

WBCSD Future Leaders Team (FLT) 2011



Why procurement professionals should be engaged
in supply chain sustainability



“The Future Leaders Team is an unparalleled learning experience for young managers of WBCSD member companies. They have the opportunity to understand the benefits of why sustainability matters to business and to develop a solid international and professional network. Sustainability is complex subject in some cases, and it is therefore crucial for multinational companies to enrich their work with other companies’ experiences through collaboration.

FLT 2011’s theme was sustainability in the supply chain, which is increasingly considered as an area of direct responsibility for companies. The following report reflects FLT’s peer learning experience and team work. This is not the work of experts or consultants. Rather, the three managers from DuPont China, Holcim and Lafarge, took this opportunity to engage with key people across functions and geographies within their companies. In doing so, they have deepened their understanding

of common challenges – across sectors – and shared best practices. Above all, they experienced what is recommended here: engaging people in sustainability. I am convinced that they brought back valuable knowledge and information to their jobs.”

Congratulations to Eugenia Ceballos, John Zhao, Baptiste Raymond, and to all participants of the Future Leaders Team 2011!



Kareen Rispal,
*Lafarge Senior Vice President,
Sustainable Development
and Public Affairs*

1. Why procurement functions should be engaged in sustainability for their supply chain:

1. Procurement departments are at the core of efforts to drive sustainability in the supply chain.

Supply chain sustainability can be defined as “the management of environmental, social and economic impacts, and the encouragement of good governance practices, through the lifecycles of goods and services.”¹

The objective of supply chain sustainability is to create, protect and develop long-term environmental, social and economic value for

¹ Definition for “supply chain sustainability” from the United Nations Global Compact and BSR publication “Supply Chain Sustainability: A Practical Guide for Continuous Improvement”

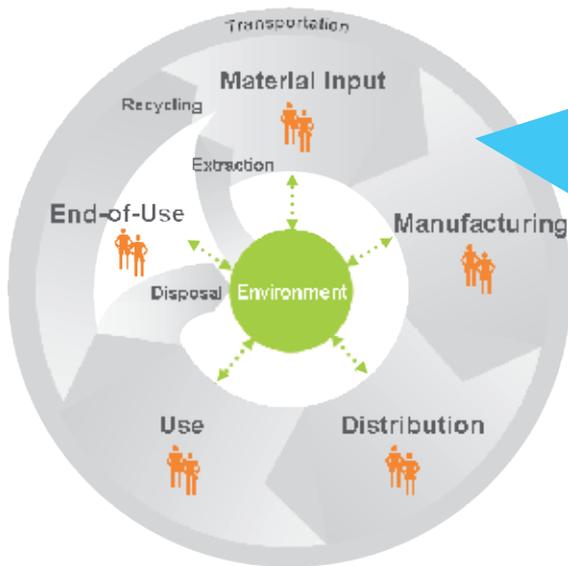
all stakeholders involved in bringing products and services to market.

We believe that a sustainable supply chain can drive competition and profit, and is a great opportunity to make a difference to companies, communities and the environment, beyond the scope of their operations. Supply chains are, first and foremost, a set of intertwined relationships between participants. Therefore, people are the key links within the chain, and need to be engaged. Moreover, procurement teams have a key role to play in a sustainable supply chain, because they are in charge of managing the interaction between the company’s operations and its suppliers.

2. The business case for engaging procurement departments around sustainability:

The results of our interviews demonstrated that in order for procurement teams to be engaged effectively, they need to understand the business

Environmental, Social, and Governance Impacts in the Supply Chain.



At every stage in the life-cycle of specific products there are social and environmental impacts, or externalities, on the environment and on people. In addition, governance, or the accountability of organizations to their stakeholders for their conduct, is important at every stage and throughout the supply chain.

- **Protect company reputation:** by doing business with suppliers that have similar social responsibility and environmental standards.
- **Drive down costs and generate value for business and society:** by working with suppliers to improve their sustainability performance. This could result in lower cost for the company, and an optimized footprint for the community (e.g. energy efficiency initiatives, sound water management, increased labor productivity, etc.).

case for sustainability in the supply chain. From our experience, the key elements to consider when building a business case for a sustainable supply chain are the following:

- **Assure continuity of supply:** by looking for substitutes for scarce resources, engaging suppliers in sustainable relationships, and/or optimizing logistics.

- **Contribute to sustainable life-cycle of procured goods and services:** from responsible sourcing, production, and consumption to disposal/recycling processes.

The majority of these areas for a business case are based on a risk management approach. At this time, we have not been able to identify other incentives for the sustainable supply chain, such as proof of customer willingness to pay a premium for sustainably sourced products.

Case study

Transportation in Sub-Saharan Africa – interview of Jean Hanoteau, Lafarge Vice President for purchasing in Sub-Saharan Africa.

- **Context:** For Lafarge in Africa, transportation costs are often extremely high, due to poor infrastructures, long distances to fragmented markets, and little efficiency/poor maintenance of vehicles by subcontractors and suppliers. Moreover, transportation is typically assured by local suppliers. It represents a great risk for health – high pollution and nuisance (sound, dust, emissions, etc.) – and safety (for instance, a lot of accidents, or people injured when trucks cross villages).
- **Project:** Educate drivers, and provide on-site vehicle maintenance.
- **Business case:** Reduce health and safety risks, decrease pollution and associated nuisances, and increase the reliability of supply. By doing so, Lafarge also contributes to local economic development. Indeed, more reliable supply means longer-term contracts and more revenue for drivers, who can expand their business. In addition, clean branded trucks, driven by drivers respectful of road safety rules, enhance the company image.
- **Insight:** Addressing recurrent, presumably procurement-specific issues can have large sustainability implications. Each of those implications must be understood, and all benefits of the project should be exploited.

3. So far, procurement departments have had relatively less exposure to sustainability:

According to a recent McKinsey survey,² many companies are actively integrating sustainability principles into their business and across many processes. The most integrated area is mission and values, followed by external communication, while the least integrated areas are supply chain management and budgeting. From this study, we infer that the integration of sustainability by companies has been focused on principles, rather than processes.

In addition, we consider that the integration of sustainability issues into business can follow two main channels; functional integration, or direct people engagement. The results of this study convey that both the functional integration of sustainability in supply chain management and employee engagement in general, are lagging behind.

Therefore, we believe that there is still much potential to further drive integration and increased value creation, by engaging people in procurement functions in sustainability issues for their supply chain. From a sustainability standpoint, benefits can be substantial, as the area of corporate responsibility will be pushed even further, beyond the scope of operations and products.

Widespread integration

% of respondents, n = 2,956

Business processes into which sustainability has been completely or mostly integrated



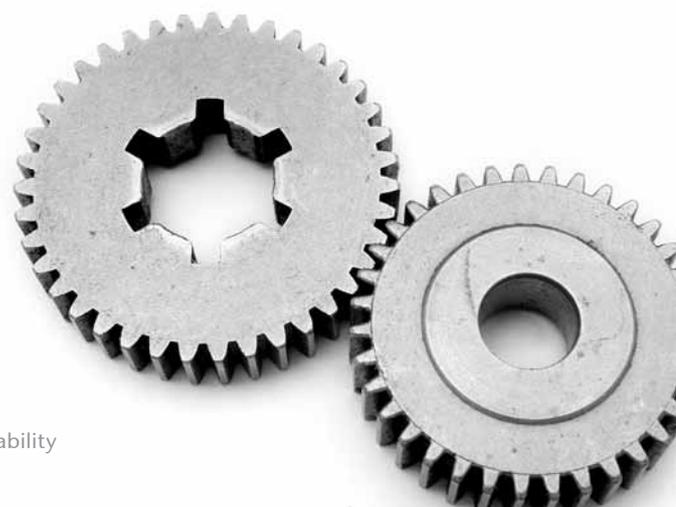
II. How to engage procurement functions in sustainability for their supply chain:

1. The experiences of DuPont in China and Lafarge in Sub-Saharan Africa:

Our interviews showed that multinational companies can leverage their international experience and exposure in order to facilitate the engagement of their local procurement teams, especially via:

- A global vision that provides benchmarks: to help procurement teams to evaluate the sustainability of their supply chains, and thereby build a local robust business case for supply chain sustainability.
- Company-wide initiatives: measuring the ecological footprint of products, optimizing global procurement processes in order to decrease their costs, introducing sustainable development criteria in contracting policy, etc.
- An integrated approach to create virtuous cycles: multinational companies can leverage their local exposure to drive R&D efforts towards products that encourage more sustainable sourcing.
- Education and training of local procurement teams. It is worth considering having specific personnel in the procurement department to focus specifically on sustainability aspects of sourcing, in order to drive the effort more vigorously.

² The online survey was in the field from July 12 to July 22 2011 and received responses from 3'203 executives representing full range of regions, industries, tenures, company sizes and functional specialties. Source: McKinsey & Company



Experience sharing: DuPont China, Beijing Office

- Context: China is a very competitive business environment, where suppliers are struggling for survival and cost control. At the same time, DuPont China's procurement department is first and foremost, cost-oriented and quality-focused, rather than concentrated on sustainability issues. In addition, it lacks bargaining power to require its suppliers to adopt sustainable business practices.
- Project: When they decided to build their Beijing Office, DuPont China required that its suppliers change their materials and processes, to make it safer and more environmentally friendly. DuPont paid the extra cost.
- Business case: Increased brand and customer recognition for DuPont China. Its suppliers gained new experience in developing sustainable products, resulting in increased quality of supply for DuPont China.
- Insights: DuPont leveraged its multinational experience, and brought its know-how in sustainability, as well as health and safety, to the Chinese market. To be able to do that effectively, they had to build the capacities of the locally-hired procurement team; by means of sustainability training sessions and awareness-raising. Suppliers were motivated to take an active role in the project, because they had incentive to expand their business. They needed to master sustainability best practices (especially across the borders of China) in order to grow.

2. Involving procurement teams in assessing the sustainability of their supply chain:

The experience of DuPont in China shows us that, in order to effectively engage procurement functions, one has to be able to assess the sustainability of their supply chain. Companies tend to adopt three main approaches for assessment.

A. Audits:

Firstly, companies can audit their suppliers on several categories related to sustainability (environmental footprint, labour practices, etc.). For example, Lafarge mandated an international audit firm to assess the sustainability of coal mines that were supplying Lafarge in Indonesia. The objective of this audit was to draft an action plan to ensure that the coal mines were abiding by local laws, and Lafarge internal code of conduct. Practices were assessed in six areas; actual compliance to local laws and standards, labour rights, health and safety, the environment, anti-corruption, and management of suppliers and contractors by the mines. These types of audits are thorough, and facilitate the deployment of action plans, because they follow a principled approach. However, they are also quite costly and consume many resources, therefore making them harder for companies with a large base of suppliers to implement. Moreover, audits are often carried out in reaction to a threat, as forward costs for audits may be harder to justify.

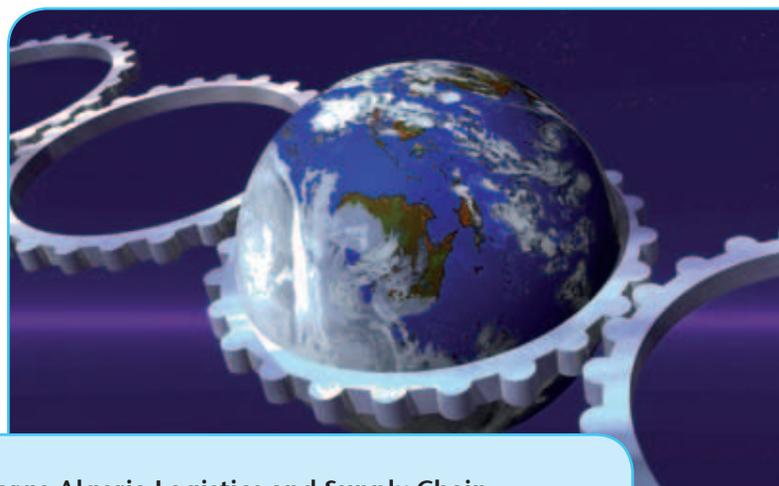
B. Sustainable supply chains charters:

A second approach, favoured by Holcim or Umicore, for example, consists of defining minimum sustainability requirements expected from suppliers, in alignment with the company's values, and in cross-functional collaboration between corporate sustainable development and procurement teams. It can result in a sustainable procurement charter destined for suppliers who must abide by it in the contract phase, and for local procurement teams who can assess their practices. For instance, Umicore's Sustainable Procurement Charter addresses (i) environmental issues, (ii) social conditions (labour, wages, Human Rights...), (iii) fair business practices (corruption and competition), (iv) whether or not suppliers themselves have a sustainable supply chain. Such an approach is quite comprehensive, and can contribute to building a company's culture, reputation and brand around sustainability issues. However, it lacks a third party assessment of practices.

C. Scorecards:

The third approach is risk-based. In collaboration with Ecovadis, a consultancy working with procurement departments to develop a scorecard approach to assess their supply chain sustainability, Lafarge identified “risky families of suppliers”, from a sustainability standpoint, and concentrated its actions on those. Ecovadis’ risk-mapping tool enabled Lafarge to quantitatively assess the value-add of a sustainable supply chain and thus facilitate internal buy-in. Similarly, Umicore identified 127 critical suppliers based on (i) their spending volume, (ii) their country of operation, (iii) the kind of material they are providing, (iv) the extent to which they are critical to Umicore’s production process. Such an approach is likely to be very efficient, but incomplete by nature.

There is no “silver bullet” when it comes to assessing supply chain sustainability. A winning approach might combine the ones described above, although sector-based approaches should also be considered. The latter have two key benefits; they establish a sector standard, ensuring both credibility of the sustainable development approach and a level-playing field for companies in that sector, and they are both cost and time efficient for both procurement and suppliers. Indeed, multinational companies in a given sector are likely to have many suppliers in common, and it is unnecessary to complete an audit several times about similar issues, or to assess sustainability risks twice.



Experience sharing – interview of Iqbal Omar, Lafarge Algeria Logistics and Supply Chain Management Director:

- Context: Doing business in Algeria is a tricky undertaking due to the relatively unstable political situation, and the suppliers’ and subcontractors’ lack of capacities.
- Project: Lafarge’s business unit in Algeria is currently implementing a Contractor Management System. This database, including all of Lafarge’s suppliers, enables the local procurement team not only to monitor and verify the quality of their work, but also to identify where practices can be improved. It spans across all issues, and includes environmental, health and safety criteria.
- Business case: In addition to building long-term relationships with suppliers, a contractor management system simplifies the bidding process, enhances the reliability and efficiency of the supply chain, and ensures sustainable practices from the beginning.
- Insight: Effective engagement of procurement teams can be achieved by embedding sustainability criteria in the regular procurement process.

3. Engaging internal stakeholders:

Global procurement teams need to engage procurement departments locally, and to coordinate their action with corporate sustainable development teams; they also need to obtain the support and sponsorship of the company's leadership, at Executive Committee level.

A. Engaging top management:

A successful sustainable supply chain implies a culture change in the company. Therefore, top management should be the first group engaged in the chain, because they steer the company culture and values.

Experience sharing – Holcim:

- When Holcim embarked on a sustainable procurement journey, its top management expressed their concern with implementation issues, and implications for the business. In order to fully engage top management, an approach was needed that reflects an adequate risk level, minimizing reputational risk, and ensuring supply continuity, while allowing a smooth operation in business units around the world. Key challenges in doing so included:
- Finding the right balance between the level of risk accepted, versus the workload related to the risk management process.
- Defining valid global requirements at the corporate level for all business units located in all countries where Holcim has presence around the world.
- Defining a decision tree to decide whether suppliers should be replaced, or a mitigation plan should be implemented, and furthermore, whether Holcim should be involved in supplier development.

B. Engaging procurement at corporate level:

Corporate procurement deals with global and regional suppliers. Often, those suppliers are also big corporations with a sustainable agenda. However, engaging corporate buyers requires communication and education on the sustainability impact of the actions derived from their global or regional practices. Raising their awareness is only one face of the coin. It is important to provide them with processes, methods and tools to mitigate the impact of their actions (e.g. Contractual Terms and Conditions with clauses related to sustainability; Supplier Code of Conduct; Supplier Assessment...) and to involve them in the development of a sustainable procurement approach through continuous communication.

Experience sharing – Holcim and DuPont

At Holcim, training on sustainable procurement will be the first step towards implementing the recently designed sustainable procurement approach.

At DuPont, the sustainability department and the procurement department are working together to design a systemic approach in order to educate and screen suppliers on sustainability issues.

C. Engaging procurement at business unit level across regions:

The biggest challenge in this corporate journey is to engage local business units whom, on many occasions, feel that the corporate function is far removed from their local needs. A key success factor is to involve them in the development of the corporate initiative, and to incorporate their lessons.

At Holcim, selected representative business units were involved to provide feedback and share their learning in this field. They were also involved in testing and piloting some methodologies defined for the program. A series of interviews were conducted with procurement officers from selected business units across the regions, to better understand their local priorities in this field. Likewise, the initiative was communicated to all business units during the global procurement forum.

D. Measuring performance:

Measuring the impact of the above listed engagements will determine the success of the initiative.

It is important to develop measurement indicators that fit company values, and reflect the benefits delivered, as defined in the business case.

At Holcim, a Sustainability Scorecard is being developed to measure and track not only the performance of the identified suppliers, but also the performance of local procurement teams, who are responsible for managing and mitigating the sustainability risk.



Conclusion: Key Lessons

- In order to successfully implement a sustainable supply chain culture in a company, a holistic approach needs to be followed and combined with practical and efficient implementation.
- The holistic approach should be founded on company values, and it should clearly state company expectations with regards to sustainability.
- Practical and efficient implementation must be founded on a business case for sustainable value chains, which primarily addresses risk management issues.
- People at each step of the chain have to be engaged and educated, from top management, operations, procurement, to the suppliers. It is a cross-functional and cross-companies (suppliers) exercise.
- Processes, methods and tools needs to be made available to drive an efficient implementation which does not interfere with company operation, while ensuring sustainability requirements.
- Performance measurement systems need to be put in place, to track the level of engagement as well as benefits delivered.
- Engaging procurement departments on sustainability in the value chain is not a one- shot initiative; long-term, continuous education and communication are essential, in order to embed the sustainable supply chain within the company culture.

About the World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment. Together with its members, the council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action. Leveraging its strong relationships with stakeholders as the leading advocate for business, the council helps drive debate and policy change in favor of sustainable development solutions.

The WBCSD provides a forum for its 200 member companies – who represent all business sectors, all continents and a combined revenue of more than \$7 trillion – to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The Council also benefits from a network of 60 national and regional business councils and partner organizations, a majority of which are based in developing countries.

www.wbcSD.org

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Disclaimer

This project falls under the umbrella of the World Business Council for Sustainable Development Future Leaders Team 2011. The statements in this report are solely the opinions of its authors, and do not reflect their respective companies' views in any way.

This project is the outcome of one of the WBCSD Future Leaders Team 2011 group projects as part of their learning journey. It does not represent a policy or a position of the organization. It is not promoting nor validating any particular approaches or tools.

This report tackles the opportunities relative to engagement by procurement departments on sustainability in the supply chain. We have conducted interviews of managers within our companies, and deliberately chose to work from those first-hand experiences and perceptions of sustainability in the supply chain.

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