

An aerial photograph of a winding asphalt road through a rugged, layered canyon. The rock walls are reddish-brown with distinct horizontal strata. A circular inset in the center of the image provides a close-up view of the road's surface, showing lane markings and a white vehicle in motion.

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Sustainable supply chains
The vital role of sourcing and procurement

Executive summary

The escalating global climate crisis, intensifying social issues, and volatile economy are adversely affecting people, the planet, and profit. They're also exposing vulnerabilities in global supply chains, threatening the future of businesses around the world.

In this era of disruption, one of the biggest challenges for the C-suite is creating a clear and strategic environmental, social, and governance (ESG) road map using a sustainable supply chain framework with the right balance between economic and environmental benefits. Leaders are realizing the need for all sourcing and procurement professionals to step up, get aligned, own their decisions, and make effective change.

This article offers a perspective on how the sourcing and procurement functions can take a more organized, purposeful approach to confront the mounting ESG challenges in their supply chains. Such a strategic decision-making process can be used to cultivate organizational sustainability, including improving carbon neutrality, meeting local content requirements, and facilitating transparency and ESG reporting.



Sourcing and procurement professionals need to step up, own their decisions, and make effective change.



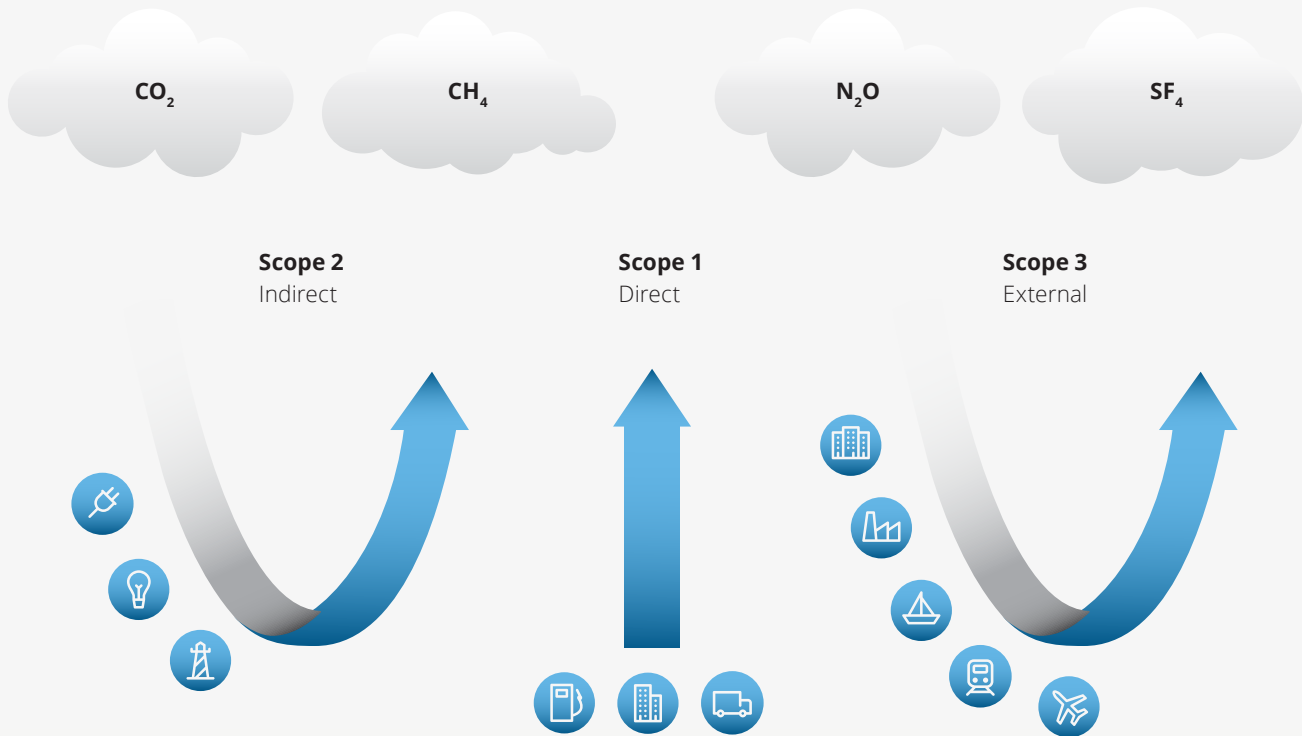
The sourcing function's unique ESG challenge

The traditional sourcing decision-making process focuses on cost alone or a combination of cost and capabilities—ESG considerations aren't even an evaluation criterion. This is at least partly due to the lack of visibility sourcing managers have into how their decisions affect their organizations' overall ESG objectives.

But customers, regulators, and other external stakeholders are increasing the pressure on organizations to find ways to reduce their carbon emissions. This poses a distinct challenge because the issue goes well beyond internal operations. In fact, as much as 85% of an organization's carbon emissions can occur in upstream and external supply chains, through multiple networks of suppliers (Carbon Disclosure Project, 2017).

Scope 1, 2, and 3 emissions: Overview of direct, indirect, and external emissions

There are three categories for the different kinds of carbon emissions an organization creates, in both its own operations and throughout its value chain.



Scope 2

Emissions created when the energy the company purchases and uses is produced, such as electricity or steam heating and cooling

Scope 1

Emissions from sources owned or controlled by the organization, such as company facilities or vehicles

Scope 3

Emissions created externally, such as by suppliers of purchased goods and services, but related to corporate activities across the organization

Essential points about Scope 1, 2, and 3 emissions

Scope 1 and 2 are more visible and easier to control

Companies normally have insights on the source data needed to convert direct purchases of gas and electricity into a value in tons of greenhouse gases (GHGs).

Scope 3 is normally where most of a company's emissions lie

For many businesses, Scope 3 emissions account for more than 70% of their carbon footprint.

Most companies have limited control over how Scope 3 emissions are addressed

Businesses can offer to collaborate with their suppliers on solutions to reduce emissions or consider changes to their current supply chain. For example, they can define a new calculation approach, set up new ESG targets for supplier emissions, establish better transparency measures, and improve program compliance through realistic supplier targets.

Contextualizing ESG: A sourcing perspective

With sustainability now top of mind, supply chain executives must grapple with how to balance their profitability goals and environmental targets.

An organization's environmental performance can be measured in many ways, including its energy consumption, alternative material substitution, and waste reduction. The social context also includes many elements, such as labour standards, community relations, and diversity, equity, and inclusion efforts.

The effects of external supply chains on a company's social performance are much larger and more complex than those of internal operations. They can also extend to governance when considering the size of influenceable spend.

The integration of ESG considerations into the sourcing process should be focused on ensuring that product and supplier selection works in such a way that it achieves an equilibrium between cost, capabilities, and sustainability.

Great outcomes can be achieved by setting strategic and realistic goals

The sourcing function's first step is defining a road map for delivering SMART (specific, measurable, attainable, relevant, and time-bound) and sustainable targets, including clear metrics and aligned roles and responsibilities across the organization.



Five key steps to a sustainable supply chain framework

1 | Vision

Once senior leadership support has been established, define **a long-term vision for corporate sustainability goals and targets**. Set out a sustainable sourcing and procurement strategy with a phased implementation plan to reach them.

2 | Policy and governance

Develop **purchasing policy and governance guidelines** on sustainability and other important social and environmental commitments to guide the program.

3 | Stakeholder buy-in

Set out **a clear business case** for the sustainable sourcing and procurement strategy to help gain buy-in from stakeholders.

4 | Skills and competencies

Formulate **a people development policy** that reinforces sustainability in sourcing and procurement practices through training, appraisals, reward systems, etc.

5 | Tools and technology

Develop sourcing and procurement **tools and capabilities for support staff** who implement sustainability measures.

Bold ambition drives innovation

No matter where an organization is on its sustainability journey, ambitious targets can galvanize action when set within a clear and sustainable framework tailored to its needs.

1 | Vision

Develop a long-term sustainable sourcing and procurement vision by determining how to integrate sustainability elements into other corporate goals. The sustainability initiatives being considered by suppliers should be analyzed as part of this process.

2 | Policy and governance

A sustainable supply chain requires a mindset shift, with adapted policies, governance, and processes. Develop sustainable purchasing policy guidelines that clearly articulate the formalization and implementation of all commitments (sustainable sourcing and procurement criteria, implementation plan, etc.).

3 | Stakeholder buy-in

Demonstrate a clear business case for a sustainable strategy to enable stakeholder buy-in, both internally and across the supply chain. It should highlight the benefits of responsible sourcing and procurement, such as the mitigation of risk factors and generation of cost savings. Another potential benefit of responsible practices is driving innovation—for example, by working with suppliers to develop new circular approaches.

4 | Skills and competencies

Policies that drive awareness about sustainability, with support from committed leaders, are the key drivers of a successful organizational sustainability implementation. It's also important to develop and deliver sustainable sourcing and procurement training on best practices to empower employees and secure their commitment to the program.

5 | Tools and technology

Enable sustainable and ethical sourcing and procurement using digital tools and technologies that monitor organizational sustainability metrics, both internally and externally.

Areas to monitor and report on



Environmental impact

- Total yearly CO₂ emissions produced by suppliers (the Carbon Disclosure Project could be considered)
- Emission of CO₂ equivalents, per product manufactured



Social impact

- Advantages for the community, such as financial benefits and economic improvement commitments, incorporated into sourcing and procurement contracts
- Supplier development initiatives and results (through a supplier sustainability audit program)
- Number of suppliers owned or led by women, Indigenous people, and other marginalized groups (social upliftment)



Economic impact

- Support local communities and small and medium enterprises (SMEs)
 - Percentage of suppliers that source their materials and labour locally versus externally
 - Number of opportunities directed to vendors that qualify as local or SMEs



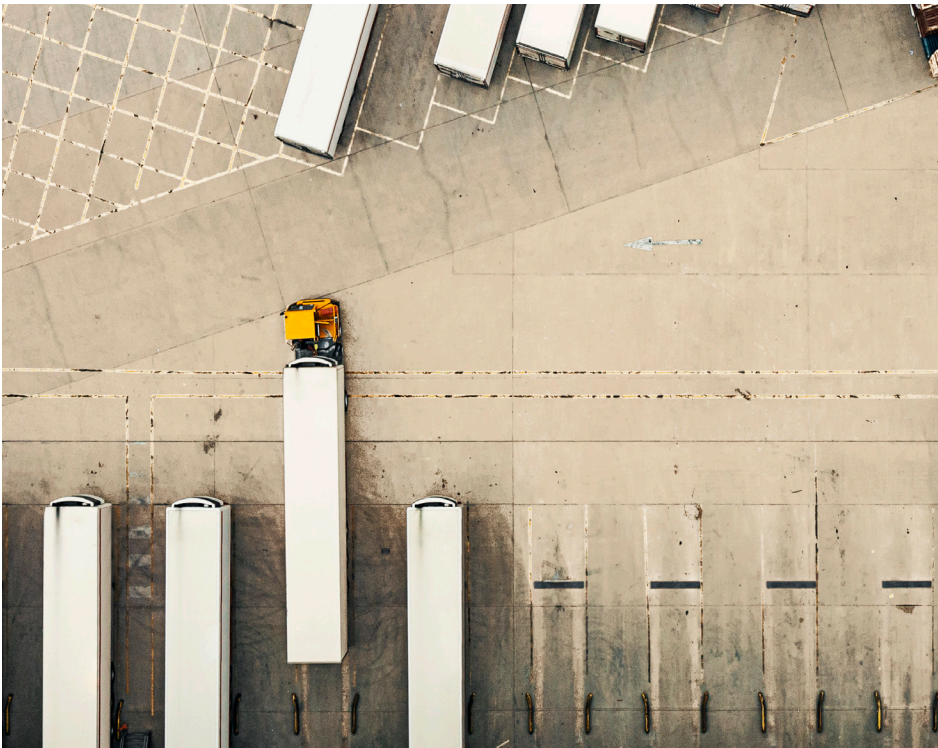
Sustainable purchasing

- Percentage of suppliers that comply with established sustainability strategy
- Percentage of orders placed with suppliers that have sustainability action in place



Supplier management

- GHG baseline for suppliers (validated externally)
- Responsiveness KPIs, such as percentage of non-conformance status in post-audit queries
- Financial KPIs, such as cost savings percentage through carbon reduction



Facilitate responsible practices with sustainability metrics

Sustainability metrics quantify, measure, and benchmark environmental, social, and economic performance and help drive responsible sourcing. Metrics-driven transparency helps organizations to evaluate and reach their sustainability goals.

1 | Environmental impact

It's important to integrate climate-change considerations into all decision-making, such as prioritizing efficient product and vendor selection in the supplier assessment process. Joint efforts can help suppliers develop the capabilities they need to achieve carbon neutrality, enable a better environment for collaboration, and promote information-sharing.

2 | Social impact

Identify and measure activities that help develop supplier diversity and improve the well-being of society to make progress on ESG goals and objectives.

3 | Economic impact

Identify how local communities and SMEs can be integrated into overall supply chains and promote sustainability by drawing from local resources and labour pools. This has a net positive impact on both social and economic measurements.

4 | Sustainable purchasing

Monitor product innovation and manage the volume and value of orders placed with suppliers that comply with established sustainability strategies. Organizations can also articulate the commercial construct that promotes partnership in achieving common goals for the organizations involved.

5 | Supplier management

Seek out external validation of GHG baselines and monitor:

- Response KPIs, including regular results from audits, such as percentage of non-conformance status in post-audit queries
- Financial KPIs, such as percentage cost savings from carbon reduction
- Safety KPIs, such as the total number of on-site injuries or accidents

When evaluating suppliers' value chains, identify all sub-suppliers, with the goal of working with them to achieve sustainability throughout the downstream supply chain.

Complex and evolving regulations mean there's no one way of getting sustainable supply chain right, but there *is* a need for closely monitoring processes.

Conclusion

Improving organizational sustainability and reporting on ESG progress are among the most important functions of today's sourcing and procurement teams. While complex and evolving considerations and regulations mean there's no one way of getting it right, there's a clear need for close monitoring of internal and external processes and increased focus and transparency on supplier selection, product selection, and the decision-making process. Following a sustainable supply chain framework can empower organizations to reach their sustainability goals and achieve full compliance.

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