

ESG leadership:

How to be a facilitator of sustainability transformation

SPEND MATTERS BRAND STUDIO

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For most procurement professionals, recent disruption drastically changed the way business is done. An incredible opportunity for growth exists specifically within the ESG (environment, social and governance) space. Amid the Covid-19 pandemic, concerns about sustainability and ESG issues have been magnified, and these changes are here to stay. Companies are under unprecedented pressure from investors, shareholders and regulators to act sustainably and responsibly. Customers and employees have new and different expectations and are asking: What is your impact on our planet? What do you contribute to the communities within which you operate? How do you conduct yourself?

The ongoing supply chain crisis, born out of pandemic, war, politics, disasters, has opened business leaders' eyes to new ESG vulnerabilities in how their companies and suppliers operate. These leaders are relying on their procurement departments to increase visibility into their supply chains and drive ESG objectives.

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But the enablers of that transformation go beyond the technology that business functions are employing, like AP automation, e-sourcing and supplier management. Now, businesses need to streamline procurement, as well as figure out how to make ESG policies part of each department's strategy, not just a task that can be checked off a list.

The benefits of a robust ESG operation don't exist solely to help create some vague image of being "green." The real-world impacts are far-reaching and quick to be realized. Using fewer resources means spending less money overall. Fostering better relationships with suppliers means having a more resilient supply chain. Finally, gaining people's respect with your policies means better brand awareness and better performance in the marketplace.

In addition to being a digital transformation catalyst, the events of the past two years have opened the door for more consideration about their climate, social and supply chain impact. Investors, workers and the public are treating ESG and sustainability improvement more seriously than ever before.

Manufacturing (and R&D) industries (like Unilever, Johnson & Johnson, among many others), tech vendors (especially those enabling the procurement tech ESG agenda) and specialist communities (like the Sustainable Procurement Pledge) are traditionally recognized as the thought leaders in this area – less so the services industry. But the drive towards achieving ESG business goals goes further than technology implementation and policies. Successful transformation is leaning more and more on the process advice and experience that the consultancy firms are able to offer.

KPMG helps make the Procurement function a competitive differentiator, and a source of value and innovation. It assists clients in fulfilling their purpose, to achieve their ESG goals, and support the world's attainment of the UN Sustainable Development Goals. Its subject matter professionals help Procurement unlock new value to build a resilient business for a more sustainable future. So, we talked to them to get some deeper insights on what they are seeing from their customer base in this new and disruptive marketplace.

Toby Yu is a Procurement advisor, the leader of the Contract and Supplier Management offering at KPMG LLP and has extensive knowledge and experience of guiding businesses

through their transformational journeys. Since procurement works across all departments, we asked him about what ESG really means to the CPO, how they get started on tackling ESG goals, and the extent to which the department needs to transform to make ESG efforts succeed companywide.

How does the ESG business agenda really translate into procurement?

"Addressing ESG as a corporate priority has set-off what are arguably the most challenging transformation efforts for procurement organizations since their struggle to gain recognition as a corporate capability and a profession in general," he told us. "It brings into question procurement's purpose beyond cost containment, risk management and supplier onboarding."

"We believe that Procurement plays a vital role in ESG. Without it, it will be extremely difficult for companies to execute on any ESG strategy as much of the objectives are impacted by suppliers. But in order to do this, significant change is needed. It ushers in a shift in the procurement operating model related to talent/HR, business processes and the tools needed. But most importantly, it requires a different mindset and culture to succeed."

"Finally, it goes without saying, but procurement must have a 'seat at the table' to contribute to ESG strategies as they are being developed."

How will procurement teams have to change to help their companies embed ESG policies that are meaningful?

"We are seeing a major shift in procurement's role as companies seek to recover from the Covid-19 pandemic. Cost reduction is no longer the primary objective. It's been usurped by the need to quickly identify and onboard new sources of supply and talent to fuel the changes the business needs to address vulnerabilities as well as responding to changing consumer and employee demands identified during the pandemic. Supplier risk remains a top priority, especially as companies rely more and more on external third parties and technologies to enable their operations. As a result, we see CPOs shifting to more agile, data-driven,

collaborative and platform-enabled procurement and supply chain capabilities.”

“This trend should also be good for procurement leaders ready to tackle ESG. We foresee that successful companies will shape policies that encourage and reward procurement professionals and suppliers who collaborate to drive sustainability objectives AND achieve financial performance objectives. The focus should be on embedding ESG within role descriptions and incentive structures for professionals within the procurement organization, which could include ESG ratings within the evaluation criteria for RFPs or giving buyers permission to forego potential savings in favor of a proposal offering better ESG options, such as a reduction in Scope 3 supply chain emissions. The other factor here is incorporating ESG into supplier discussions, incentivizing transparency and working to reduce risk.”

Are younger firms more likely to succeed at ESG practices?

“This is a tough one. I will attempt to answer this without setting off a generational battle!”

“On one hand, I believe younger companies that embrace ESG at its core from inception are likely to be at an advantage today. I suspect that ESG will be an important factor in consumer behavior for years to come. As a result, those that instill ESG into their DNA at the onset will likely face less change ahead. Case in point, imagine if sustainability were core to a company’s product design and corporate mission, as with the New Zealand-American footwear company Allbirds (BIRD). Allbirds is unique in that it certified B Corporation, which requires a private certification of **for-profit companies** of their “**social and environmental performance.**” I think this is a big advantage versus having to shift a product and design teams towards a more sustainable path. There are a lot of potential trade-offs to consider and likely many changes in the supply chain.”

“On the other hand, established companies have the opportunity to show they are listening and respond to the market shift in bold and transformative ways. There really

isn’t a choice given that more established companies are likely to be exposed to ESG risks. It’s a matter of survival given the trend we are seeing from investors, customers and employees around ESG. Retooling around ESG will be a bigger challenge no doubt, but what more established companies have is resources and experience compared to younger companies. I like to think those two things can have a lot of impact given a dedicated focus such as Nike’s “Move to Zero” approach to sustainability.”

“Either way, social media trolls will not be kind to companies that treat ESG solely as a marketing or ‘check the box’ activity that they may have got away with previously. It’s fascinating to see the dramatic changes that are unfolding in front of us.”

Is there a technology or capability you could foresee helping procurement and the C-suite rise to the ESG challenge?

“The first step before we can solve problems or attempt transformation is to have robust and accurate reporting on the current state of the supply chain. So, it’s no shock that this is where most of the technology capabilities are focusing and need to continue focusing in order to increase businesses’ ESG visibility and agility. I would like to see more platforms integrating third-party data sources directly into the existing user interfaces to make ESG a part of their standard procurement processes. Regardless of what platforms people are on, it would also be beneficial to have open-source data to aggregate across platforms. Finally, peer comparison, to make what is possible known and embolden companies to push themselves harder towards ESG goals.”

While the awareness of the need to act on ESG goals has dramatically increased over the past few years, it has left some procurement organizations, especially those later to the game or less agile, wondering how they even get started or where to seek help, particularly if the leadership team is not be fully invested.

So as a final thought, we asked him:

How should companies get started with measuring their ESG efforts?

"To get started, I'll offer 7 steps to get your ESG program moving:

1. Build your team:
 - ◇ Align procurement strategy with sustainability strategy
 - ◇ Bring cross-functional leaders needed to succeed
2. Set your vision:
 - ◇ Understand what ESG priorities are most important to you and why
3. Understand your current state and establish a baseline:
 - ◇ Segment your suppliers across spend categories and map them to relevant ESG initiatives (e.g., Scope 3 GHG categories)
 - ◇ Leverage your spend data to do an initial calculation and assess your baseline impact
 - ◇ Estimate potential targets
4. Develop a data and reporting strategy:
 - ◇ Define critical data sources needed to support ongoing management
 - ◇ Identify technology capabilities needed to enable efficient data transfer across the supply chain and to capture, report and monitor ESG performance
5. Upskill your organization and your suppliers:
 - ◇ Engage and educate employees and suppliers:
 - to understand the company's position on ESG and their role in achieving targets
 - to understand how to calculate and report ESG data, specific levers to achieve ESG objectives, procurement impacts and incentives/support
6. Identify most impactful suppliers:
 - ◇ Map your supply chain flows to identify target suppliers for your specific ESG needs and support them in the development of a robust, measurable plan
7. Establish a supplier engagement strategy:
 - ◇ Engage with your suppliers to collaborate on joint ESG objectives, targets and timelines

The subject of ESG is very wide-reaching, and targets are invariably driven by regulations, which are only set to increase. Many, less agile, firms will struggle to adapt. So KPMG is on a mission to humanize those targets and what they mean for procurement. In part two, we'll be drilling down, with additional insight from Manpreet Singh at KPMG, into one of the hottest ESG conversations that KPMG is hearing from the market right now – decarbonization.

This Brand Studio post was written with KPMG, for more information visit [Procurement and Outsourcing Advisory Services \(kpmg.us\)](https://www.kpmg.us/procurement-and-outsourcing-advisory-services)

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