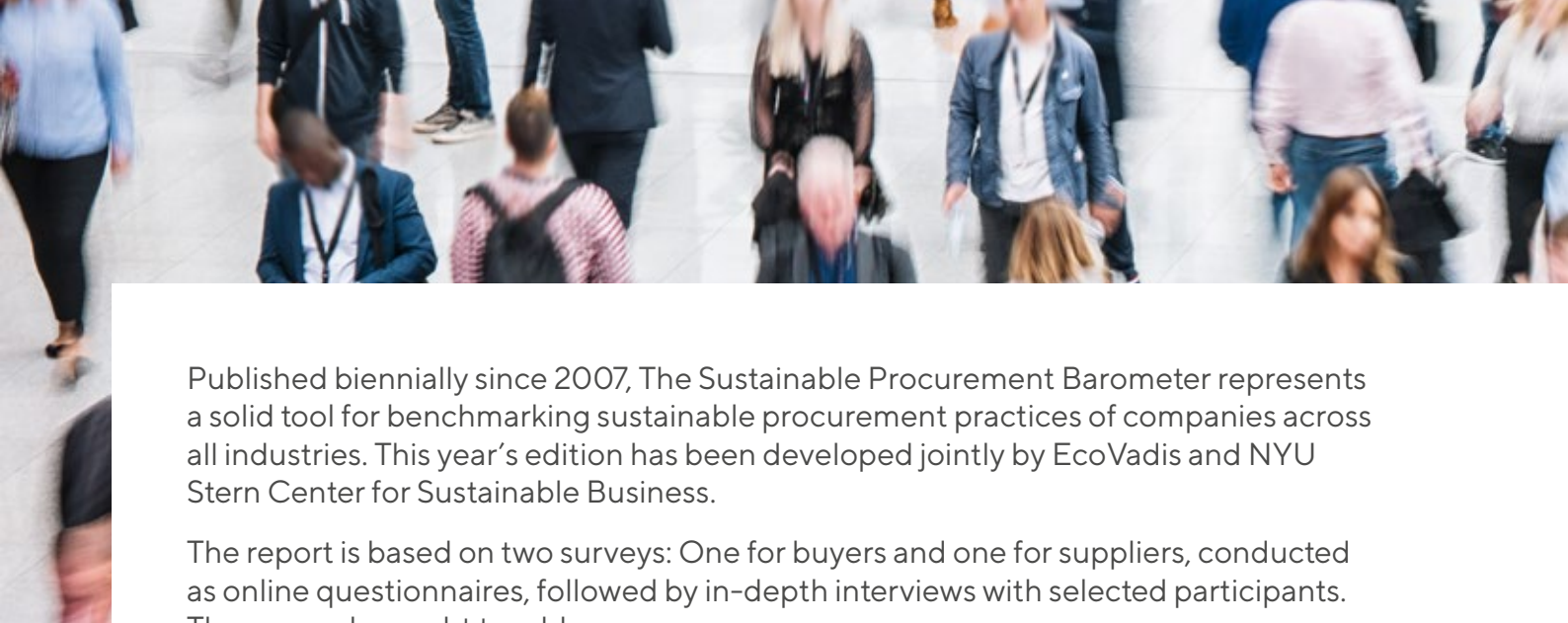








# Introduction



Published biennially since 2007, The Sustainable Procurement Barometer represents a solid tool for benchmarking sustainable procurement practices of companies across all industries. This year's edition has been developed jointly by EcoVadis and NYU Stern Center for Sustainable Business.

The report is based on two surveys: One for buyers and one for suppliers, conducted as online questionnaires, followed by in-depth interviews with selected participants. The research sought to address:

- How sustainability is evolving in procurement priorities and value creation;
- Sustainability monitoring tools;
- Supplier engagement;
- Internal process integration.

## Defining Sustainability and Sustainable Procurement

Sustainability-related issues have been increasingly in the spotlight in the past few years, but sustainability itself is not a new concept. In 1987, the United Nations World Commission on Environment and Development described sustainable development as meeting “the needs of the present without compromising the ability of future generations to meet their own needs”<sup>1</sup>.

Sustainable procurement, meanwhile, is the adoption and integration of sustainability principles into procurement processes and decisions, while also ensuring they meet the requirements of the company and its stakeholders. It encompasses both: Product/materials sustainability as well as the sustainability of supplier practices.

The term “sustainability” is often used alongside Corporate Social Responsibility (CSR), implying a different focus, and sometimes both terms are used interchangeably. This paper only uses the term “sustainability,” as defined above.

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<sup>1</sup> Our Common Future: Report of the World Commission on Environment and Development





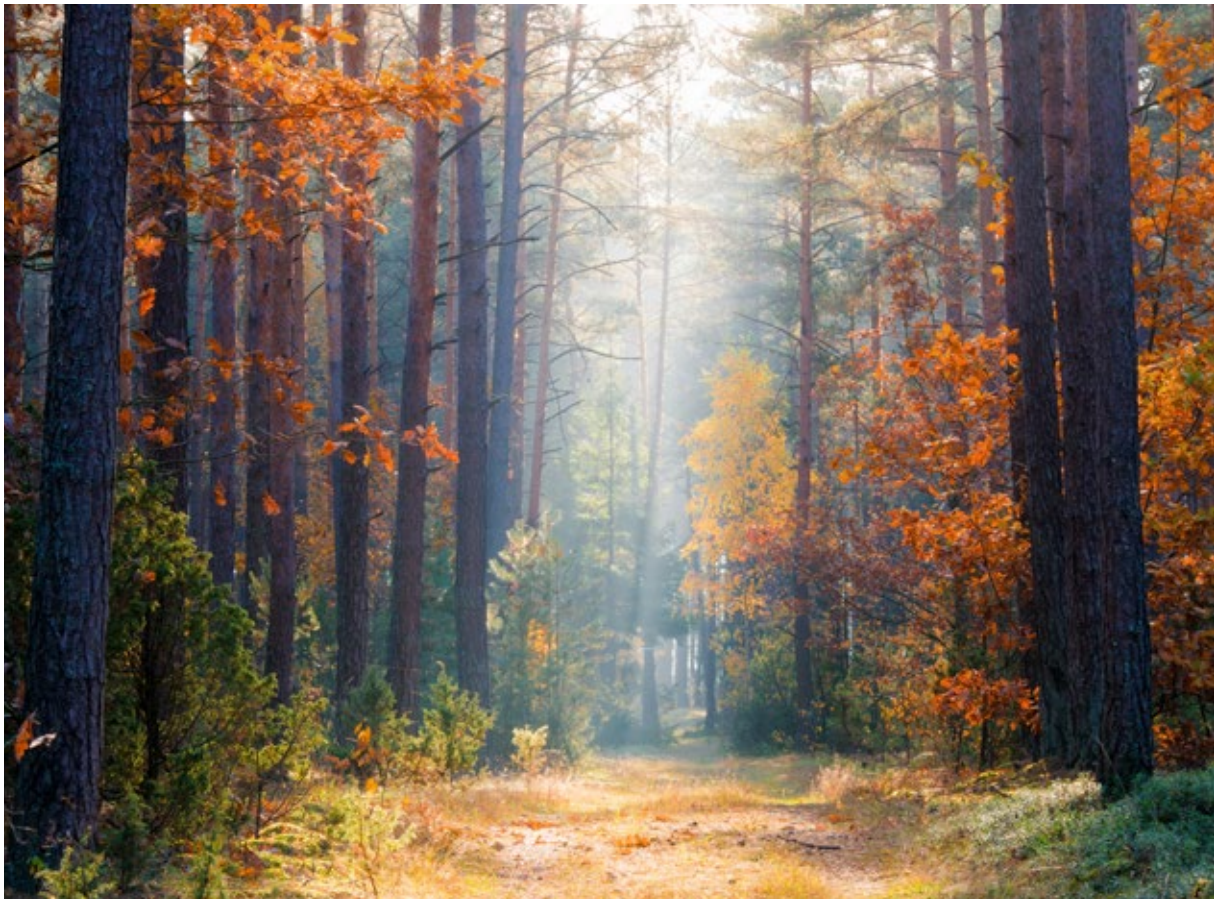
## Sustainable Procurement Leadership

As was the case in the previous edition of the Barometer, this year we have also conducted a dedicated analysis of Sustainable Procurement “Leaders.” These were respondents who met a range of criteria signifying maturity of their sustainable procurement programs such as:

- Supplier performance guides future strategy of company;
- Sustainability measures are integrated into balanced scorecard approach;
- Minimum of 25 percent program coverage on high-risk and strategic suppliers;
- Minimum Tier-1 level of supply chain visibility concerning sustainability.



The study found a number of interesting characteristics of Sustainable Procurement Leaders and significant differences between them and the rest of the sample, which are called out in various sections in the study.











# Sustainable Procurement Vision

“ We have started this [sustainability] journey because of the numerous questions we’ve been getting from our clients. They were wondering what we were doing from a supply chain-perspective. This was the main trigger. The second big trigger was the legal requirement, such as the U.K. Modern Slavery Act.

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**Financial services company**

“ Large, global companies in Europe and North America have a lot more regulations to comply with than they used to. They do not have a choice any more. And more regulations are coming to North America, e.g. the California Transparency Act. So more and more companies are implementing sustainability practices.

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**Containerboard and packaging company**

## Procurement Priorities

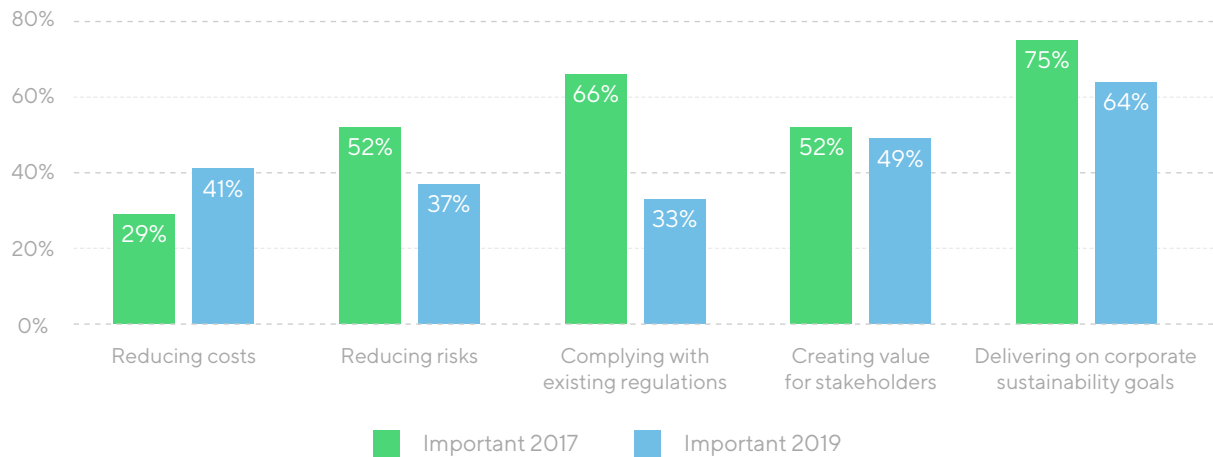
Compliance with existing regulations as well as risk and cost reduction were cited as the key priorities within procurement organizations. While this is a trend that can be expected given the findings in previous years, the importance assigned to complying with regulations evident in this year’s study is quite striking: More organizations than ever before (66 percent) cite it as a critically important aspect of their sustainable procurement initiative compared with 27 percent in 2017.

This can be attributed to the increasingly stringent regulatory landscape in Europe and the United States, including California Supply Chain Transparency Act, U.K. Modern Slavery Act, Dodd-Frank Act on Conflict Minerals and most recently Duty of Care and Loi Sapin II in France. It also prompts a hypothesis that businesses are primarily preoccupied with doing things by the book and failing to focus on creating value for stakeholders or delivering on corporate sustainability goals.

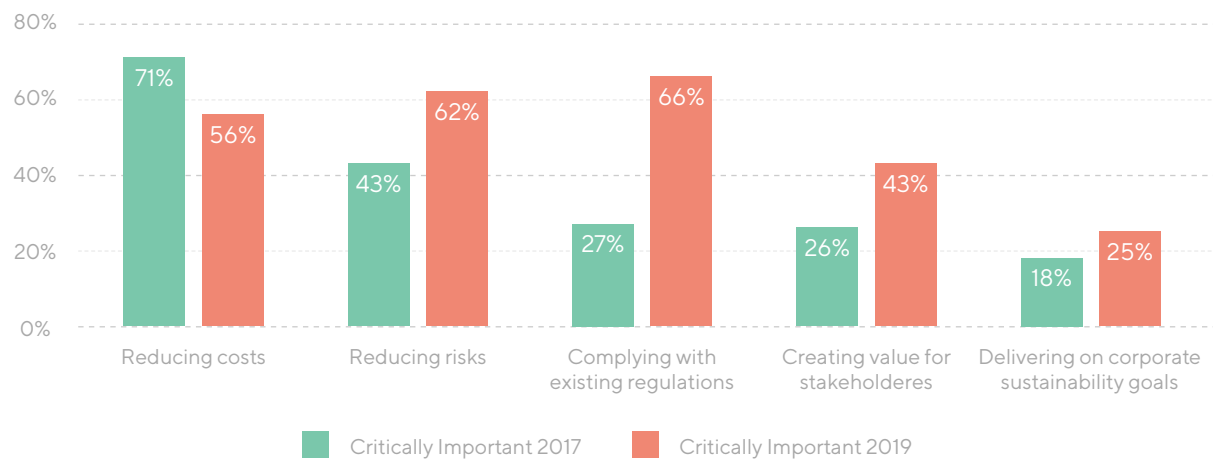
This is not to say, however, that they do not see greater value in running a sustainable procurement program and potential positive impact on other areas of business. As many as 62 percent of companies see risk reduction as a critically important priority (up from 43 percent in 2017) and 56 percent assign the same critical importance to cost reduction (down from 71 percent).



## Main priorities of procurement organizations 2017 vs. 2019 – Important



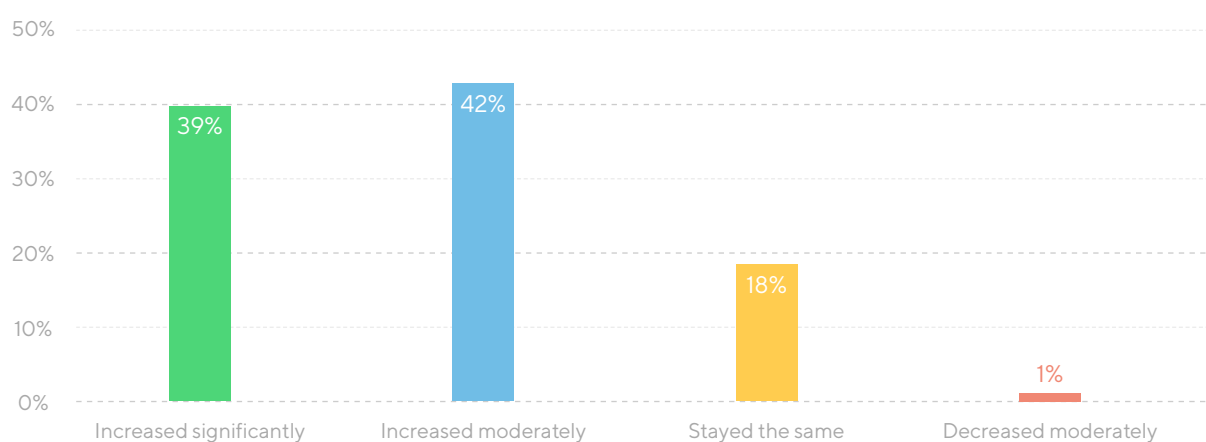
## Main priorities of procurement organizations 2017 vs. 2019 – Critically Important



## Importance of Sustainable Procurement

Sustainable procurement is clearly becoming a vital consideration for businesses across the globe. The majority of organizations surveyed (81 percent) stated that over the past three years their commitment to sustainable procurement has increased moderately or significantly, whereas 18 percent say it stayed the same.

Would you say that over the past three years, your organization's commitment to sustainable procurement has:



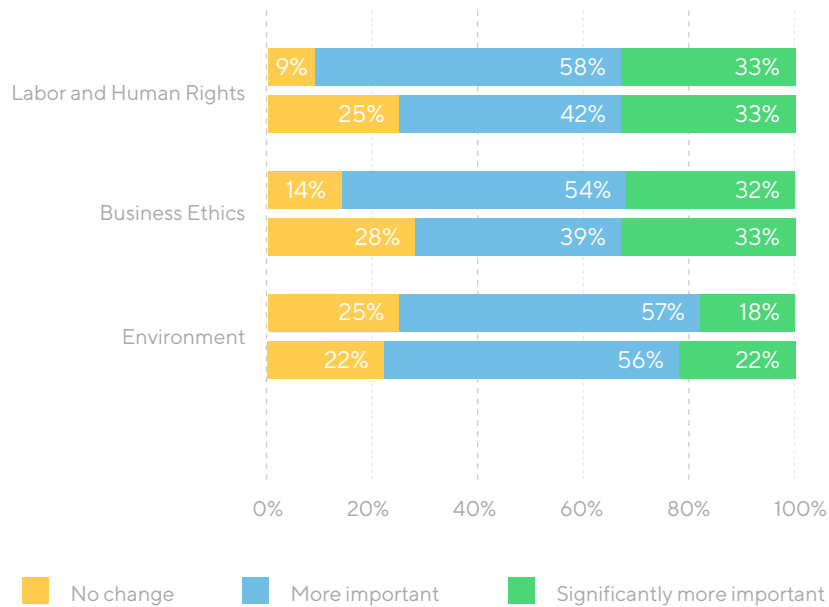
## Sustainability Focus Areas

“We are prioritizing human rights because of the U.K. Modern Slavery Act; that's the requirements and that's what's driving us in a way. So where there is a clear legislative policy we start prioritizing this.”

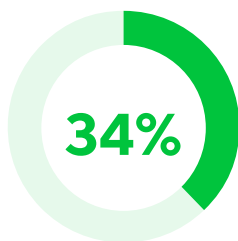
Financial services company

Sustainability covers a wide range of topics, from anti-corruption practices to human rights to environmental issues, such as greenhouse gas emissions. The 2017 edition of The Sustainable Barometer noted, for the first time, a shift toward social/labor and business ethics and “maintenance mode” or decreased investment in environmental practices. This shift continues this year.

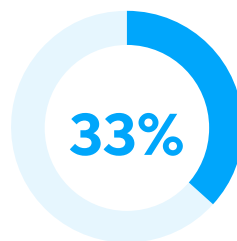
How have the following sustainability issues gained or lost significance in your procurement organization over the past three years?



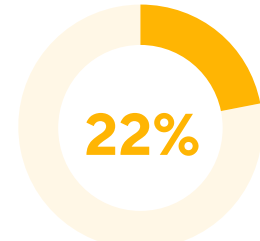
Consider the following findings:



For 34 percent of procurement organizations labor and human rights practices have become significantly more important over the past three years.



For 33 percent of procurement organizations business ethics have become significantly more important over the past three years.



Only 22 percent of procurement organizations claimed to have observed the same shift when it comes to environmental concerns.

This state of affairs may be a result of how businesses view their role and impact on environmental practices, i.e. many may feel they have less control over them as they are mostly addressed by environmental standards in their countries. Arguably, it is also easier to impose a code of conduct or wage standards on trading partners than it is to ask them for infrastructural changes, such as, for instance, retrofitting a factory. On the other hand, we could hypothesize that organizations feel that environmental issues are managed via compliance and operational efficiency.







# Sustainable Procurement Implementation

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“ Compared to three years ago, it is much easier to have tools to evaluate vendors. But we struggle to demonstrate what we do. It is no longer a competitive advantage, just keeping up with what other companies are doing; it's the standard now.

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**Industrial gases  
manufacturer**

“ When we see RFPs coming through, there are more and more questions about sustainability; there has definitely been an increase in this area.

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**Financial services company**

“ It is great to set a target, but the question is: What are companies actually doing to make people accountable for achieving this target by the end of, say, 2021. At the moment, that is the missing link of taking actions towards it.

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**Automotive aftermarket  
group**

“ I am working across all lines of business in all regions and primarily focusing on digitizing the aspects of the procurement function, for example, we've updated the RFP template to include a sustainability assessment (...). I am building the digital onboarding process, so when you want to add another vendor, you don't fill out forms anymore, you go to a portal and there is a risk-based questionnaire there, which is part of your sustainability assessment.

---

**Commercial real estate services  
and investment company**

“ We are having prospective customers ask about [our] policies and actions related to sustainability. They expect their partners to think about these things. (...) If we didn't pay attention to the community and the environment, it would hurt us.

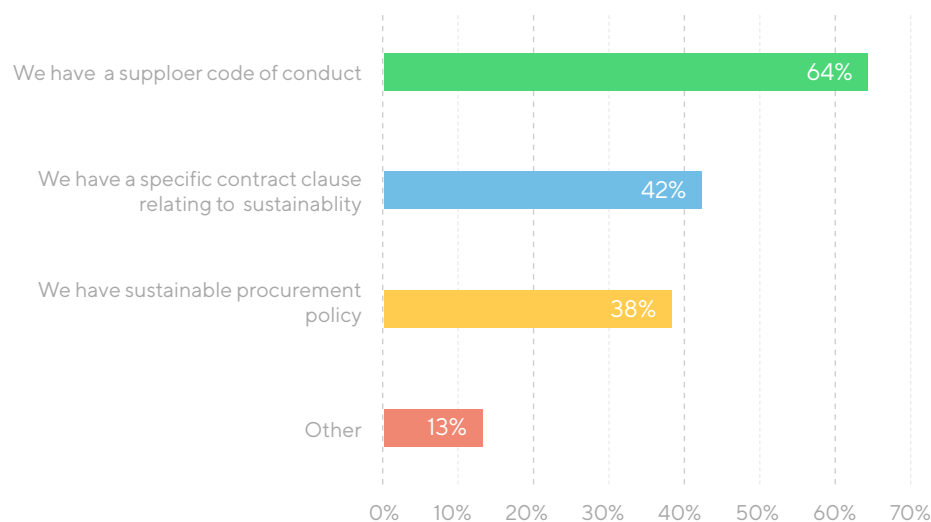
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**Human resources  
management software and  
services company**

## Policies, Reporting and Goal-Setting

When it comes to the practical implementation of sustainable procurement programs, it is vital to examine how business use policies, goals and reporting in their work with suppliers. The majority of respondents (64 percent) have a supplier code of conduct, only 42 percent have a specific contract clause relating to sustainability and 38 percent have a sustainable procurement policy in place.

How does your organization use policies to drive sustainable practices in your organization?



Apart from these main tools used to drive sustainable practices, some survey respondents (13 percent) reported the use of other policies, including:

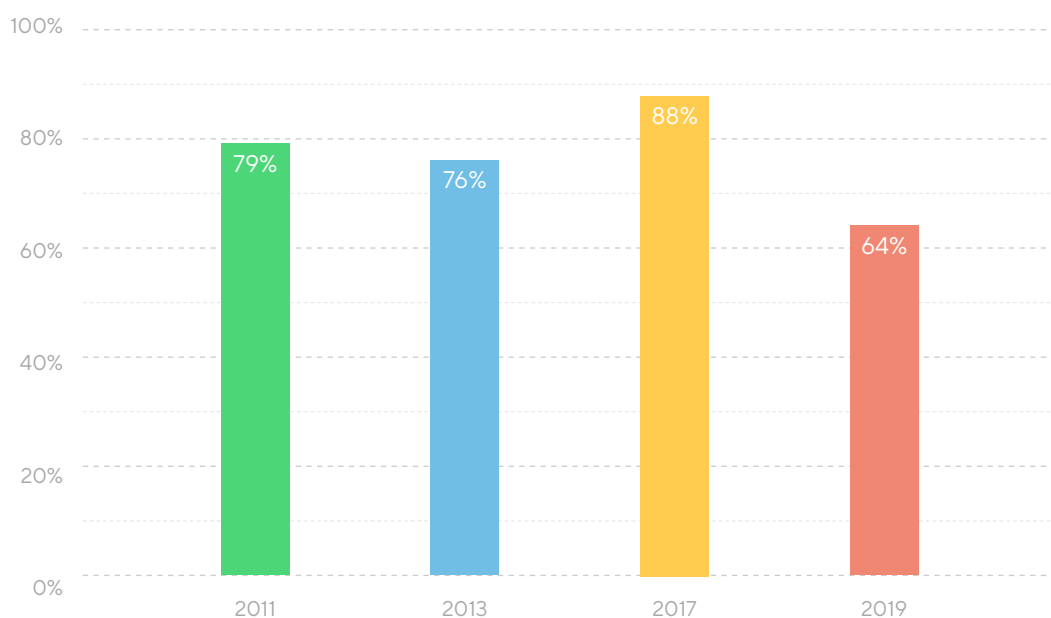
- ✓ Requirement for sustainability factors to be included in RFP evaluation criteria;
- ✓ Policy documents pertaining to particularly sensitive issues (e.g. animal testing, cotton);
- ✓ Ethics code;
- ✓ CSR criteria incorporated into purchase order agreements;
- ✓ Policies focusing on particular areas of sustainability, e.g. anti-corruption policy, environment policy, free competition policy.





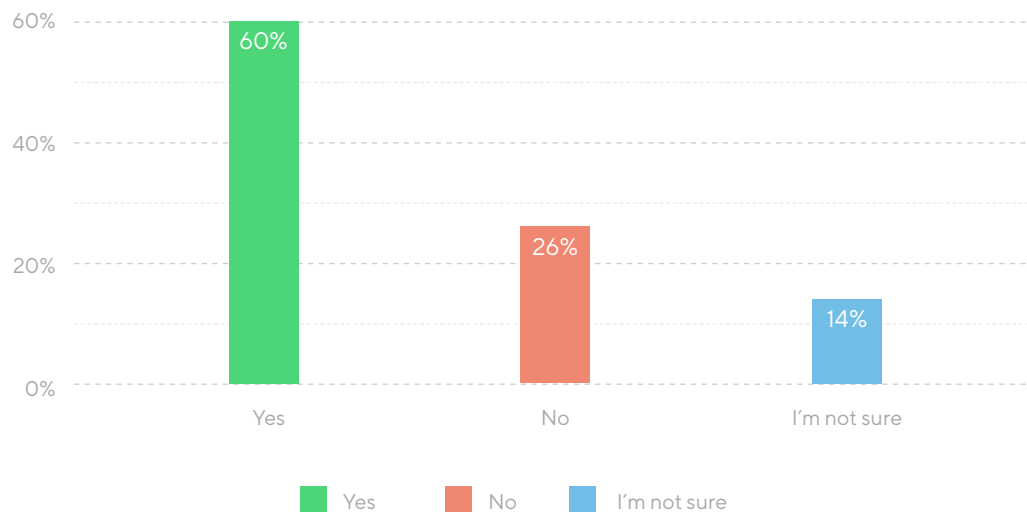
As was the case in previous years, the number of respondents who have a supplier code of conduct in place is by far larger than any other policies. However, it is considerably lower than in previous studies. This marked drop in the use of this practical tool to drive sustainability practices in the supply chain should not be seen as a change in trend. As mentioned above, many more companies responded to this year's survey, including a large proportion of small businesses. Some of these are likely Tier 1 or Tier 2 suppliers in large companies' supply chains and the next frontier for driving improvement and cascading sustainable procurement practices upstream in the chain.

Proportion of companies who have a supplier code of conduct.



In terms of reporting, 60 percent of businesses include supply chain sustainability performance in their sustainability, integrated or annual reports. Given that large corporates are under increasing pressure to conduct their business in a more transparent and responsible manner, international organizations, such as the Global Reporting Initiative, are calling for global reporting standards and many countries require listed companies to report on their sustainability performance along with their financial results, this figure is not particularly surprising.

Is supply chain sustainability performance included in your organization's annual sustainability report, integrated report or similar?

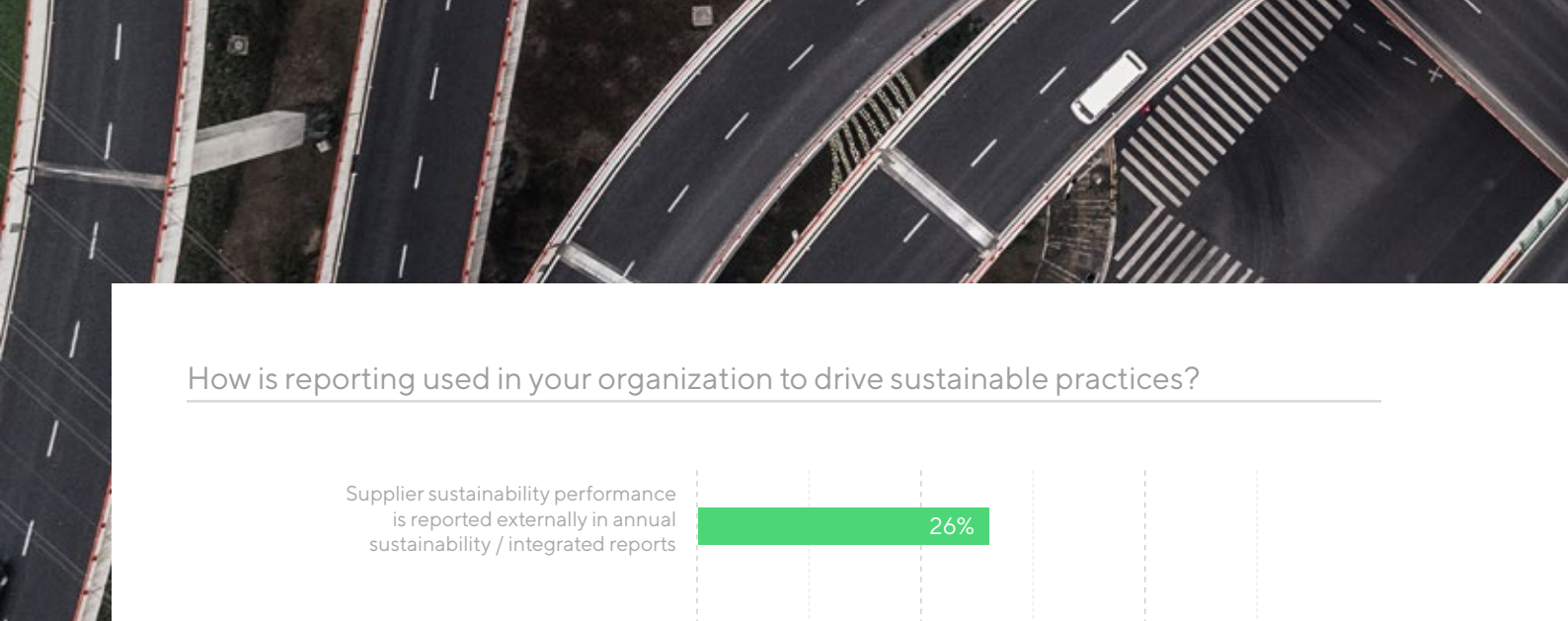


However, if we consider specifically how reporting is used by organizations and whether it helps drive sustainable practices, we get a slightly different picture. While 46 percent of businesses report internally on their sustainable procurement programs, only a quarter (26 percent) include supplier sustainability indicators in their annual or integrated reports. This raises the questions: Why is there such a marked focus on internal reporting vs. external and whether enough value is attributed to external reporting. Arguably, this also suggests that despite the constantly growing demand for transparency there is still plenty more room for external regulators to exert pressure for more transparency in the supply chains.

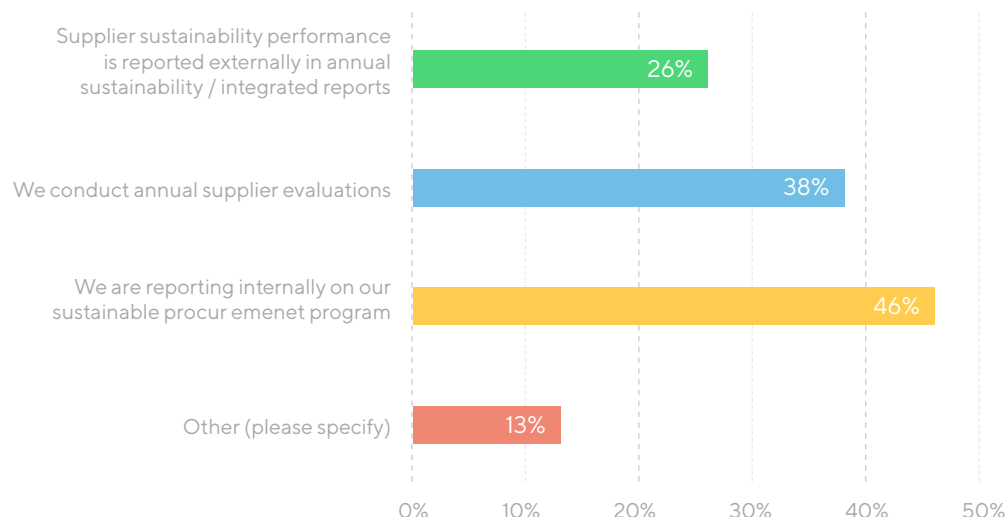
In addition, the disconnect between the proportion of businesses who include supply chain sustainability performance in their integrated/annual reports (60 percent) and those who are more proactive and use supplier sustainability indicators to drive sustainable practices is somewhat disconcerting. We can hypothesize that this is indicative of the fact that businesses continue to largely focus on compliance or “ticking boxes” rather than going beyond compliance and being more proactive and innovative in the way their approach sustainability.

This approach may be driving them into a sort of *compliance trap*, which makes it hard to get their sustainability programs/initiatives fully off the ground and fully benefit from their investment. It also raises the question: If businesses knew the level of financial returns they can get on their sustainability investment would they feel more compelled to move beyond compliance?

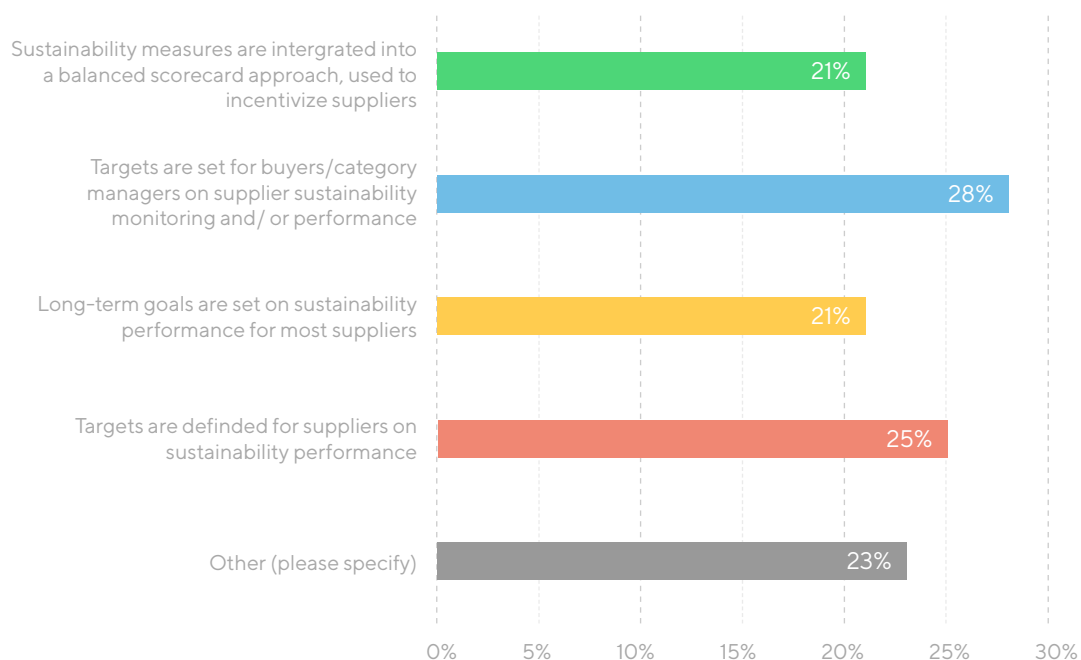




## How is reporting used in your organization to drive sustainable practices?



## What kind of sustainability goal-setting strategy does your organization use for your supply chain?





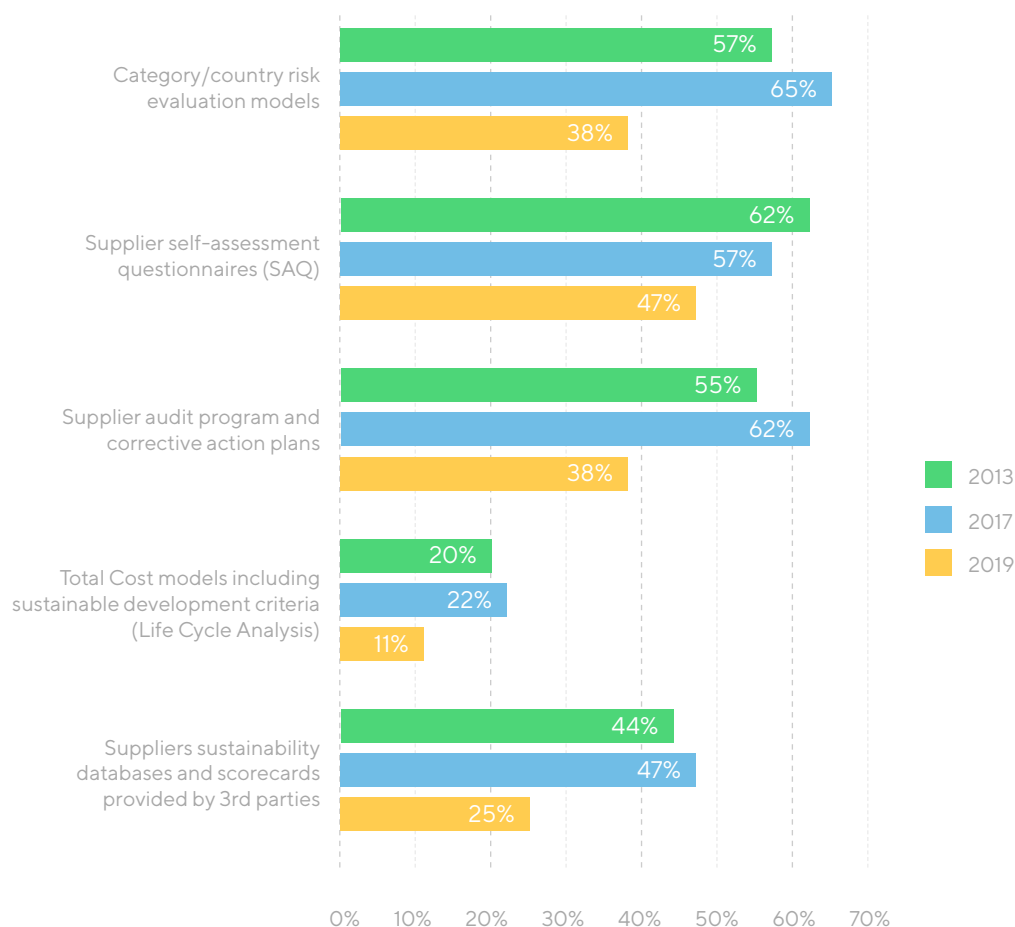


## Sustainable Procurement Tools

Similar is true when looking at the tools businesses are using to support sustainable procurement. A notable drop in the use of all the types of tools is caused by the fact that a relatively high proportion of respondents to the survey have rather low sustainability maturity levels. This, arguably, may suggest that awareness of and interest in sustainability issues and their impact on global supply chains is increasing and a growing number of organizations are reaching out to sustainable supply chain experts and looking to learn from other organizations.

In terms of specific tool adoption, the most widely used tool among the survey respondents is a supplier self-assessment questionnaire (47 percent), followed by supplier audit program with corrective action plans and category/country risk evaluation model (both at 38 percent). Supplier sustainability databases and third-party scorecards are used by a quarter of respondents (25 percent).

What tools do you use to support sustainable procurement?

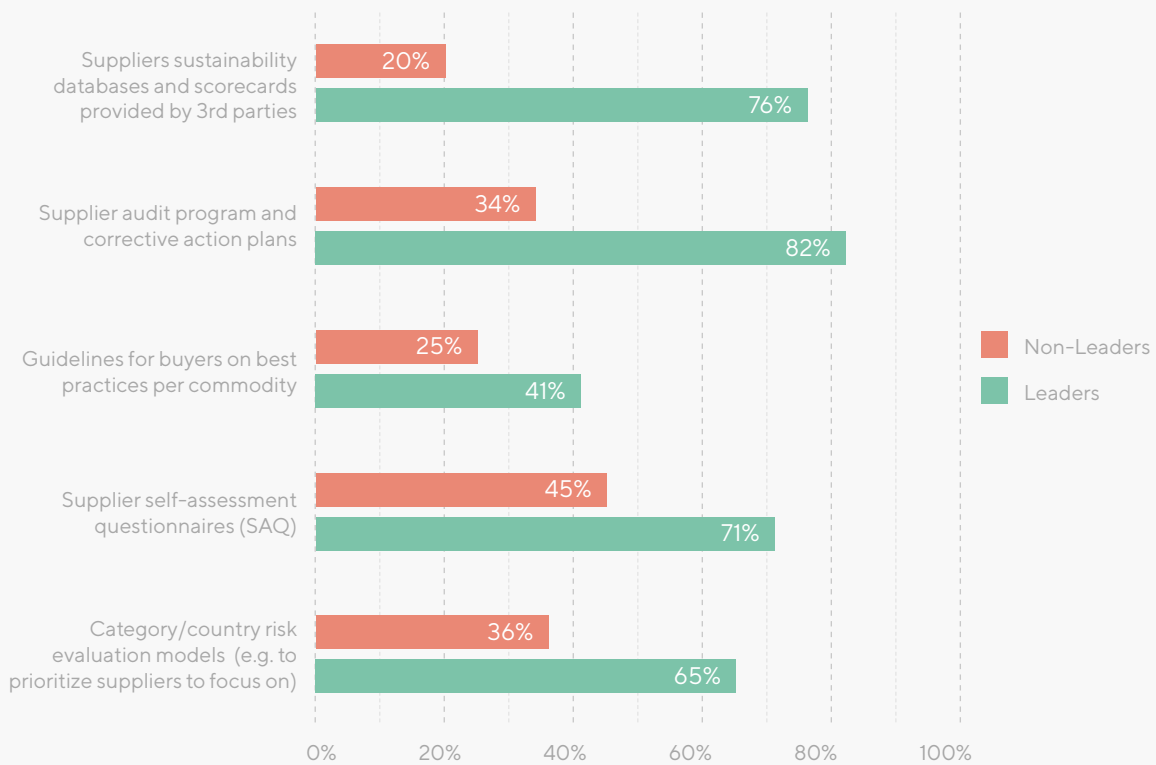


## Policies and Tools: A Glance at Sustainable Procurement Leaders



A completely different picture emerges when looking at how various tools and policies are used by Sustainable Procurement Leaders. As many as 76 percent of Leaders, for instance, use supplier sustainability databases and scorecards provided by third parties, compared with 20 percent of non-Leaders. In addition, the majority of Leaders (82 percent) run supplier audit programs and corrective action plans, compared with only 34 percent of non-Leaders. Sustainable Procurement Leaders report also a higher adoption of supplier self-assessment questionnaires and category/country risk evaluation models (71 and 65 percent respectively).

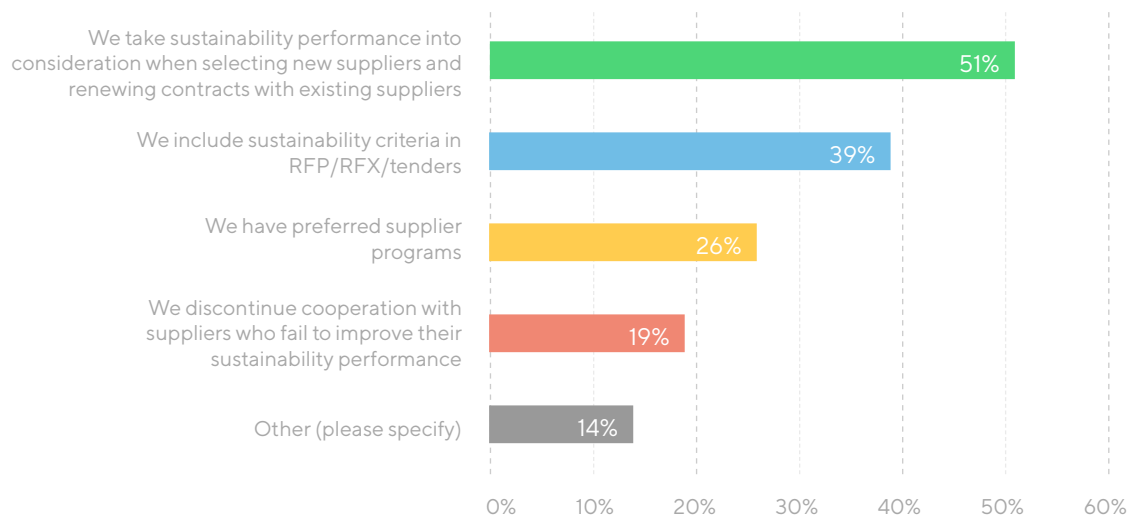
What policies have you implemented?



## Integrating Sustainability Performance Into Procurement Practices

Collecting information about suppliers' sustainability performance and keeping track of it is one thing but implementing this information into the procurement process is a different story. In other words, we are asking the question how businesses use the information they have in their work with suppliers. It turns out that half of them (51 percent) take sustainability performance into consideration when selecting new suppliers and renewing contracts with existing ones and 39 percent include sustainability criteria in RFP/RFX and tender processes. Less than a fifth of respondents (19 percent) discontinue cooperation with suppliers who fail to improve their sustainability performance.

How has your organization integrated sustainability criteria into procurement processes?



## Supply Chain Coverage

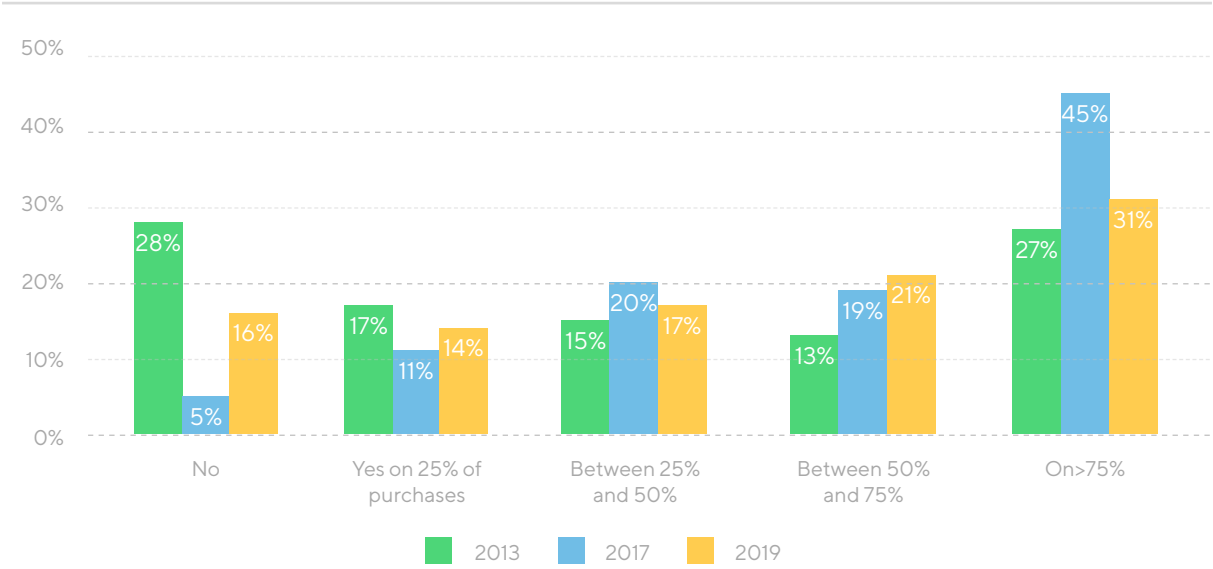
When it comes to the percentage of suppliers covered by the sustainable procurement program, we have looked at the coverage of what businesses consider their strategic suppliers and their high-risk suppliers separately. In both categories, we can see a notable drop on the previous year in the proportion of businesses who have more than 75 percent of their spend covered by a sustainable procurement program. At this point, it needs to be noted again that this year's sample includes a large proportion of companies with low levels of maturity when it comes sustainability practices.



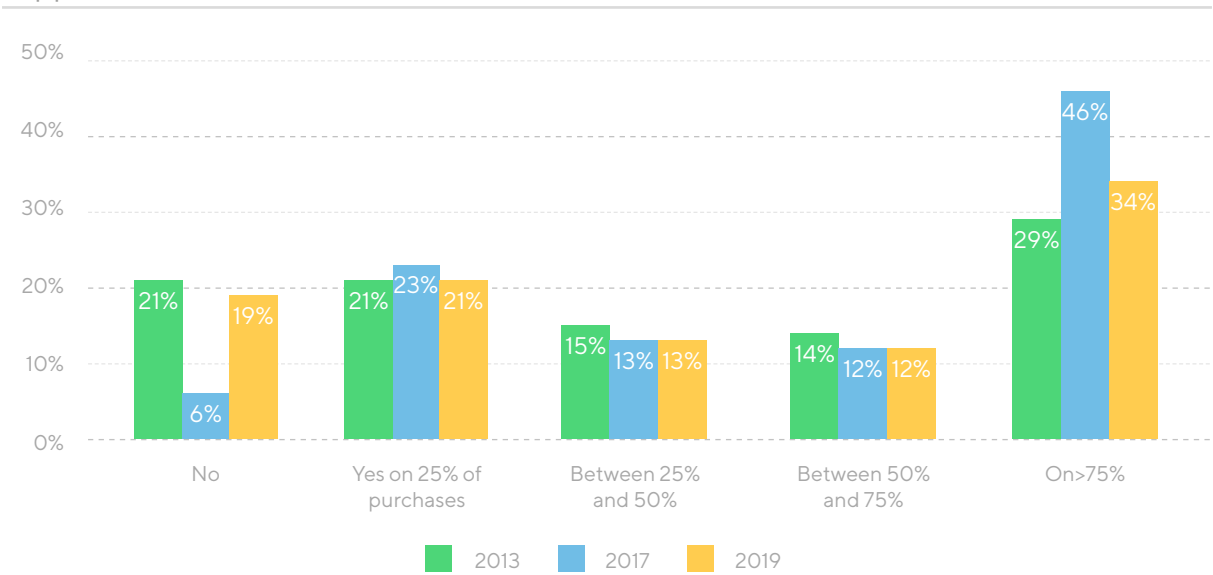


Interestingly, though, given the wider sample of this year’s study, the percentage of businesses who have between 25 and 75 percent of both their high-risk and strategic suppliers covered remains at roughly the same level. Again, given the wider sample and the relative immaturity of many of the companies participating in the survey, we can hypothesize that sustainability awareness is growing, many more businesses are looking to and launching sustainable procurement initiatives, but they still need time to scale up.

Level of coverage from supplier assessment and/or audit programs: Strategic suppliers



Level of coverage from supplier assessment and/or audit programs: High-risk suppliers



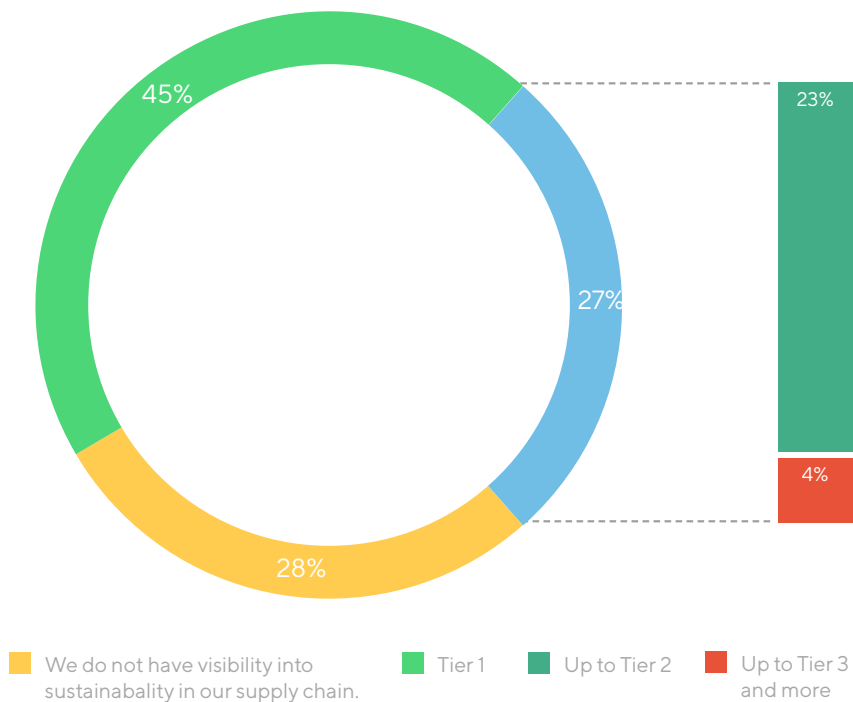


## Depth of Visibility Into Supply Chain Sustainability

Similarly, when looking at the depth of visibility into supply chains, much of it (45 percent) remains with Tier-1 suppliers. Nearly a quarter of the respondents (23 percent) have visibility into Tier 2 and only 4 percent are able to drill down to Tier 3. Also around a quarter (28 percent) have no visibility into their supply chains at all.

Regardless of the maturity of the sustainable procurement program, depth of the supply chain visibility remains a major challenge businesses are facing. And this lack of visibility, or in other words, not knowing who supplies your suppliers, translates into vulnerability. While it is not easy to drill down to Tier-n, with suppliers oftentimes located in unstable countries and the data being fragmented, it is noteworthy that almost half of supply chain disruptions occur below Tier 1, causing a domino effect. Companies will therefore need to place more emphasis on gaining more visibility deep into their supply chains. Given these findings we could argue that buying organizations need to collaborate more closely with their suppliers and provide more incentive to reveal more information about their own suppliers. There are tools available that can help provide some of this transparency, while at the same time maintaining the confidentiality, such as third-party databases and assessment platforms. Businesses using these tools may have an advantage over those who do not.

What depth of visibility do you have into your supply chain with regard to sustainability?





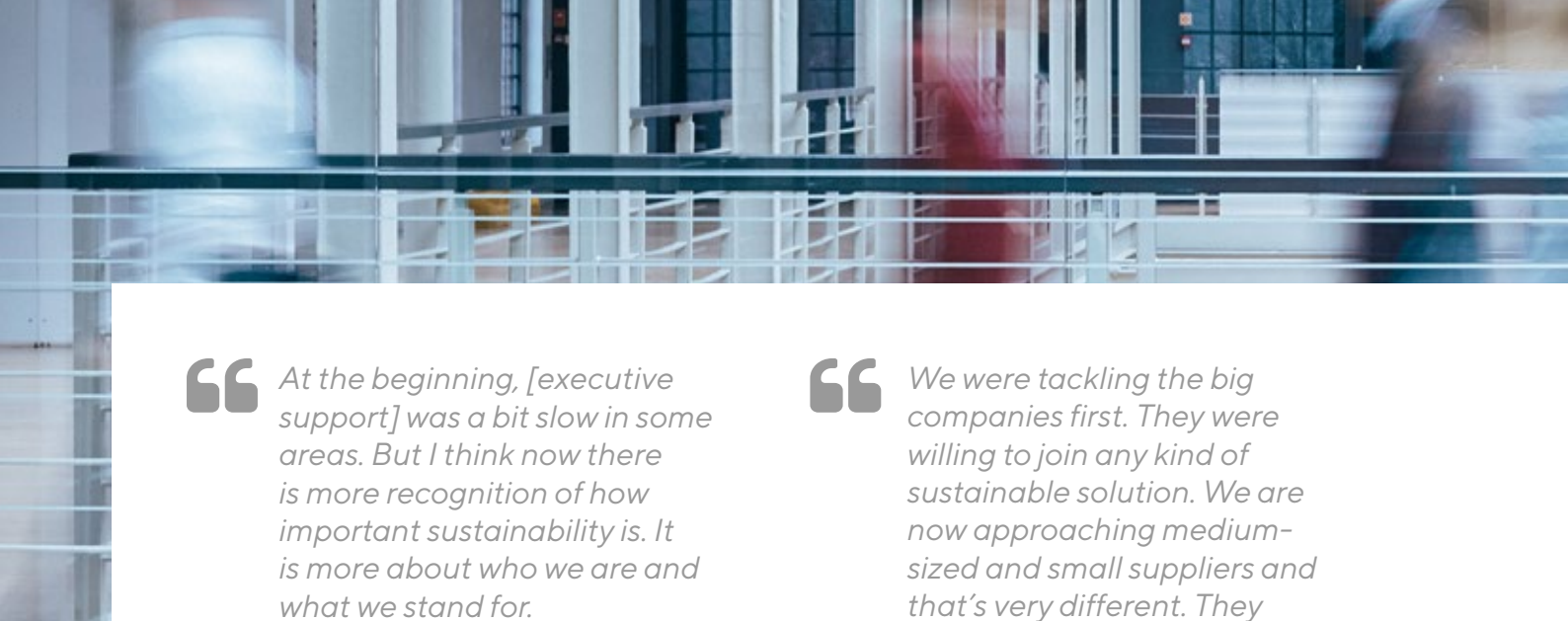






# Obstacles and Challenges

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“ At the beginning, [executive support] was a bit slow in some areas. But I think now there is more recognition of how important sustainability is. It is more about who we are and what we stand for.

---

**Global energy group**

“ We were tackling the big companies first. They were willing to join any kind of sustainable solution. We are now approaching medium-sized and small suppliers and that’s very different. They don’t see the value because there is not financial benefit on their side. We are struggling to help them see the value of the [sustainable procurement] program, which is quite easy for large companies to see.

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**Chemicals company**

## **Main Obstacles and Challenges to Implementing a Sustainable Procurement Program**

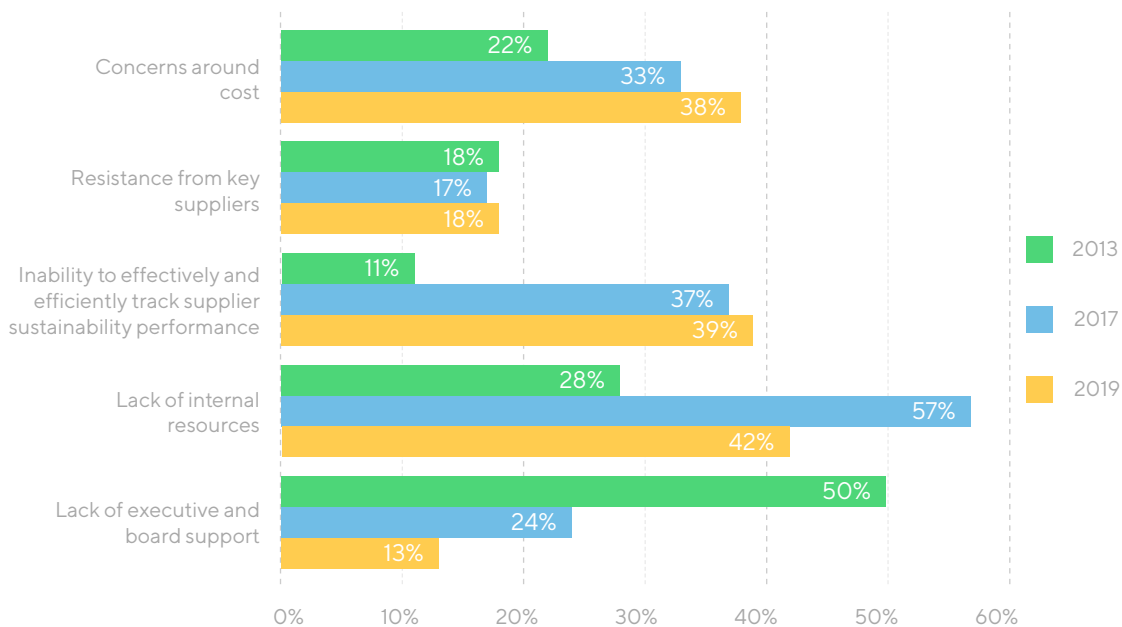
Despite a growing awareness of sustainability issues along with increasing stakeholder pressure, sustainability and procurement teams continue to face obstacles and challenges preventing them from fully implementing or scaling up their sustainability initiatives. Interestingly, the top three challenges have remained the same over the past two years: A lack of internal resources, inability to effectively and efficiently track supplier sustainability performance and concerns around costs.

On a positive note, executive board support has increased greatly in the past six years and is now listed as a challenge by only 13 percent of the respondents. Given, the larger sample size and variety of organization for this year’s study, this is a remarkable change. Nonetheless, it raises the question of why, given there is the executive support there are still not enough internal resources.

It is also interesting to see that businesses are still struggling with tracking supplier sustainability performance. With a growing number of tools available it is somewhat surprising. We can hypothesize, again, that businesses get stuck in a *compliance trap*, whereby they invest in under-powered programs that come down to essentially “ticking boxes” and collecting documents but do not do enough with regard to supplier improvement and incentives and thus fail to realize the full potential of their initiatives. And this, again, raises the question whether businesses would be more likely to go beyond compliance if they knew their sustainability investment paid off financially.



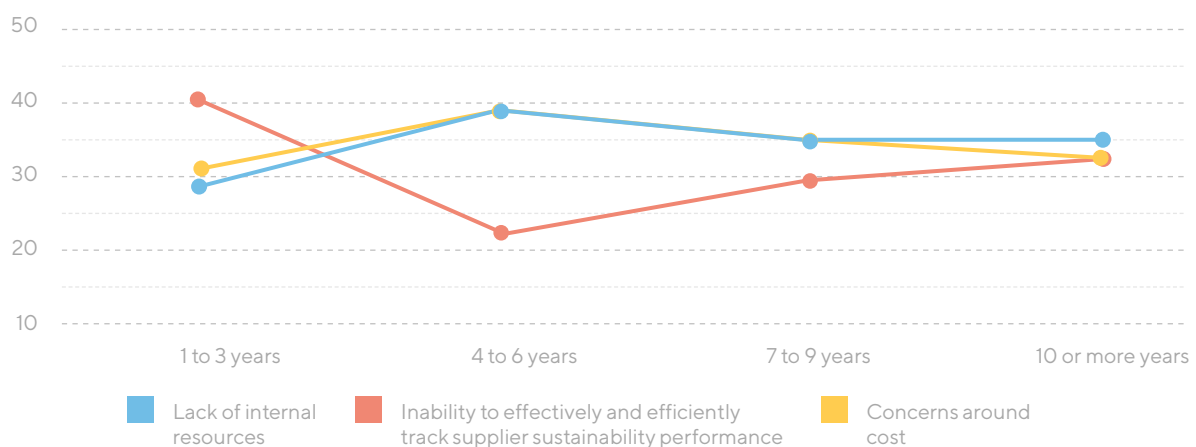
## Obstacles and challenges facing sustainable procurement organizations.



## Challenges and Length of Implementation

When exploring the correlation between sustainable procurement challenges and the length of program implementation, the results show that as the program matures concerns around costs and problems with internal resources decrease. Interestingly, concerns about effectively tracking supplier sustainability performance initially decrease and when the sustainable procurement program reaches around four to six years they rise again, although not to as much as at the start of the program. This surprising correlation may be a result of the aforementioned *compliance trap*, or the fact that the further business are on their sustainability journey, the more visibility they want get down to Tier-n, the harder it becomes.

### Key challenges vs. length of implementation









An aerial photograph of rolling green hills, likely in a rural or agricultural area. The hills are covered in lush green grass or crops, with visible furrows and ridges. In the foreground, a line of trees with dense foliage stands on a slight rise. The overall scene is peaceful and natural.

# Sustainable Procurement Results and Benefits





“ The sustainable supply chain program helps us mitigate risks. We have our dedicated risk management program in place, this really helps. With regard to sustainability assessments, they really help us to show how involved we are. And because our customers really value the assessments, it is surely having an impact right there as well.

---

**Glass and metal products producer**

“ Sustainable management is just like general management: We try and look to do things in a better way. If I buy more efficiently, save on transportation costs, for instance. Before, it was 6 Sigma and other things. Today, it is sustainability improvement programs.

---

**Fruit and fruit beverage producer**

“ There are so many different factors that contribute to these wins that we hesitate to say that it is because of sustainability. We can certainly say it contributed but we are kind of stopping sure to say that's why we landed it.

---

**Technology and manufacturing company**

“ The benefits are clearly there. Having a CSR document, as we do, and sharing it with our clients, we believe is a competitive advantage for us. With our top 20 clients we do quarterly business reviews, some semi-annual, some annual, where we go over our CSR program.

---

**Direct mail company**

“ There are a lot of studies that say that [sustainable practices] have some impact on talent attraction and retention. But it's not easy to quantify. Attracting new business and retaining that business, avoiding reputational risk of one client or another. That figure is an elusive concept to quantify.

---

**Technology and manufacturing company**

“ All millennials are pro-environment and pro-sustainable development, want to have a brighter future and have a lot of impact on this. Companies now have to prove themselves that they are doing things right. I think on the HR side, it is really strong.

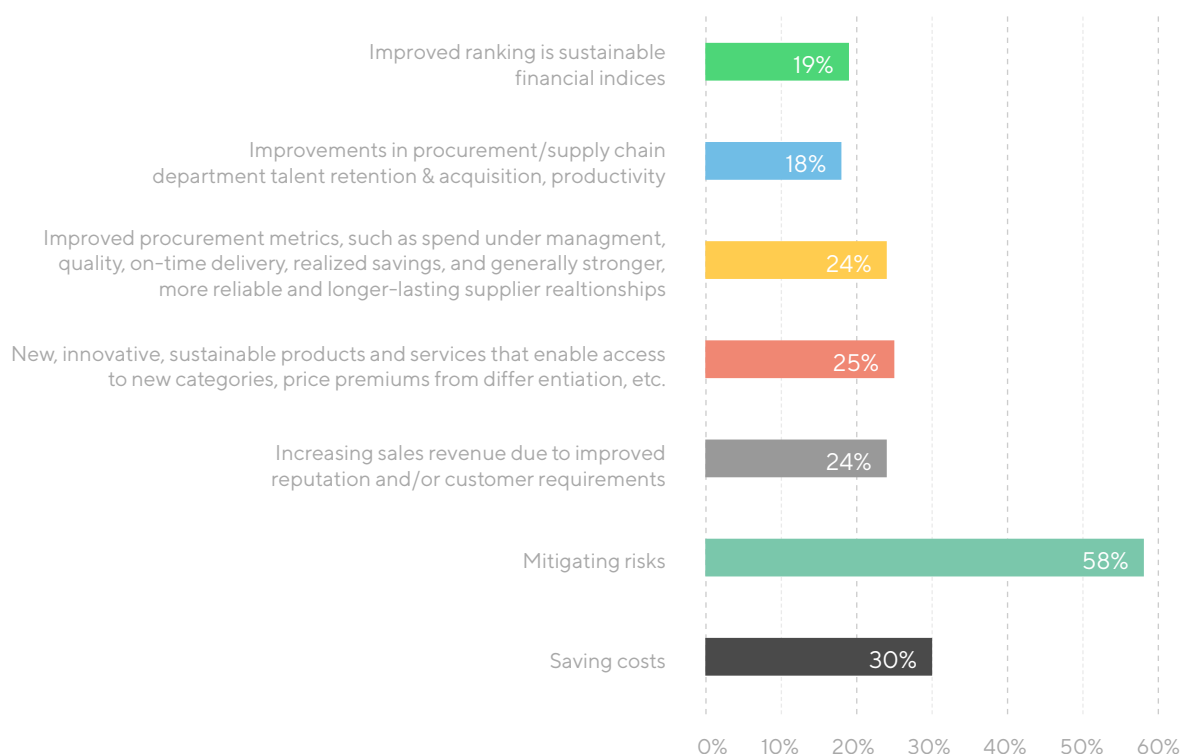
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**Packaging company**

As noted above, businesses have a number of priorities and reasons for engaging in sustainable procurement, the top ones including complying with regulations, reducing risks, reducing costs and delivering on corporate sustainability values. It is therefore interesting to see how they find they are benefiting from their sustainable practices.

More than half of respondents (58 percent) say they are better able to mitigate risks thanks to their sustainable procurement program, whereas 30 percent have been able to save costs. A quarter of respondents found that their sustainable procurement programs contributed to innovation and enabled access to new categories and price premiums from differentiation. A similar proportion of respondents said they benefited in way of improved procurement metrics and increased sales revenue.

How has your organization benefited from your sustainable procurement program?  
Select any areas that you strongly believe you are benefiting from, even if you are not specifically measuring it.



Interestingly, however, the qualitative data collected in follow-up interview shows that businesses are finding it difficult to quantify the return on their sustainable practices, even though they generally agree they are seeing a positive impact across a number of different areas of business.

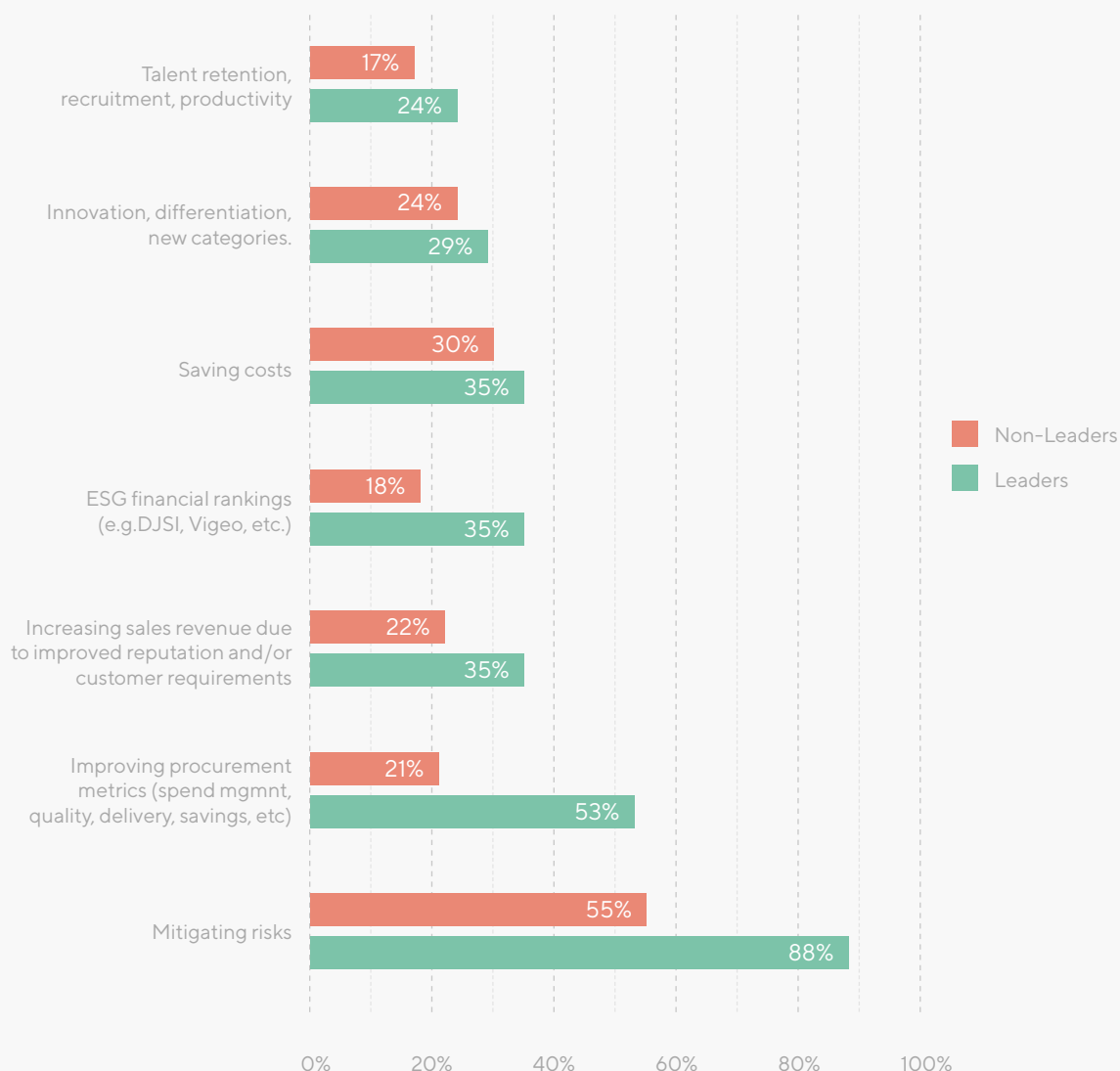


## Results and Benefits: A Glance at Sustainable Procurement Leaders

Sustainable Procurement Leaders also reported a higher level of benefits across all categories, with risk mitigation being a particularly notable difference (88 percent among Leaders vs. 55 percent among the rest of the sample), followed by improved procurement metrics (53 percent vs. 21 percent).

In addition, a much larger proportion of Leaders said revenue growth for their sustainable offering was greater than the rest of the products (35 percent of the Leaders vs. 18 percent of the non-Leaders).

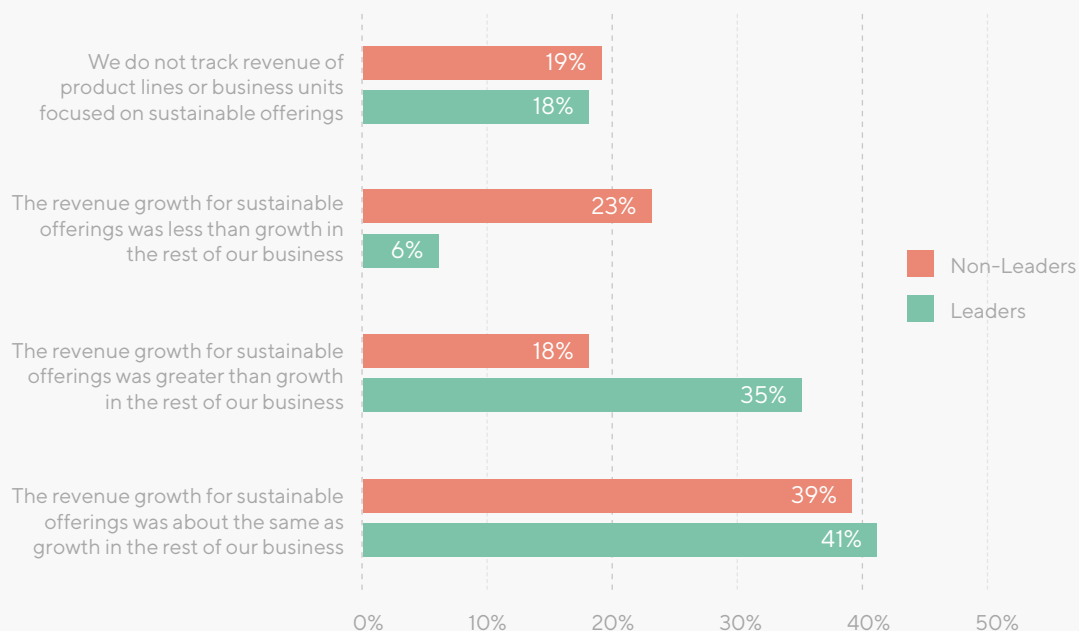
How is your organization benefiting from your sustainable procurement initiative?







## How are you tracking revenue from sustainable offerings?



If you are looking for a quick and objective benchmark to see how mature your sustainable procurement initiative is, take the Sustainable Procurement Diagnostic. This free tool takes only 10 minutes to complete and covers a wide range of criteria.

[Check it out](#)





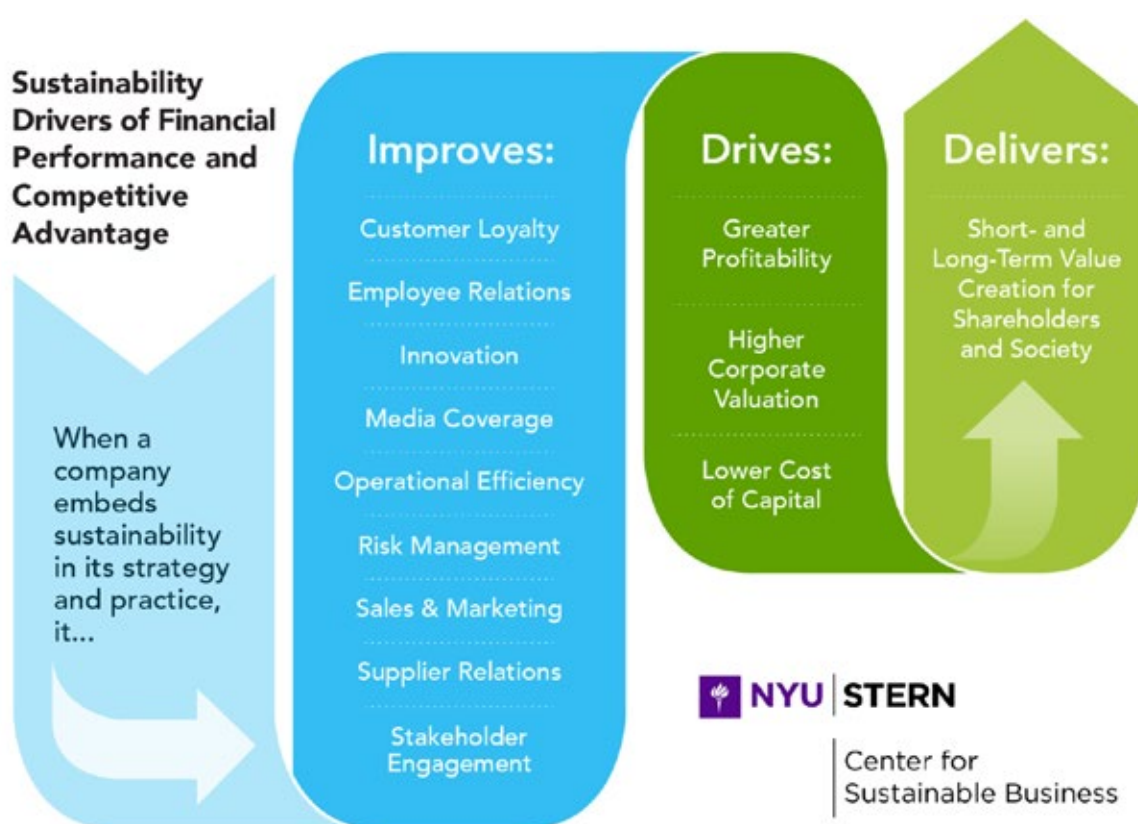




# Return on Sustainability Investment



NYU Stern Center for Sustainable Business (CSB) believes successful sustainability initiatives are embedded in corporate strategy and tracked through financial metrics. Sustainability-related issues are no longer siloed as special projects or limited to efficiency-related sustainability efforts. Using the ROSI™ methodology, companies can clearly quantify the full range of costs and benefits, including intangibles. ROSI™ enables CFOs and investors to better integrate, measure, and report on corporate financial performance resulting from embedded ESG. The use of our methodology empowers managerial decision-making and investor communications.





## How CSB ROSI™ Works

CSB ROSI™ is designed to be a simple yet comprehensive process that identifies material sustainability strategies and the changed practices resulting from those strategies, then quantifies and monetizes the benefits through the lens of the ROSI™ mediating factors.

- Step 1:** Identify the material sustainability strategies for the sector and the company, using SASB or GRI as guides. For example, a specific sustainability strategy for an auto manufacturer may be to improve waste management.
- Step 2:** For each sustainability strategy, identify the material changes in business practice. For example, a practice to improve waste management for automakers is to recycle paint and solvents.
- Step 3:** Determine the potential and realized financial and societal benefits of these practices, through the lens of the mediating factors of financial performance (innovation, operational efficiency, supplier loyalty, etc.). For example, recycling paint and solvents (A) reduces purchase of the product, (B) reduces waste disposal costs, and (C) brings in revenue through selling excess recycled material.
- Step 4:** Quantify each benefit. For example, identify the % of manufacturing waste that is recovered and reused.
- Step 5:** Apply a monetization process to calculate monetary values for the intangible and tangible benefits. For example, weighted average unit cost of recovered materials versus the cost of reused materials and upfront investment, with the net being the return on investment.



## Financial Impacts of Sustainable Supply Chains: A Case Study from Brazilian Beef Industry

### Background

- ✓ Food companies around the world have recognized the need to pursue sustainability in response to pressure from society and to secure the future of their business.
- ✓ Many of them have committed to sustainable supply chains but face supply limitations.
- ✓ 450 companies have committed to deforestation-free beef, soy, palm oil, pulp and paper.
- ✓ Beef is a significant contributor to deforestation and greenhouse gas emissions.
- ✓ In Brazil (the largest beef exporter in the world) cattle are the biggest driver of deforestation in the Amazon and responsible for up to 80 percent of GHG emissions related to land use change.
- ✓ Certified sustainable beef production in Brazil is less than 1 percent.

### Methodology: 5 Steps

- ✓ First, based on the Sustainable Business Benefits at the Firm Level CSB identified a list of potential benefits of adopting sustainable and deforestation-free practices across the different players in the supply chain.
- ✓ Second, a method was designed to quantify those benefits and ascribe a monetary value to them. CSB analyzed key drivers of improved performance through adoption of sustainable practices; identified significant benefits for each supply chain actor based each of the overarching drivers; quantified the results and assigned a dollar value.
- ✓ Third, CSB conducted interviews with industry stakeholders and made site visits to key project partners.
- ✓ Fourth, further desktop research (consulting academic papers, business publications and industry reports, and primary sources, e.g., public/commerce statistics) and finalized our key assumptions.
- ✓ Fifth, CSB input the data and assumptions, assigned a final monetary value to the benefits, and compiled the results for the case study.





## Selected Results

- ✓ Sustainability practices lead to improved profitability across the value chain.
- ✓ The uptake of sustainable agricultural practices provided the most financial benefit, while the uptake of deforestation-free commitments reduced risk.
- ✓ Net benefits to ranchers ranged from \$18 million to \$34 million (12 to 23 percent of revenues) in net present value projected over 10 years. Sustainable agricultural changes led to big gains for ranchers, who experienced an increase in profitability of 6.8X due to productivity increases of 2.3x per kg of beef per hectare, increased premiums and reduced costs.
- ✓ For meat processing facilities and retailers (Brazilian operations), we also projected positive benefits: \$20 million to \$120 million (0.01 to 0.1 percent of revenues) and \$13 million to \$62 million (0.01 to 0.7 percent of revenues).
- ✓ Estimate that the Brazilian operations of McDonald's and Carrefour would reap approximately \$12.5 to \$62.1 million (0.01 to 0.6 percent of revenues) in expected net present value over 10 years, due to reduced risk and higher quality.

For full results see HBR article: <https://hbr.org/2017/09/how-to-quantify-sustainabilities-impact-on-your-bottom-line>











# Supplier Perceptions and Engagement

Is this white paper what you  
expected?

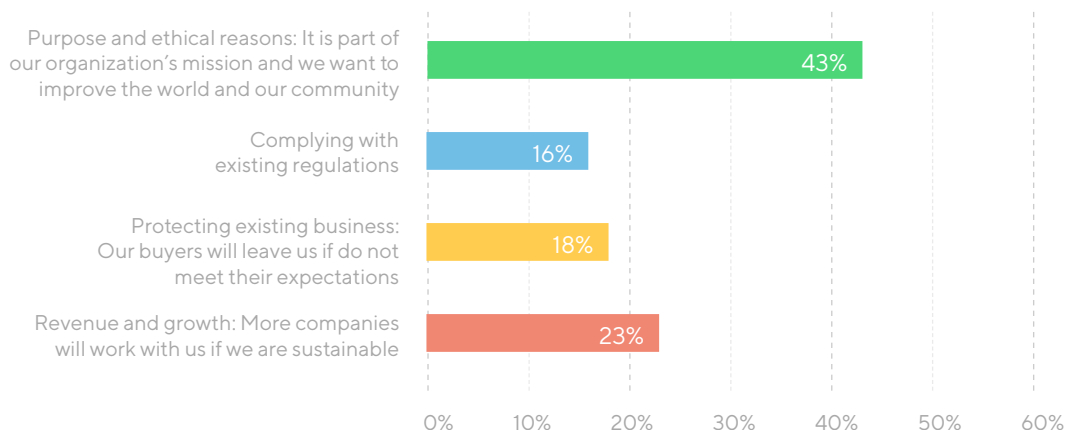
[Let us know](#)



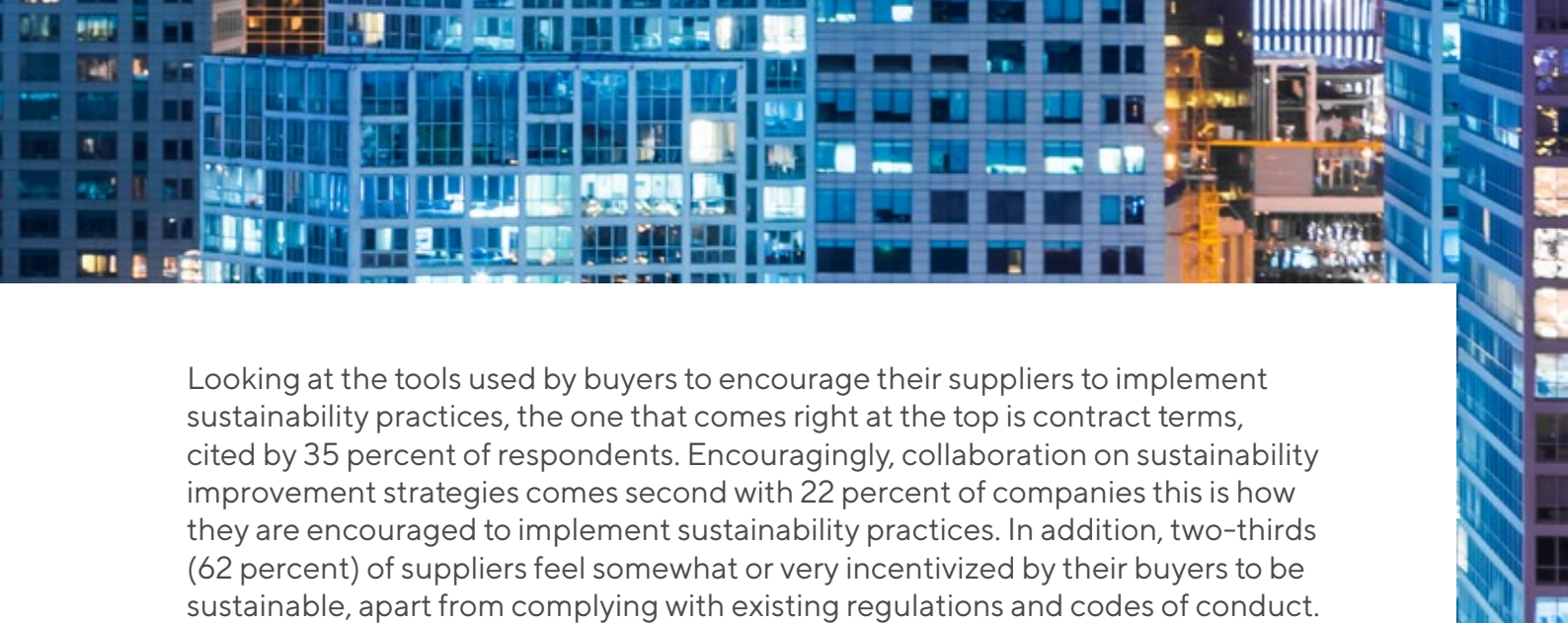
The supplier survey sought to establish what motivates suppliers to engage in sustainability, what incentives or methods of engagement offered by their customers they see as particularly effective and how they view their customers' commitment to sustainable supply chains.

For nearly half of the companies (43 percent), commitment to sustainability is part of their mission and they engage in sustainability in order to improve the world and their community. Just under a quarter (23 percent) believe that engagement in sustainability helps them attract more business, while 18 percent say it is necessary to keep their existing customers. Only 16 percent of respondents said their primary motivation behind sustainability practices was compliance with regulations – an interesting contrast with the buyer survey, where compliance was of critical importance for 66 percent of companies. This may be a result of the greater regulatory pressure, particularly in Europe, for large and listed companies to report not only on their financial results but also on their sustainability performance.

#### What is your primary motivation for engaging in sustainability?

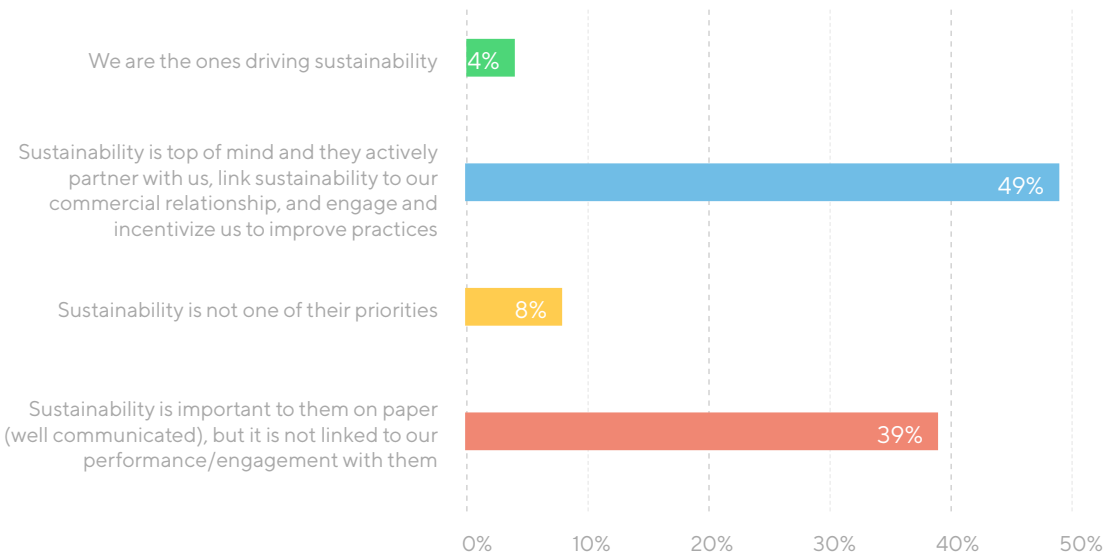


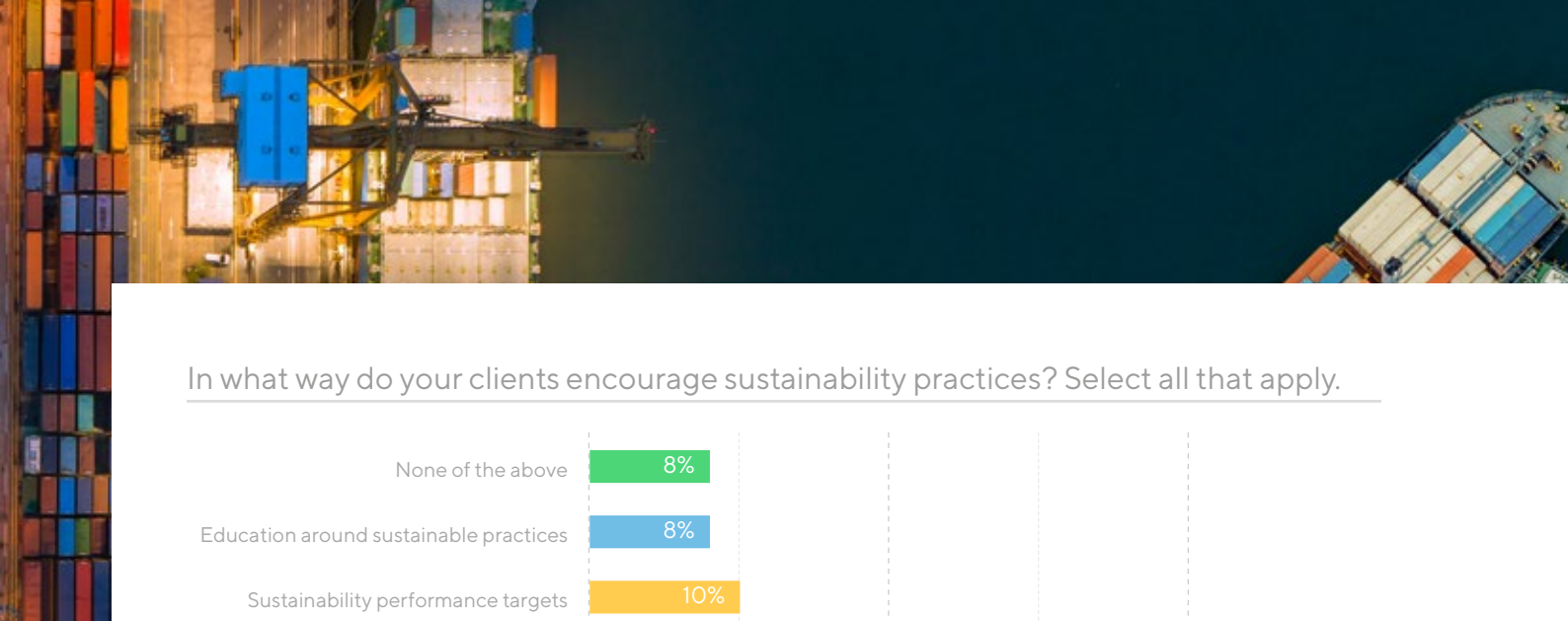
When it comes to suppliers' perception of their customers' commitment to sustainable supply chains, just under half of them (49 percent) believe the buying organizations they work with are truly engaged in sustainability and actively partner with them to foster sustainability practices in their commercial relationships. But there is also a striking 39 percent who say sustainability is important to their customers on paper but it is not reflected in any practical way in the way they work together – this arguably supports the aforementioned *compliance trap* hypothesis. Only 8 percent of suppliers find that sustainability is not a priority for their customers and even fewer (4 percent) find they are the ones who are driving sustainability in their commercial relationship.



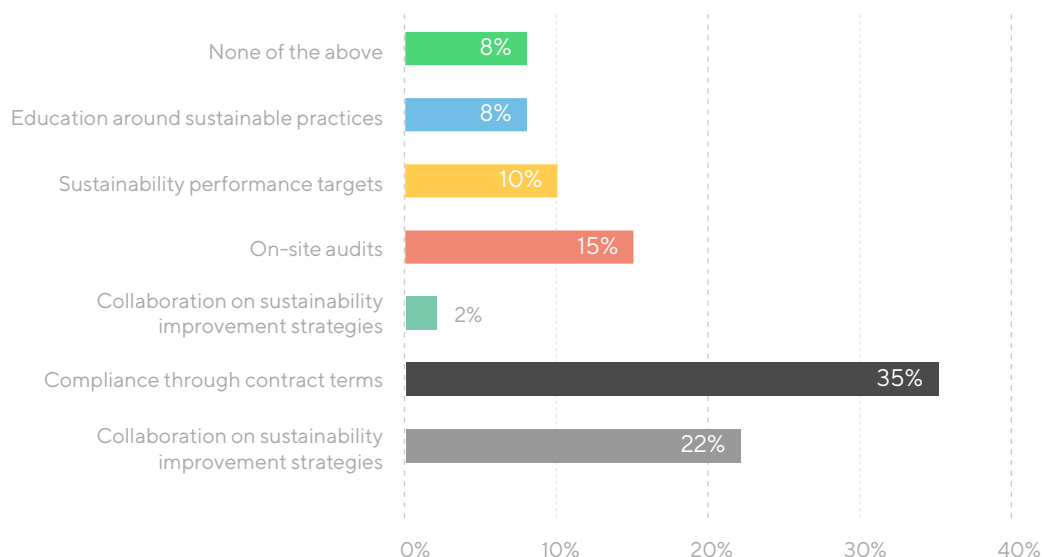
Looking at the tools used by buyers to encourage their suppliers to implement sustainability practices, the one that comes right at the top is contract terms, cited by 35 percent of respondents. Encouragingly, collaboration on sustainability improvement strategies comes second with 22 percent of companies this is how they are encouraged to implement sustainability practices. In addition, two-thirds (62 percent) of suppliers feel somewhat or very incentivized by their buyers to be sustainable, apart from complying with existing regulations and codes of conduct.

If you look at the organizations that you supply that are at least \$1 billion in revenue, how would you categorize their commitment to building a sustainable supply chain?

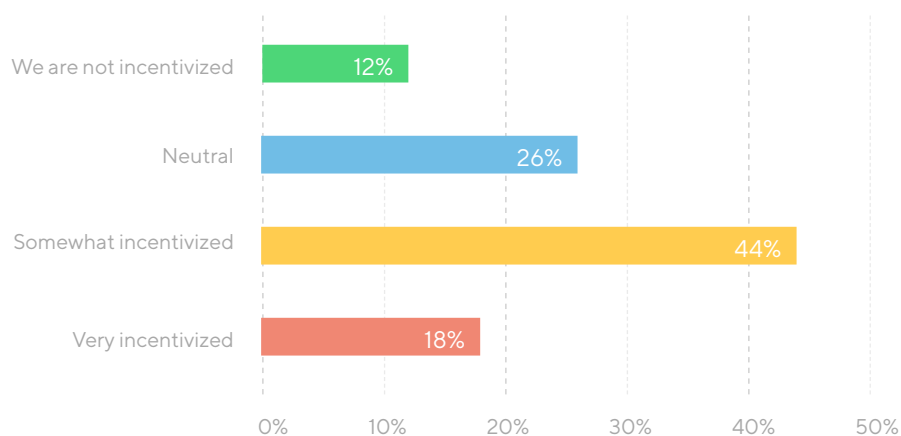




In what way do your clients encourage sustainability practices? Select all that apply.



Apart from complying with existing supplier codes of conduct (or similar policies), how incentivized are you by your buyers to be sustainable and socially responsible?









## Conclusion

As a relatively new discipline, sustainable procurement has made strides in recent years. Awareness of sustainability is expanding among both buying and supplying organizations and sustainable practices are increasingly seen as a must-have in business relations.

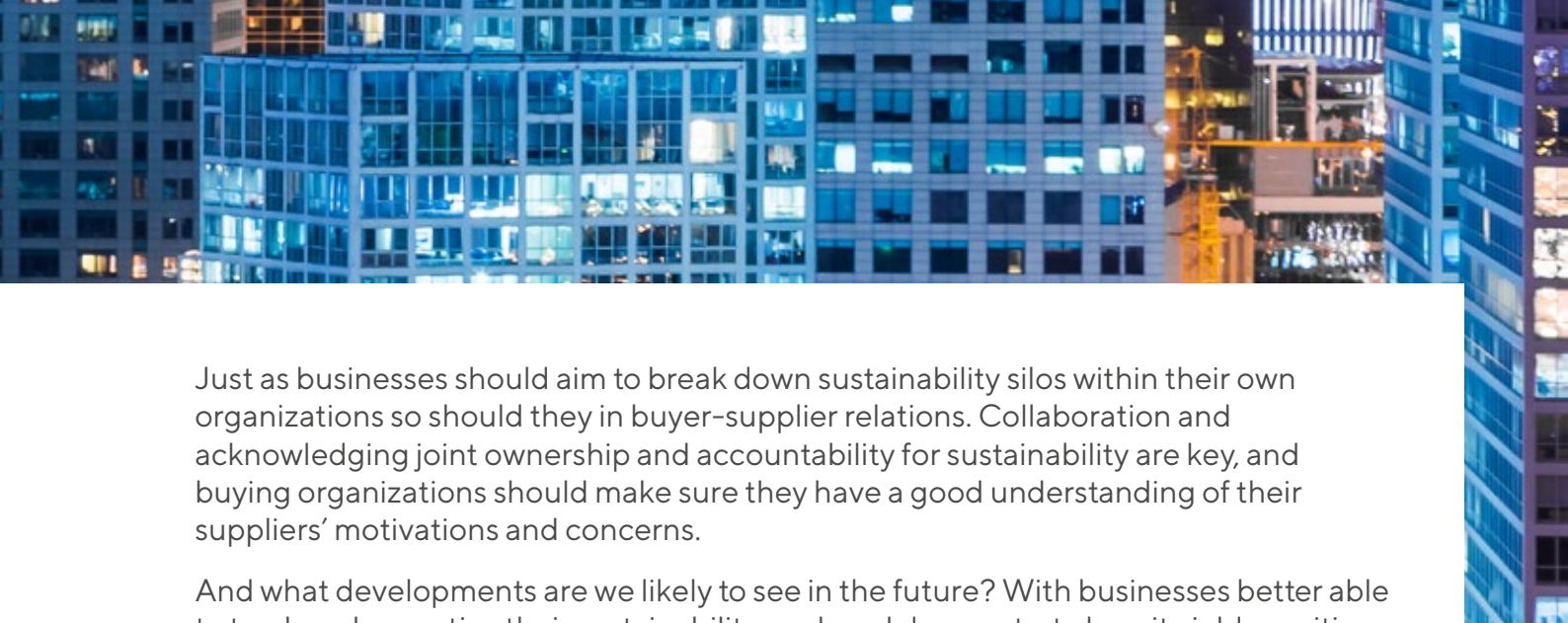
All this is taking place against the backdrop of an increasingly stringent regulatory landscape and is to a large extent driven by the growing requirements to comply with legislation. This *compliance mindset* has played a crucial role in getting us to where we are in sustainable procurement, in managing supply chain risks and in articulating the required sustainability standards. But compliance -- or not engaging in bad practices, rather than developing best practices -- is the bare minimum. Failure to break out of this mindset may become an impediment to realizing the full potential of sustainable procurement initiatives and taking them to the next level of value creation.

Sustainable procurement practices must take more of a center-stage position in management and business activities in general, and sustainability-related goals, or in other words environmental and social performance, must become seamlessly integrated into management strategy. This way companies can fully benefit from their sustainable procurement initiatives.

As indicated by the analysis of Sustainable Procurement Leaders, there is a crucial mix of sustainable procurement practices – e.g. use of external databases with performance indicators, integrating results into a balanced scorecard approach, communicating results internally, etc. – that enables these businesses to realize significantly more benefits compared to other companies. They have the potential to not only achieve more robust and persistent compliance but also drive upside benefits and value creation that in fact could result in the program “paying for itself.”

These benefits are often realized by other departments, i.e. outside of procurement. This is partly why they are more difficult to identify and quantify. More work still needs to be done to help businesses track these benefits through financial metrics and monetize their embedded sustainability strategies. But sustainability-related issues should no longer be siloed as special projects or limited to efficiency-related sustainability efforts.





Just as businesses should aim to break down sustainability silos within their own organizations so should they in buyer-supplier relations. Collaboration and acknowledging joint ownership and accountability for sustainability are key, and buying organizations should make sure they have a good understanding of their suppliers' motivations and concerns.

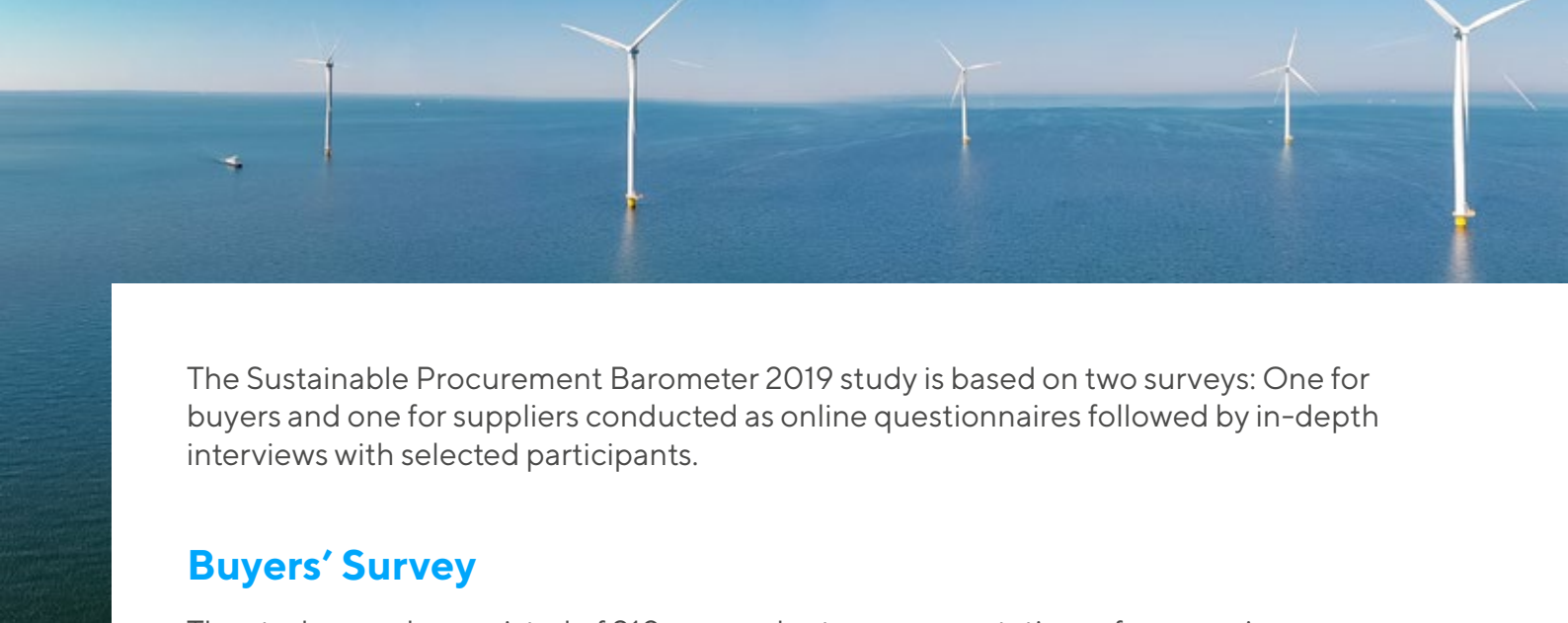
And what developments are we likely to see in the future? With businesses better able to track and monetize their sustainability work and demonstrate how it yields positive performance, procurement organizations are finding themselves in the driver's seat and are incentivized to reinvent themselves. Driving value "beyond cost savings" and inspiring engagement with the rest of the company may become the bread and butter of their function. For this to happen, though, they will need to break out of the *compliance mindset* and place sustainability at the core of procurement strategy.







# Methodology and Survey Participation



The Sustainable Procurement Barometer 2019 study is based on two surveys: One for buyers and one for suppliers conducted as online questionnaires followed by in-depth interviews with selected participants.

## Buyers' Survey

The study sample consisted of 210 respondents – representatives of companies located all around the world, employed in roles related to procurement/sourcing or sustainability/CSR.

The majority of respondents were based in Europe with particularly large representations from France (13 percent), Germany (8 percent) and the United Kingdom (7 percent). Respondents in North America accounted for 19 percent of the sample.

The study sample represented a variety of business sizes with 11 percent of the companies declaring annual revenue of over \$25 billion, 21 percent between \$5 billion and \$25 billion. Roughly the same proportion of companies (22 percent) had earnings of between \$1 billion and \$5 billion, followed by 13 percent of companies with income between \$500 million and \$1 billion. This year, for the first time, we had a significant response rate from companies with annual earnings of below \$500 million, who accounted for 33 percent of all the survey respondents.

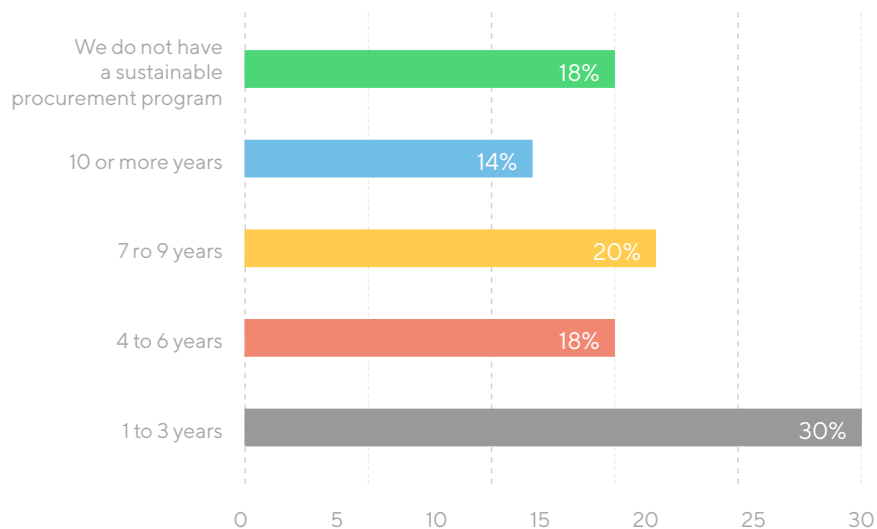
In terms of sectorial representation, companies were spread across all industries with a notably strong proportion of respondents (20 percent) in manufacturing. The only other sector that was represented as a two-digit proportion was the chemical industry at 10 percent of respondents.

Particularly noteworthy is the fact that nearly half of the companies (48 percent) had a sustainable procurement program running for less than three years or did not have one at all. A fifth of companies (20 percent) had had a sustainable procurement program in place for between four and six years, 18 percent for more than 10 years and 14 percent for between seven and nine years.





How long has your company had a sustainable procurement program in place?



## Suppliers' Survey

The supplier sample consisted of 399 companies. The vast majority of those were based in Europe (68 percent), with notably large representations from France, Germany, the United Kingdom, Spain and Scandinavian countries. Suppliers based in Asia accounted for 17 percent of respondents and those based in the Americas accounted for 14 percent.

Manufacturing was a particularly well-represented industry with half of respondents (51 percent) coming from this sector. The second largest was the chemical sector, with 21 percent of respondents. Others included transportation (8 percent), ICT/ Telecommunications (6 percent), Software and Technology (4 percent), Retail (4 percent), Consumer Packaged Goods (4 percent) and Healthcare (3 percent).

In terms of size, three quarters of the respondents (75 percent) were companies with annual revenues of below \$500 million. The remaining sizes were divided evenly with one-digit representations for each group, with the largest (9 percent) of companies with annual earnings of between \$1 and 5 billion.

## Follow-Up Interviews

Follow-up interviews were conducted with 17 respondents, who, in the initial survey, agreed to be contacted. The interviews lasted approximately 30 minutes each and explored questions related to the companies' sustainable procurement programs in general and their impact on other areas of business.

## About EcoVadis

EcoVadis is the world's most trusted provider of business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains. Backed by a powerful technology platform and a global team of domain experts, EcoVadis' easy-to-use and actionable sustainability scorecards provide detailed insight into environmental, social and ethical risks across 198 purchasing categories and 155 countries. Industry leaders such as Johnson & Johnson, Verizon, L'Oréal, Subway, Nestlé, Salesforce, Michelin and BASF are among the more than 55,000 businesses on the EcoVadis network, all working with a single methodology to assess, collaborate and improve sustainability performance in order to protect their brands, foster transparency and innovation, and accelerate growth. Learn more on [ecovadis.com](https://www.ecovadis.com), [Twitter](#) or [LinkedIn](#).

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[www.ecovadis.com](https://www.ecovadis.com)

## About NYU Stern Center for Sustainable Business

NYU Stern Center for Sustainable Business (CSB) envisions a better world through better business. Housed within the Leonard N. Stern School of Business at New York University, CSB works to ensure that current and future business leaders possess the knowledge and skills they need to embed sustainability in their core business strategy. In doing so, they can reduce risk, create competitive advantage, and develop innovative services, products, and processes—all while improving financial performance and creating environmental and social value. CSB's seminal programs include educational offerings on sustainable business, cutting-edge research on the drivers of better business behavior, outreach and thought leadership programming and career development support for students. CSB was founded in January 2016 by Tensie Whelan, the former President of Rainforest Alliance, who continues to lead it today.



Center for  
Sustainable Business

[www.stern.nyu.edu/sustainability](https://www.stern.nyu.edu/sustainability)

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