

ESG LEADERSHIP: THE CPO NEEDS A SEAT AT THE TOP TABLE TO OPERATIONALIZE THE SUSTAINABILITY STRATEGY

SPEND MATTERS BRAND STUDIO

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In [part 1 of this Sustainability thought leadership series](#), we talked to Toby Yu, Procurement advisor, leader of the Contract and Supplier Management offering at procurement outsourcing advisory [KPMG LLP](#) and a professional at guiding businesses through their transformation journeys.

He shared his thoughts on what ESG really means to the CPO, supply chain leader or head of ESG, and the role they must play in operationalizing and driving targets; he gave a high-level introduction to sustainability and how KPMG aids clients through their challenges, and advised how organizations can get started on tackling ESG goals and the extent to which Procurement needs to transform in order to make ESG efforts succeed companywide.

In part 2, we take a deeper dive into sustainability and how it translates into Procurement, with a specific lens on decarbonization and the procurement issues that surround it. To do that we bring in expert knowledge from Manpreet Singh, Partner at KPMG specializing in Climate Change, Sustainability and CSR Services.



Why Procurement must play a big role in the future of sustainability

The movement towards decarbonization, to reduce and possibly reverse the damage of GHG emissions, touches every business function within an organization with ESG targets – not least of which is Procurement, for it is they who must consider the carbon footprint of their products, materials and services when making sourcing decisions.

“Apart from the obvious reasons tied to planet, people and profit, decarbonization is becoming a hugely hot issue for procurement for a few key reasons,” explains Manpreet. “To start with, most large corporations have taken up a net-zero goal that’s in alignment with International Climate Change negotiations (led by UNFCCC) as agreed when the Paris agreement set out that the world must reach a net-zero state. While no timeline was set, different countries that have taken up the goal have set their own targets. The UK began by pledging a goal of 2050, the EU outlined its path and other nations followed suit with their own timelines – so there is almost global agreement that decarbonization needs to happen, and sooner rather than later.

“On an organizational level, the private sector is aware that if a country takes this stance, it will ripple down and they too must act — in certain countries the mandate has been passed to disclose not just their emissions but their net-zero strategy too. But at KPMG we have witnessed that in fact many corporations are being more ambitious and have taken up an earlier target, 2030 for example, which means there are inconsistencies across organizations and geographies.

“Participating organizations must look beyond their direct emissions, which boils down to Scope 3, and this applies not just to the manufacturing sector — services, finance, IT, telecoms all have large Scope 3 emission footprints. So, considering who you buy from, who your suppliers buy from, and all relevant footprints along the supply chain is becoming more and more important.

“Drilling down, from the country level to organizational level, we arrive at the CPO. The CPO needs to look further than cost and increasingly needs to understand the emissions that went into manufacturing their product or providing their service. This level of ‘indirect emissions’ reporting is increasingly being demanded by the broader organization.

So the procurement officer’s role is becoming more difficult: never before have they been asked for this level of reporting, and to do that they need data, and assurance that the data is accurate. This means that Procurement is being made responsible for the choice of which supplier to work with, what material to buy, and making that supplier a part of the organization’s net-zero strategy.”

So Procurement’s responsibilities are changing and expanding in the context of sustainability. Not only must it take center stage in supporting the sustainability goals, Procurement must consider balancing the decarbonization vs community equation. For example, does reducing our business footprint mean reducing our support of local communities and businesses?

A decarbonization strategy spells both risk and opportunity

There is some consideration to be had around the wider implications of our emission-reduction strategy, which might mean reducing support for certain businesses or suppliers, and therefore affecting their local communities in terms of jobs or revenue (for example if we all decided to fly or ship less, the airports, docks, workers, suppliers etc. would feel the effect). But Manpreet believes we should treat these risks as opportunities.

“One needs to look at this from both a risk and an opportunity perspective, which means that while there is a risk of losses, there is also an opportunity to upskill; new or different sources can create employment too, bringing new jobs and opportunities. So, it can be a positive opportunity for the world to change and transform while reducing emissions.

“It’s important to remember that deep diving into your supply chain, and your corporation’s targets to decarbonize your Scope 3 emissions, doesn’t simply mean a change of suppliers; it’s more about creating a program of opportunity, to engage suppliers, to create capacity to align them with your thought processes and targets, and to create incentives too. It’s not as simple as a CPO refusing to work with a supplier if they don’t commit to targets, it’s about communicating what you are trying to achieve, and encouraging them to want to be part of it, to co-create a vehicle of collaboration for both parties to

tackle decarbonization together. That might mean helping the supplier develop a decarbonization plan or create a 'renewables' investment fund.

"So, there is a coming together to create a movement, with an expectation that as the larger corporations decarbonize, they will bring an opportunity for the small and medium-size enterprises (SMEs) working with them to have an incentive too. As this model changes across the spectrum of businesses, we will see more and more innovation in terms of engaging those suppliers to come on board. This transformation is important because it's not just the corporations that want this transformation. The whole of society is expecting products to be created in a more sustainable way; consumer preferences are changing, as are those of the whole supply chain – so through a positive lens, the corporations, Procurement and the supplier are working to make opportunities for their value chain."

The ESG movement and consumer behavior are transforming company direction

It's this whole movement, as depicted by Manpreet, that really excites Toby Yu.

"The high-level goal of government policies is, for the first time, to truly correlate financial performance with ESG achievements. Those companies that actively contribute to the movement will have better transparency and better financial performance — and that's important given the enormous economic value that these companies generate.

"We have witnessed new companies come to the fore that have developed eco-friendly products, and they are thriving. We've seen more established companies try to move that way, but often struggle to transform because they've invested heavily in their supply chain based on efficiency and cost, and on what we traditionally consider supply chain risk. In fact, companies can do both by finding new and sustainable sources of raw materials and suppliers to be able to generate a whole new series of products. This all makes the role of the CPO so much more important.

"Transparency demanded by policies into how the organization is operating is going to drive a different behavior from a leadership perspective. What's really interesting is consumer behavior: everyone is more informed

now about global warming and the need to decarbonize; consumers want to trust brands, which is largely driven by this ESG movement. So, I believe CPOs and supply chain leaders have a real opportunity to use this to innovate the type of products their consumers are looking for, and to retool their supply chains.

"This is why companies really need to be working towards giving the CPO a seat at the table, because making them part of the c-suite, other than just in title, will help them transform in this new direction."

The CPO role is evolving ...

As well as a seat at the top table, one of the ways Procurement can make a big difference in the company's ESG transformation agenda, and to be able to operationalize strategies, is to bring Procurement into the design chain early on. Procurement can influence product design to reflect ESG goals at the outset. They can bring in the right suppliers; they can help design supply chains that are more sustainable; they can locate the resources to facilitate that.

"Currently Procurement is mostly involved at a later stage," says Manpreet, "and that is something that needs to change. Procurement ends up receiving a target from the organization with little or no context of how the target was actually conceptualized. So, to be of practical help, the procurement function ideally should be involved from the planning stage – in fact, the earlier Procurement is involved the better.

"As an example, I have worked with customers where I've seen the Procurement function involved with consultant selection. Procurement has asked the right questions, including what ideas they will bring to the table; they have real experience of the practical issues of supplier selection, and they are knowledgeable of negotiation elements pertaining to sustainability and ESG, for example. So the role is becoming more complex and the need for Procurement to be aware of the business case and the organization's whole value-creation concept ever more critical.

"This applies even more so where an organization wants to create value through sustainability by working with the supply base.

"Where once products and services were selected on the basis of being technically sound and cost-efficient,

considerations are turning more towards how a product has been manufactured, what went into developing it, how it was supplied, how much emissions are associated with buying from a particular geography, whether we should we buy locally, and so on. All these decisions are coming into play for the CPO. If the CPO is involved in the decision-making from the outset, helping to solve practical complications, then all that is required of them further downstream becomes easier.”

... and requires a seat at the table to retool procurement and operationalize strategies

“This is truly strategic,” says Toby Yu. “The CPO needs to be at the table in order for them to really retool themselves to be able to operationalize the organization’s ESG strategies. To do more than just greenwash, it’s going to take a concerted effort. The CPO needs to be at the top table to elevate the need for investment, to have the infrastructure to ultimately be able to move the needle when it comes to sourcing activities, capturing data and incentivizing suppliers to be able to drive the innovation they are looking for. (At a basic level, for example, this might involve retooling their contracting process and what goes into the terms as they look to onboard new suppliers to do things not expected of them before.) This all requires investment for the resources required to accomplish what Procurement needs to do.”

But how does the CPO make that case?

“The best advice we give,” says Toby, “is for the CPO to build a relationship with the ESG leader. Typically, from what we’ve seen, the sustainability lead is usually operating at a pretty high level, and, interestingly, doesn’t have a strong relationship with the CPO. We’ve held conversations with CPOs who’ve asked how they can get connected and drive this agenda. More often than not it comes down to communicating with them about your plan, and working with them to socialize it. That really is step one, to build that relationship and work through that channel.”

And further downstream, what might the CPO consider in operationalizing ESG strategies?

“There are many important things to consider,” explains Manpreet, “but one is to revise your supplier code of

conduct (CoD), which most companies are looking at doing. Usually, this CoD outlines the terms and conditions that you would desire, and expect, from your suppliers. I’ve recently had the occasion to deep dive into the supply chain of a large corporation, and looked at the ways in which they are engaging with their supply chain and building their capacity to work with them for the longer term. This didn’t involve enforcing a CoD, but creating a business case around why it’s beneficial to invest in that CoD for both parties. We’ve learned that it’s especially important to establish a baseline, even when you are initially engaging with a new supplier, to get them onboard from the start with what you are trying to achieve.

“Companies that have taken a science-based target for Scope 3 emissions, usually set a goal of getting a certain percentage of their suppliers to commit to those Science-Based Targets (SBTs) too, which involves engaging with the supplier base to create knowledge about why their supply base also needs to follow suit and in the same timeframe.”

Ensuring the entire supply base reaches this target is a mammoth task, especially for a company with thousands of suppliers – but a realistic, strategic approach can help.

Where strategy, and operationalizing that strategy, really come into play

The key is for a firm to align its values to what its customers, employees and investors are looking for, then formulate that into a plan of what is realistically achievable. The CPO, being the ‘problem solver,’ working with the supply chain, finance, the sustainability team, etc. sits right in the middle of all the elements that make up the ESG agenda, yet in many firms is operating from the wing. Often, what is needed is a bridge between goals and strategy to innovation, a collaborative plan that involves all stakeholders from the start to increase the chances of success. For many, this is a new approach, and they require help with their strategy to think through the steps from ‘soup-to-nuts.’ When embarking on a new way of working, it makes sense to tap into the knowledge of someone who has already experienced that journey.

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