

The sustainability imperative



An agenda for change ►

Professor Omera Khan

Contents



A time for action

► Sustainability is a major issue—for me, for you, and for the planet. There is no lifeboat; there is no fallback plan. Collectively, we have to get sustainability right. And make no mistake: procurement operations and supply chains are in the front line.

Consequently, I and the research team at Skill Dynamics surveyed over 200 supply chain and procurement professionals on both sides of the Atlantic, probing for details of their organizations' sustainability initiatives, practices, policies, and barriers they may be experiencing with progress.

Likewise, we talked to experts in the field of sustainability—author, consultant, and circular economy campaigner Catherine Weetman and environmental and sustainability consultant Karin Ekberg, to name just two. Where does progress towards great sustainability stand, we asked? What is holding it back? And what could organizations do about it?

The result is this paper, which comprises a unique insight into the state of sustainability, in 2022. So if sustainability matters to your organization—or to you personally—then you've come to the right place to find out more.

Professor Omera Khan
Executive Strategic Advisor



Introduction



► For a variety of reasons, sustainability—the art (and science) of living within our means, environmentally speaking—is rising up the corporate agenda. And it’s not difficult to understand why.

Organizations’ customers—both consumers and fellow corporates—are pressing organizations to improve their sustainability performance, and investors are doing the same. Governments are tightening their sustainability mandates. And boards of directors are all too aware of the reputational damage that adverse publicity can produce.

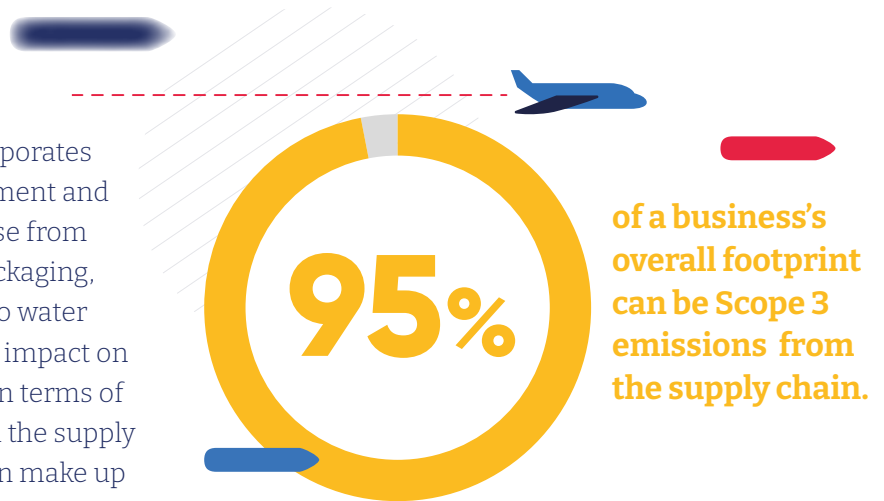
Carbon emissions, waste reduction, water usage, recycling, eliminating single-use plastics, reduced energy consumption, reduced packaging—these and more have consequently become pressing concerns.

And in responding to these concerns, corporates are increasingly turning to their procurement and supply chain organizations. Why? Because from carbon emissions through to reduced packaging, and from the circular economy through to water use, organizations' suppliers have a huge impact on businesses' sustainability performance. In terms of CO₂ emissions, for example, emissions in the supply chain—so-called 'Scope 3 emissions'—can make up as much as 95% of a business's overall emissions footprint.

So harnessing an organization's procurement and supply chain teams to the task makes evident good sense: these are the parts of the organization with the greatest exposure to—and interaction with—those suppliers. Equally, too, it is procurement and supply chain teams that typically serve as the communications conduit between suppliers and their organizations' own designs and development teams – the people charged with designing (or re-designing) products to make them more sustainable.

Nor is the motivation behind greater sustainability one that is solely altruistic, says Catherine Weetman, the author of *A Circular Economy Handbook* and host of the *Circular Economy Podcast*, which helps businesses and community groups find ways to be more resilient, sustainable and future-fit. Self-interest, she points out, is also at work: if businesses don't become more sustainable – their survival may be threatened.

“The planet is heading for multiple tipping points that pose major risks to businesses in terms of resource constraints and resource availability, such as lithium and rare earths. Climate change is another risk for key materials and foodstuffs: natural rubber, for instance, is under threat.”



So again, it makes sense for organizations to initiate actions to protect those resources, in order to provide continued access to them. And equally, procurement and supply chain organizations have an obvious role to play.

“These days, sustainability has very much entered the corporate narrative,” sums up Ed Weenk, senior lecturer in supply chain management at Maastricht School of Management. **“Few companies are in denial about sustainability: the issue is how honest they are in espousing meaningful remediating actions, and actually doing something, rather than just talking about it. The charge is that some organizations are engaged in ‘greenwashing’.”**

Consequently, this paper probes the present-day state of progress in those corporate sustainability agendas. What have businesses achieved, from a sustainability perspective? What is still on the 'to-do' list? What are the barriers to further progress? And how might they be overcome?

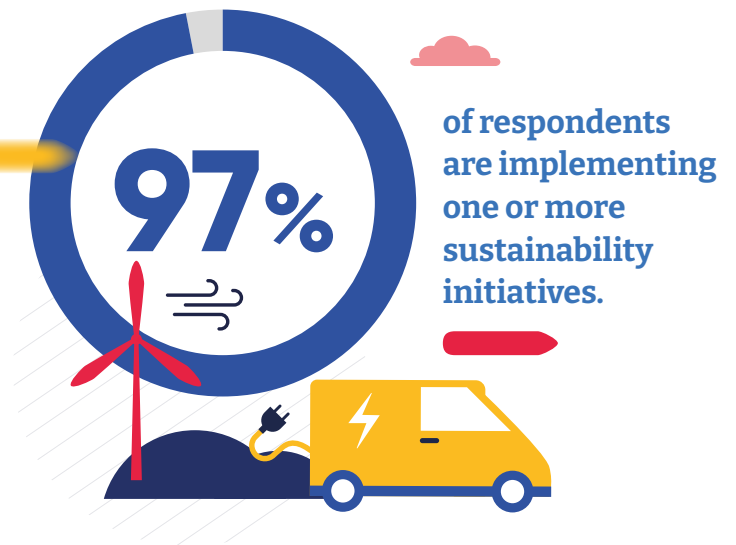
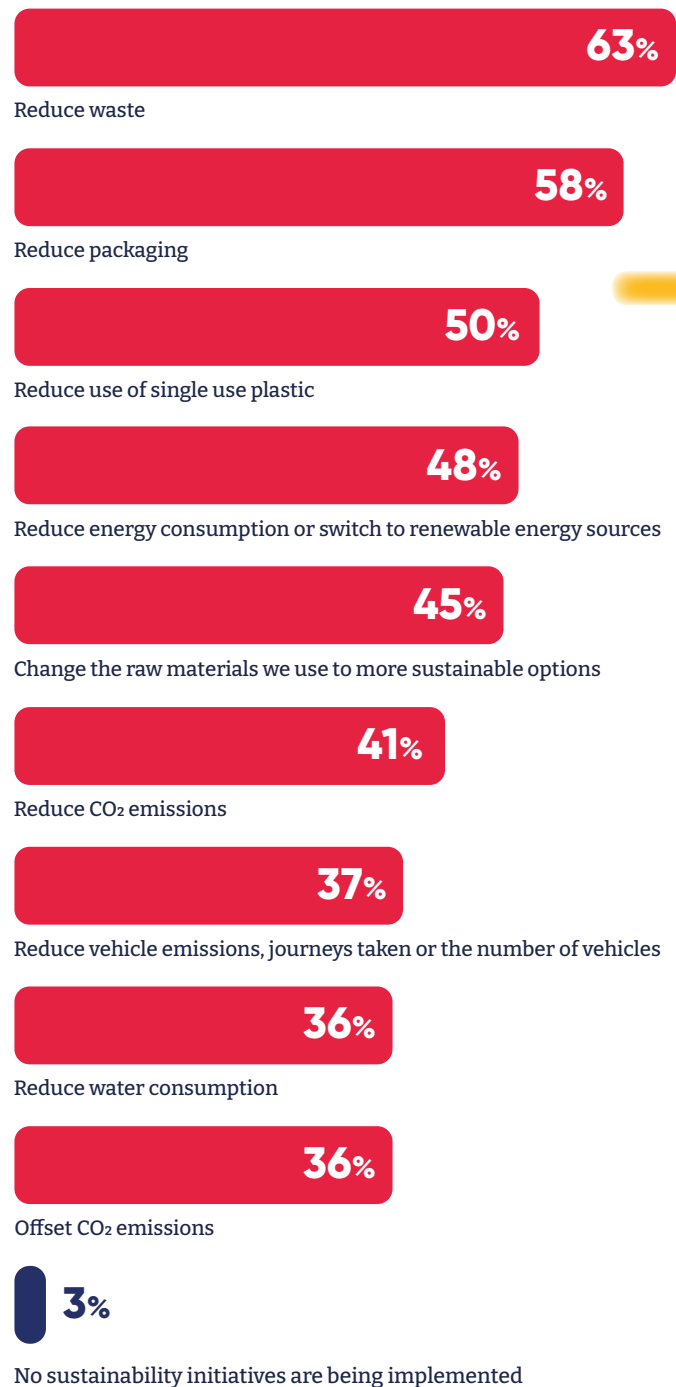
Taken together, the result is an incisive insight into organizations' sustainability endeavours: how far they have come, what is holding them back, and what actions procurement and supply chain professionals can take to boost their organizations' sustainability performance.

The state of **play**



► So what are organizations actually doing? According to our research, organizations are undeniably going beyond surface level sustainability.

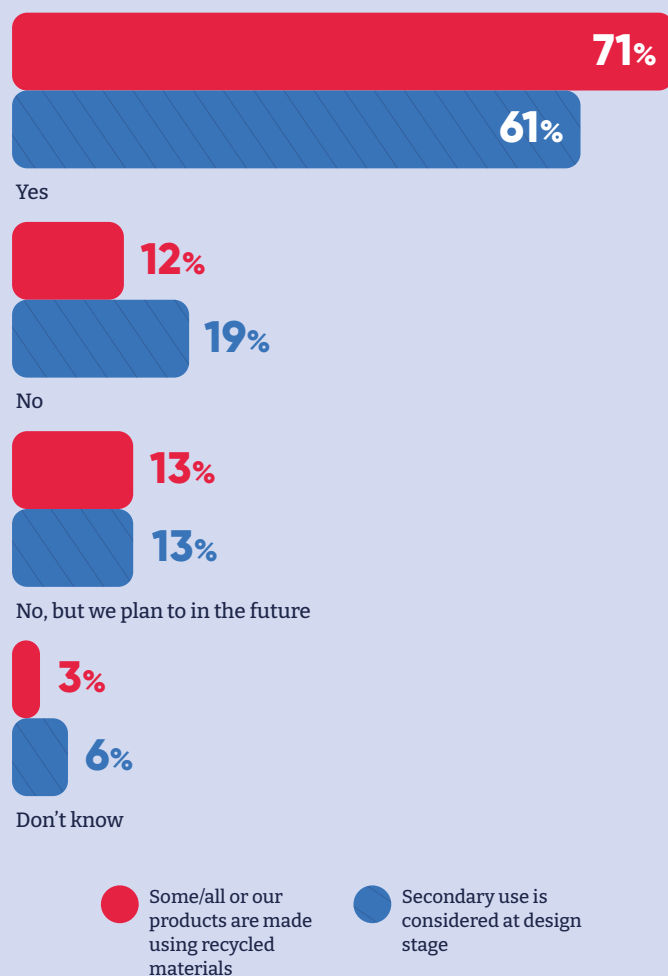
What sustainability initiatives, if any, are you implementing?



97% of respondents' are implementing one or more sustainability initiatives, with each typically implementing around four, on average. This is clearly encouraging. Less heartening however is that almost two-thirds of organizations—59%—do not have CO₂-reducing initiatives in place. Granted, they are moving forwards on other fronts—waste reduction, eliminating single-use plastics, and reducing packaging, for instance—but, given the prominence attached to CO₂ emissions reduction by sustainability campaigners and environmental scientists, the low number of these initiatives is concerning. Are organizations 'picking what suits them', or are the barriers to CO₂ emissions reduction a significant hurdle? So far, the answer isn't clear.

Encouragingly, too, significant numbers of organizations have in place sustainability-boosting practices based around ‘circular economy’ principles. 61% of respondents reported that secondary use was considered at the product design stage—that is, designers were actively considering how products and component parts could be re-used, making it easier for supply chain and procurement professionals to deliver on the sustainability agenda. In addition, 71% of respondents report that some or all of their organization’s products were made using recycled materials.

Has your organization adopted any of the following circular economy practises or principles?



That said, it’s very clear that there is still progress to be made: while such figures are encouraging, it is disappointing to not see more companies recognizing the importance of sustainable design with just under a third still not considering secondary use at the design stage. Designing for greater sustainability should not be a ‘tick box exercise’ or ‘greenwashing’ for a corporate sustainability report, but rather a shift in the business mindset.

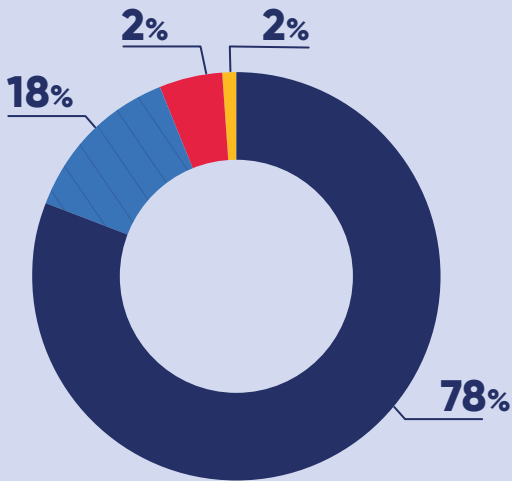
Our observations:

“ Just 41% of respondents reported having initiatives in place to reduce CO₂ emissions. Are businesses really trying to be green—or are they picking and choosing easy-to-do sustainability initiatives that will look good, but not necessarily achieve much. ”

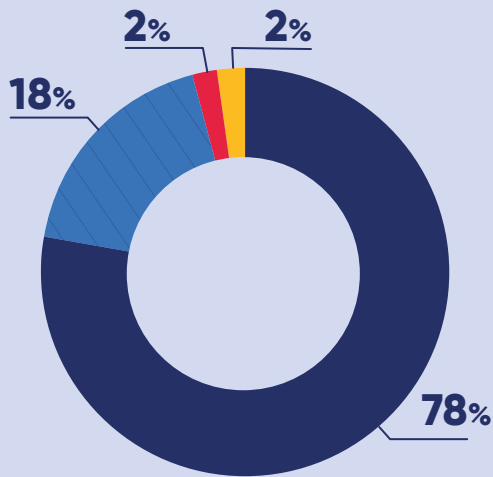
Sam Pemberton
CEO, Skill Dynamics

Moreover, the procurement and supply chain professionals surveyed appeared to feel very comfortable playing a key role in their organizations' sustainability initiatives and practices. They are also confident in their ability to develop sustainability strategies, set targets and roadmap change with 81% of respondents feeling energized by the opportunity to improve the sustainability of their organization, and 78% feeling confident setting realistic targets for sustainability initiatives.

I feel energised by the opportunity to improve the sustainability of my organization



I feel confident setting realistic targets for sustainability initiatives



● Agree ● Neither agree or disagree ● Disagree ● N/A

Sustainability initiatives are in place; circular economy practices and principles are baked into the organization; and procurement and supply chain professionals seem at ease in those roles that they play in bringing all this about. A reassuring picture, surely?

Up to a point, yes. But here's the challenge: are those initiatives, practices and principles adequate enough? Are the steps that organizations are taking going far enough? That is, if 'far enough' is defined from the point of view of the planet, and the actual needs of the environment? In short, are those initiatives, practices and principles the correct initiatives, practices and principles—and are they sufficient to address the sustainability that the world faces?

Our observations:

“But are those initiatives, practices and principles adequate enough? Organizations might be taking steps—but are those steps going far enough? Where 'far enough' is defined from the point of view of the planet, and the actual needs of the environment?”

Sam Pemberton
CEO, Skill Dynamics



Barriers to progress



► So what is holding organizations back?
More specifically, perhaps, what is holding procurement and supply chain professionals back from adopting more-demanding sustainability initiatives, derived from science-based targets?

Business models prioritize profit over planet

Arguably the greatest challenge is that the economic system in which organizations operate generally places an inadequate premium on sustainability. Businesses and the people within them are incentivized to create and produce more—to grow revenues and profits, in short.

Yet from a sustainability perspective, they should often be doing the opposite, points out **Shaun West**, professor of product service system innovation at Lucerne's University of Applied Sciences and Arts.

“Traditionally, it’s always been easier to throw stuff away rather than invest time, energy and money in finding out how to recycle or re-use it. The whole economic system needs to be geared around reducing consumption, and re-purposing waste streams.”

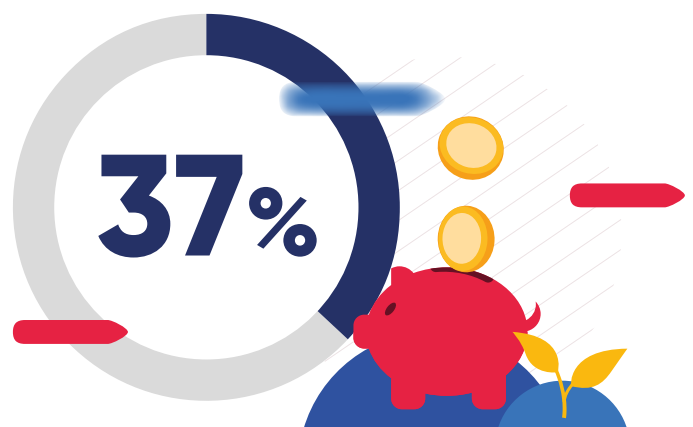
Pamela Ravasio, head of Shirahime, a boutique ESG consultancy, and an interim chief sustainability officer for organizations, agrees and points out that organizational measurement systems and incentives are too closely linked to increased consumption. Choices and decisions are on price or profit, rather than on what is sustainable over the long term.

“Sustainability isn’t central enough to how organizations operate, with investors rewarding growth and profitability, rather than sustainability. Until that changes, organizations—and the people within them—will always face barriers to adopting sustainability initiative,” she sums up.

Sure enough, confirmation that this dichotomy does indeed impact procurement and supply chain professionals is seen in the survey data. Well over a third (37%) of respondents reported that their organizations are habitually accustomed to prioritizing cost over sustainability in their decision-making. Further, 31% of respondents reported conflicting organizational objectives, with a focus on driving efficiencies and growth rather than improving sustainability.

Organizational inertia

With a business model that prioritizes profits over the planet, financially-centric metrics naturally tend to dominate the workplace. However, these can serve as a barrier to undertaking investments in sustainability improvements—because predicting the ROI of productivity and cost-reduction improvements is easier than predicting the ROI of sustainability initiatives, especially when intangible gains are concerned. The result is organizational inertia, potential sustainability initiatives get bogged down in a measurement and approval framework that renders investing in improved sustainability more difficult.



of respondents reported that their organizations are habitually accustomed to prioritising cost over sustainability.

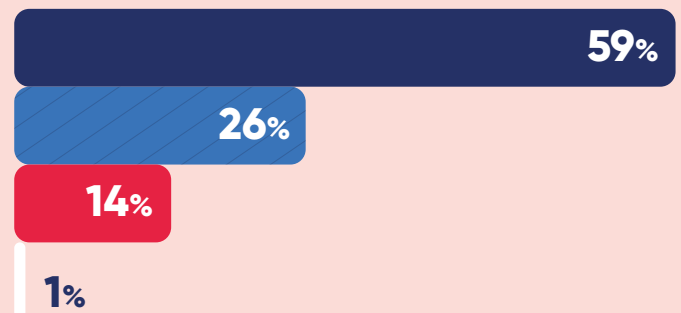
The evidence is damning. 59% of respondents agreed with the statement that 'it's easier to focus on cost saving than sustainability improvements'; 57% of respondents agreed that 'Prioritizing sustainability above cost in decision-making is difficult because the benefits are hard to track'; and 59% of respondents reported that 'leaders will only approve sustainability initiatives with a clear ROI'.

Clearly, while many sustainability-enhancing initiatives will have a tangible ROI—reduced energy use, or reduced packaging, for example—it would be naïve to imagine that every sustainability initiative will have such an ROI. And when initiatives don't have that ROI, the evidence suggests that they will struggle to gain traction.

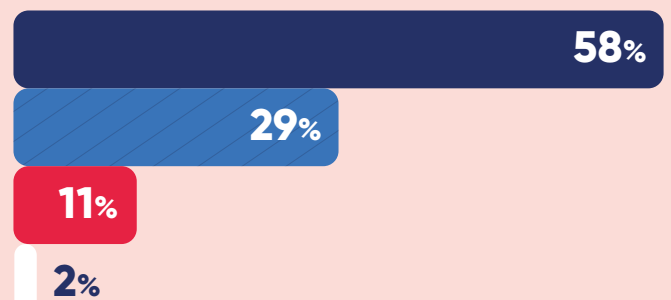
Ownership and accountability

Quite apart from any consideration of ROI, another barrier to sustainability improvements is that significant numbers of organizations do not even have targets for the initiatives that they are implementing. Just 54% of respondents reported that their organizations had clear targets for all their sustainability initiatives—despite the fact that 97% of respondents' organizations were undertaking sustainability initiatives.

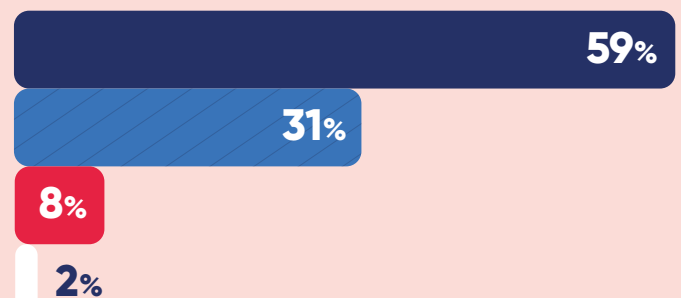
To what extent do you agree/disagree with the following statements?



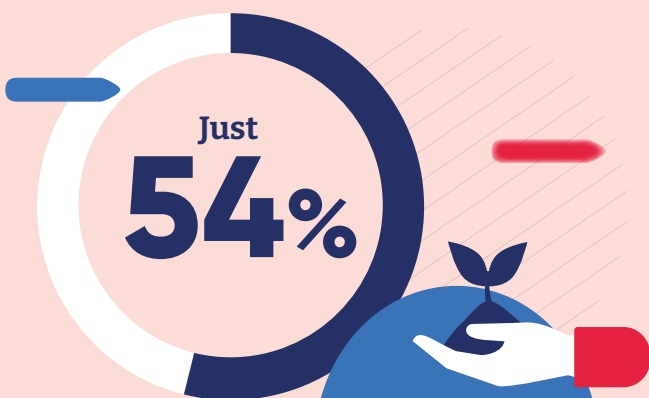
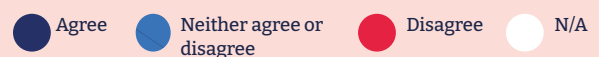
It's easier to focus on cost saving than sustainability improvements



Prioritizing sustainability above cost in decision making is difficult because the benefits are hard to track



Leaders will only approve sustainability initiatives with clear ROI



reported that their organizations had clear targets for all their sustainability initiatives.

More worryingly, while 40% of supply chain and procurement professionals consider themselves highly responsible for setting sustainability strategies and targets, more than half (60%) are less sure about their responsibility in this area. And where targets do exist, they can lack rigor, often being based on what is convenient, or readily achievable, rather than on a fundamental appraisal of what is required. Shirahime's Ravasio, sums it up well.

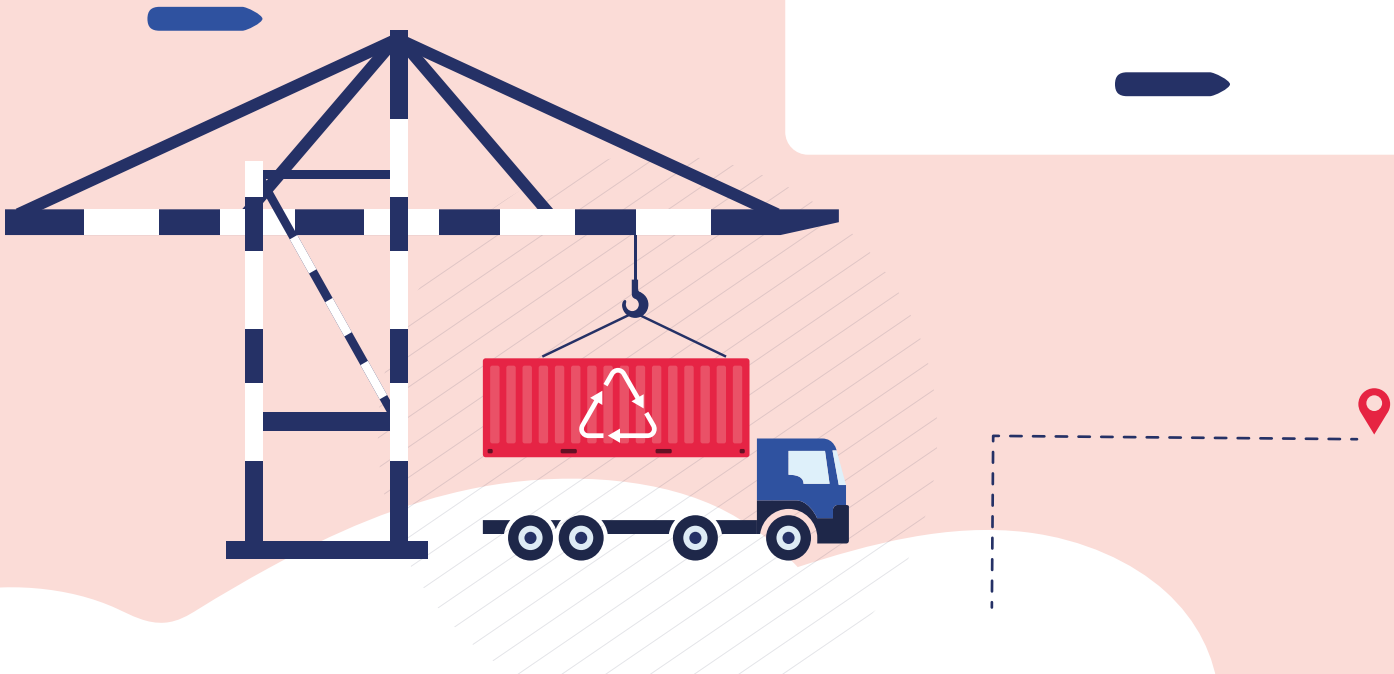
“Compared to even as little as five years ago, ESG and sustainability are very much ‘front of mind’ in many organizations—no one doubts that. The problem is that their internal KPIs and targets aren’t based on meaningful planetary boundaries. So although organizations are doing things, they are still falling short of what needs to be done from a scientific point of view. There’s a real need for science-based targets, and organizational initiatives that are genuinely based on those targets.”

The challenge here is obvious: without targets, quantifying an ROI will be difficult. But without a quantified—and acceptably high—ROI, sustainability initiatives will struggle to gain approval.

Our observations:

“Sustainability is not a ‘single-company initiative’. Instead, it must extend across the end-to-end supply chain—and given the complexity of global supply chains, knowing where to start can be overwhelming. Transparency is difficult, and standardizing practices across the extended enterprise is complex. The sheer scale of the change required can stop sustainability initiatives in their track, failing before they even begin. Adding to the challenge, not all countries of the world have the same ethical standards on human rights and social welfare, or environmental issues.”

Akshat Mathur
VP of Learning Content, Skill Dynamics



Non-aligned incentives

What might help those targets to emerge? The answer lies in linking them to employee remuneration, especially the remuneration of those in key positions of sustainability-facing responsibility. “You get what you measure,” as the saying goes.

Because while 97% of supply chain and procurement professionals are implementing sustainability initiatives, just 25% say that their reward is linked to achieving sustainability targets. A similar gap is seen in those organizations where setting the sustainability strategy and associated targets is the responsibility of the senior executive team: just 27% of respondents report that senior executive reward is linked to achieving sustainability targets. The inference is clear: with a weak link between pay and sustainability performance, performance may suffer.

say that their reward is linked to achieving sustainability targets.

Just
25%

Our observations:

“Organizations’ KPIs and metrics haven’t evolved as fast as their need to invest in sustainability—and consequently, the roles of procurement and supply chain professionals have yet to fully adapt to the new sustainability agenda. For some, sustainability is not in their training, it wasn’t on their radar, and without being measured and incentivized appropriately, they struggle to balance the need to make a difference in sustainability while fulfilling the more usual agenda of cutting costs from the supply chain.”

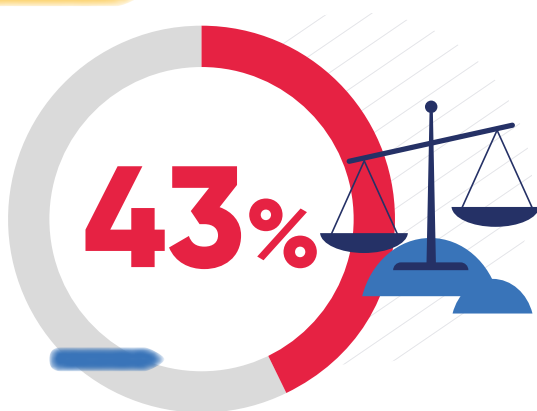
Adrian Preston
Head of Supply Chain Content, Skill Dynamics

Overwhelmed supply chain and procurement professionals

There is also evidence that not all procurement and supply chain professionals feel up to the task of improving their organizations' sustainability performance. One-third of respondents reported feeling overwhelmed by the task of improving sustainability, a response presumably indicative of a lack of relevant skills, knowledge and training.

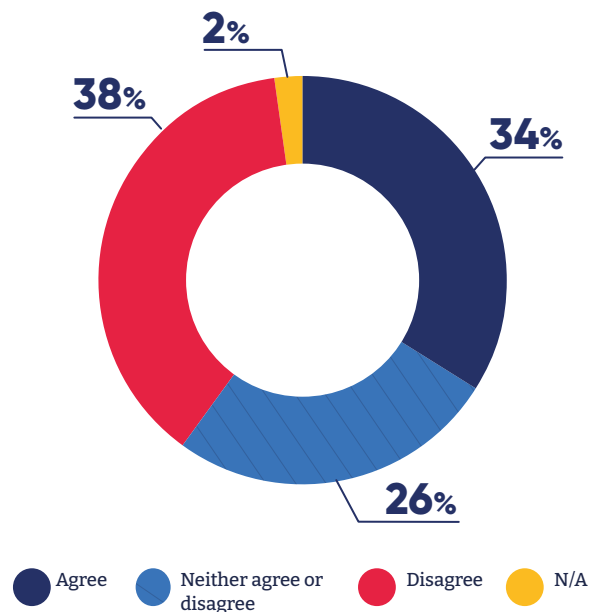
Legislation is a complicating factor

More than two fifths (43%) of respondents, agreed that they find it extremely difficult to keep track of sustainability legislation. Granted, not all sustainability initiatives are designed as a result of legislative requirements—in fact, many do not. But even so, it is concerning that progress towards great sustainability may be being impeded by such a lack of clarity.

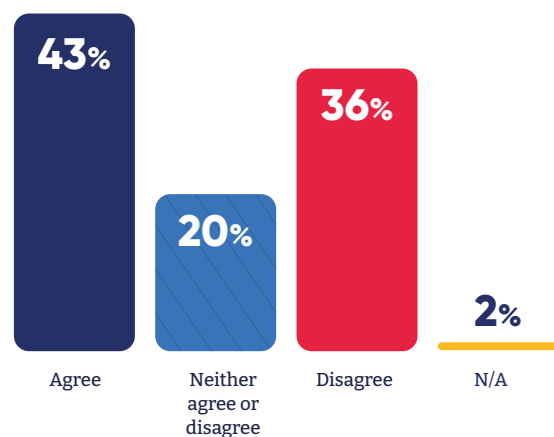


find it extremely difficult to keep track of sustainability legislation.

I feel overwhelmed by the task of improving the sustainability of my organization

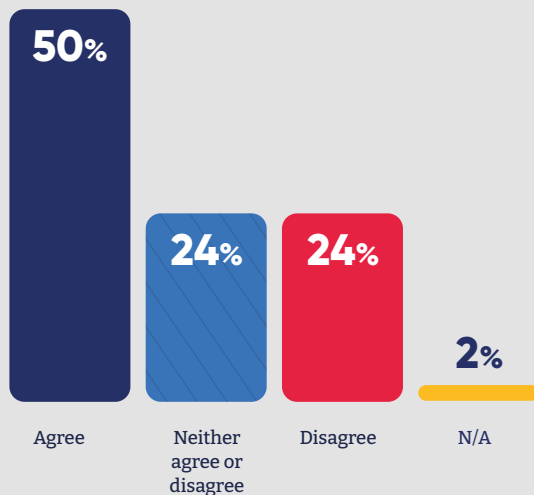


I find it extremely difficult to keep track of sustainability legislation



Moreover, as sustainability-focused legislation continues to mount, the challenge of keeping abreast of it all will only increase—compounded by the fact that this law is growing in complexity too. compounded by the fact that this law is growing in complexity too. For example, in February 2022 the European Commission adopted a proposal for a Directive on corporate sustainability due diligence, requiring certain organizations to remedy or mitigate environmental and human rights risks throughout their supply chains. Yet 50% of respondents report difficulties in obtaining an accurate view of sustainability all the way down the supply chain—pointing to the challenge that will be entailed in complying with this.

It's impossible to have an accurate view of sustainability all the way down the supply chain



Our observations:

“ 31% of respondents reported conflicting organizational objectives, with a focus on driving efficiencies and growth rather than improving sustainability. And 24% of respondents reported the lack of a meaningful organizational roadmap, with ‘broad brush’ targets being set—for instance, ‘net-zero carbon emission by 2030’—without a proper plan for how to achieve this. ”

Dr. Howard Price
Head of Procurement Content, Skill Dynamics

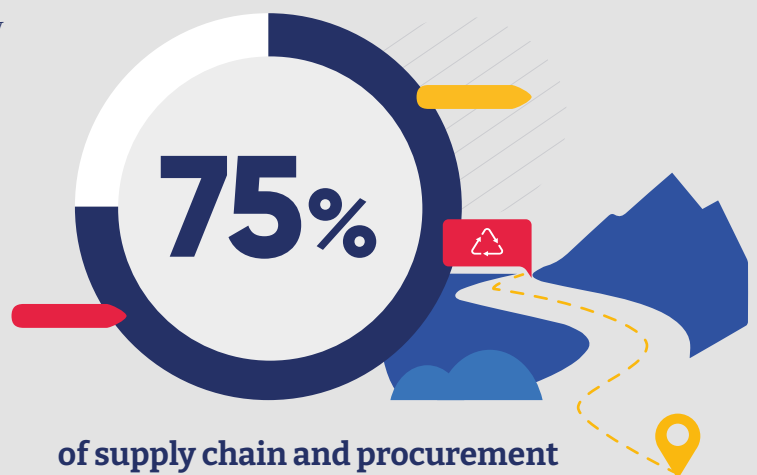
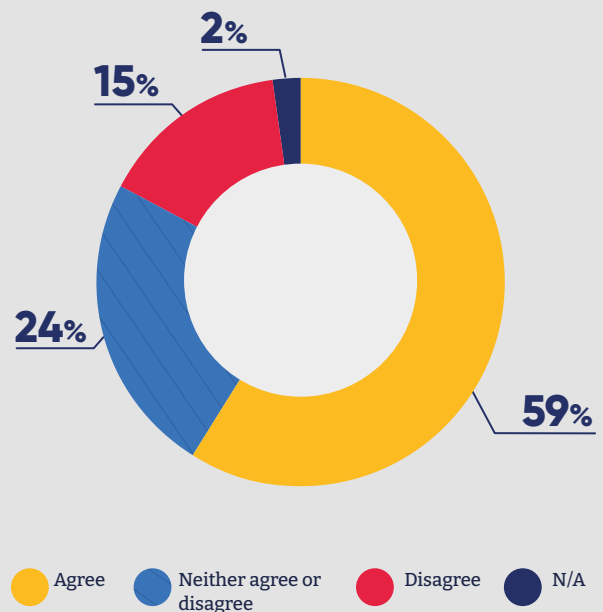
Reasons for optimism

Despite all this, there are some positive signs that organizations and their procurement and supply chain professionals have genuinely been able to make a difference when it comes to sustainability-enhancing initiatives.

59% of respondents said that they were 'encouraged to prioritize sustainability over price in decision-making', 65% agreed that 'Leaders accept that improving sustainability requires compromises and trade-offs in other areas, such as price'. And 60% of respondents agreed with the statement that 'Leadership is willing to sacrifice some profit to improve sustainability'. Notably too, 75% of supply chain and procurement professionals felt confident in creating roadmaps to achieving sustainability objectives.

It is encouraging to see such positivity for what might understandably otherwise be seen as a daunting task ahead. Leaders must harness this energy from their procurement and supply chain professionals and ensure that they are adequately directed and set up for success. As we have already seen, entrenched business models can hamper focus on sustainability so it's natural that enthusiasm might impact the initiatives chosen, favoring those easier to achieve. Leaders must therefore ensure the right programs are invested in to have the greatest impact.

I am encouraged to prioritize sustainability over price in decision making



of supply chain and procurement professionals feel confident in creating roadmaps to achieving sustainability objectives.

Finding a sustainable way forward



► So given this backdrop, what should procurement and supply chain professionals do to improve the sustainability-enhancing performance of themselves, their teams, and their broader organizations?

Five concrete actions are recommended to start making improvements on sustainability:

1. Invest in training

The majority of supply chain and procurement professionals believe that they have the training they need, but the sustainability landscape is changing all the time. Indeed, 43% of respondents reported finding it 'extremely difficult' to keep track of sustainability legislation, with 34% reporting feeling 'overwhelmed' by the task of improving their organization's sustainability performance. Access to training and education isn't the entire answer, but it will make a significant contribution - one which should not be underestimated.

2. Partner with organizations that can help measure and manage environmental impact

Measurement is still clearly an issue with 97% of respondents reporting that their organizations are implementing sustainability initiatives, but just 54% have targets for each of these. This makes it very challenging for professionals to measure their progress or prioritize sustainability above cost in decision making. Well over half (58%) of respondents agree that prioritizing sustainability above cost in decision-making is difficult because the benefits of sustainability initiatives are hard to track. Third-parties will possess the skills, tools, measurement systems and experience to assist with this.

3. Pick your battles—start small, and build up

Most organizations are implementing a number of sustainability initiatives—four, in fact, on average. But with inadequate approaches to targeting and measurements in place, and therefore difficulty in quantifying the impact of sustainability initiatives, procurement and supply chain professionals will want to make sure that what they're already doing is a success before adding more to their plate.

The experts we spoke with also all stressed the importance of getting the basics right and building outwards from there. Again and again, "success builds on success," we were told.

Small steps to start - or improve - your sustainability journey

Suggestions from Karin Ekberg, Founder and Chief Executive of Leadership and Sustainability, a training and sustainability auditing and certification firm.

- **Map the supply chain**, including tier-2 suppliers where possible. This will help illuminate where the biggest risks and challenges lie.
- **Roll out an audit program**, with targets. For example, a business might target having 80% of its suppliers graded as 'acceptable'.
- **Be sure** that the supply chain excludes child labor.
- **Be sure** that hazardous substances aren't being used.
- **Be sure** that all wastewater emissions in the supply chain meet appropriate standards.
- **Target energy savings** with a view to reducing carbon emissions. For example, a business might target a 10% or 20% saving over the next five or ten years.



4. Improve collaboration with other businesses

Moving forwards in isolation is always more difficult than moving forwards in tandem with others. Yet 41% of respondents identified supplier resistance—or inertia—as a barrier to progress, and 50% of respondents commented on the difficulty of obtaining an accurate view of sustainability all the way down the supply chain.

Collaboration isn't always easy. It calls for developing appropriate soft skills that not all procurement and supply chain professionals will possess. Buyers accustomed to browbeating suppliers on price may find it difficult to persuade them to invest in improved sustainability. But with the right skills, progress is possible.

5. Change KPIs to incentivize contribution to sustainability objectives

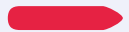
There is a disconnect between responsibility and reward when it comes to sustainability initiatives. 37% of supply chain and procurement professionals consider themselves responsible for driving sustainability progress—and yet just 25% have their reward linked to achieving sustainability targets.

Linking pay more explicitly to sustainability performance should result in a better sustainability performance.

Our observations:

“While 38% of respondents disagreed with the statement ‘I feel overwhelmed by the task of improving the sustainability of my organization’, a sizable 34% agreed with it. Strikingly, the proportion of those neither agreeing or disagreeing with the statement—26%—is hardly a ringing endorsement of their level of comfort with the task of improving their organizations’ sustainability performance.”

Sam Pemberton
CEO, Skill Dynamics



Conclusion

► So what to make of all this? Three broad conclusions stand out.

The first is that more is going on with respect to sustainability than might be imagined. Most organizations are doing something about sustainability, with each organization having an average of four sustainability initiatives in place. But are these initiatives the right ones? From the planet's point of view—and the organization's? Or simply the most convenient, and expeditious? From the evidence presented here, organizations need to ask themselves some searching questions about this, not least in the area of CO₂ emissions within the supply chain.

Related to this is that there is still much-needed progress to make in respect of targets. Targets need to be based on science, and on actual planetary boundaries. Choosing a target simply because it is attainable is not enough.

Secondly, there are still barriers in place with respect to sustainability—barriers within organizations, and barriers between organizations. Organizational inertia, inappropriate KPIs, and poorly-aligned incentives impede progress. On the evidence presented here, most supply chain and procurement professionals have the energy, and enthusiasm to drive their organization's sustainability initiatives—what they lack is an organizational framework that doesn't hold them back.

Thirdly, concrete actions are identifiable which will move organizations' sustainability agendas and strategies forward—and this paper has identified

five practical steps with an emphasis on the need for training to ensure teams are equipped to deliver in the ever-evolving sustainability landscape.

Improving sustainability is a huge task, but one that is undeniably made easier if everyone in the organization, and its supply chains, is aligned with clear targets that can be easily measured. And that, in essence, is that what those five actions aim to help you achieve. Taken together, these five steps will help improve your identification, execution and measurement of the most effective sustainability initiatives.

The prize is very, very worthwhile—a sustainable planet. After all, there is no 'Planet B'.



Methodology

►The findings presented here were based on a questionnaire-based survey undertaken in early 2022 of 210 UK and USA based supply chain and procurement decision-makers (roughly an even split between supply chain and procurement, and between the UK and the USA) drawn from organizations with over 5,000 employees.



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