



# Meeting ESG Goals

## Through Strategic Procurement

How Procurement Departments Are Using Their Resources to Help the Company Reach Its Environmental, Social, and Governance Goals

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## Executive Summary

Procurement has a significant role to play in helping companies meet their environmental, social, and governance (ESG) goals. ESG issues are becoming increasingly relevant, global in scope, and complex—making ESG integration essential for the function. ESG challenges also present an opportunity to reshape the procurement sector in a way that captures value for all stakeholders.

According to McKinsey & Company, “The procurement function has a decisive role to play in shaping an organization’s ESG footprint, both directly through purchase decisions and indirectly by influencing product design.”<sup>1</sup> Although most CPOs understand this position, their organizations don’t always have a clear strategy for implementing ESG through procurement.

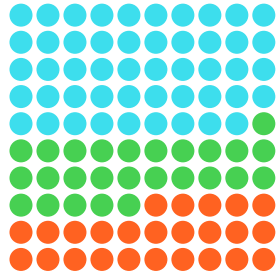
This report explores how procurement departments are adopting ESG and using their positions to improve their companies’ policies.

<sup>1</sup> Chereil-Bonnemaison, Celine, et. al. “Buying into a more sustainable value chain.” McKinsey & Company. September 22nd, 2021. <https://www.mckinsey.com/business-functions/operations/our-insights/buying-into-a-more-sustainable-value-chain>

# About the Respondents

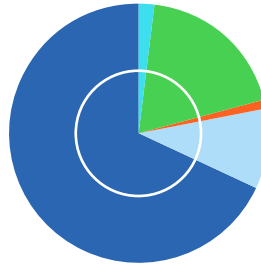
The WBR Insights research team surveyed 100 procurement, supply chain, and risk management leaders from across the U.S. and Canada to generate the results featured in this report.

## What best describes your role?



- 49% Supply Chain
- 26% Risk Management
- 25% Procurement

## What is your seniority?



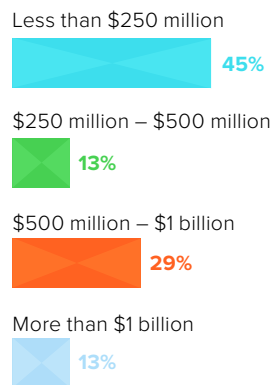
- 2% C-Level
- 19% Vice President
- 1% Head
- 10% Senior Director
- 68% Director

## What industry does your company represent?



- 11% Pharmaceutical
- 10% Consumer products
- 10% Telecom, electronics, & high-tech
- 10% Chemicals, plastics, & polymers
- 10% Industrial manufacturing
- 10% Medical devices
- 10% Energy, oil, & gas
- 10% Aerospace & defense
- 10% Automotive
- 9% Manufactured goods

## What is the total amount of spend under management within your organization?



# Key Insights

Among the respondents:

**58%** consider digitization and 54% consider supply chain resilience or risk reduction high procurement priorities over the next 12 months.

**65%** consider delivering on ESG goals a moderate priority at least.

**56%** say procurement leadership currently plays only a moderate role in ESG decision-making at their organizations. Only 13% say it plays a large role.

**80%** are at least somewhat confident in their procurement organizations' ability to achieve ESG goals over the next 12 months.

**42%** say their sustainable procurement function is "maturing," while 24% say it is "mature."

**58%** say diversity, equity, and inclusion (DEI) has gained significance for their procurement organization's strategy for the next two years.

**50%** say employee health and safety have gained significance for their procurement organization's strategy for the next two years.

**43%** say sustainability has gained significance for their procurement organization's strategy for the next two years.

**63%** say they are at least somewhat effective in their ability to enforce ESG policies among upstream suppliers given their current data technologies.

**61%** say their current ability to leverage procurement data for their ESG strategy is somewhat effective.

**50%** consider measuring progress toward ESG objectives a very significant procurement challenge.

**82%** say benchmarking their ESG efforts against the rest of their industry is at least a somewhat significant challenge.

**56%** say it is likely and 11% say it is certain their procurement organizations will increase their investments in ESG over the next 6 months.

**51%** say their ability to ensure sustainability across suppliers and contractors is very effective.





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- ✓ **Increased Agility**
- ✓ **Value Through Innovation**

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# Procurement Plays a Moderate Role in ESG Decision Making

ESG covers a wide range of issues related to the company's standing in society, including how it treats employees and the environment. It's also a strategy that involves every department within the company. ESG is important to internal operations, but it also extends to areas like marketing, sales, and procurement.

Much of procurement's role in enforcing ESG issues revolves around how it manages supplier relationships. Today, organizations can't simply divorce their internal ESG policies from those of their suppliers. Even suppliers far upstream in the supply chain can pose a risk to the organization if their practices go against the company's policies, government regulations, or societal norms.

Nonetheless, procurement could play a larger role in developing and managing the company's ESG strategy. Some companies are now exploring how procurement can help set the tone for future ESG initiatives while still maintaining their focus on key procurement objectives.

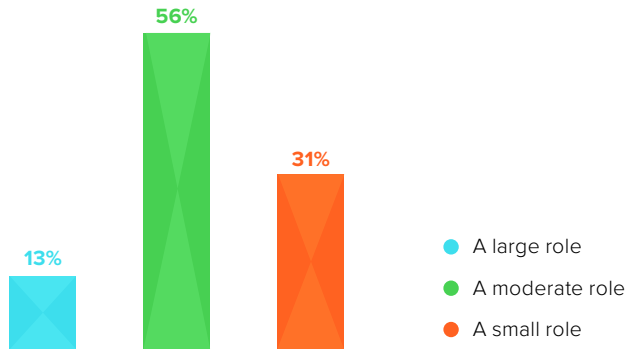
## What are your highest procurement priorities over the next 12 months?



Most of the respondents say digitization (58%) and supply chain resilience (54%) are high priorities in their procurement functions. Almost half of the respondents (42%) also say elevating procurement as a source of strategic value is a high priority.

Notably, 65% of the respondents say that delivering on sustainability and ESG goals are moderate or high priorities. This suggests procurement is playing a much more active role in organizations' progress toward issues of sustainability, inclusivity, and ethical governance.

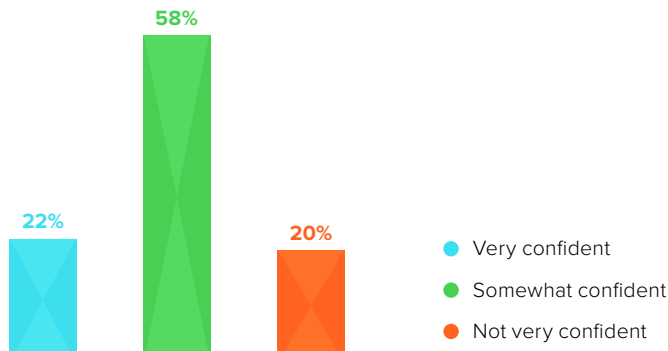
### What role does procurement leadership currently play in ESG decision-making at your organization?



However, 87% of the respondents say procurement doesn't currently play a primary role in ESG decision-making. Only 13% say procurement plays a large role in the company's high-level ESG decisions. The remainder say procurement's role is moderate (56%) or small (31%).

Likely, the function is only responsible for *carrying out* ESG objectives. The function may need to deliver on executive mandates, but it doesn't have much influence on the mandates themselves.

### How confident are you in your procurement organization's current ability to achieve its ESG goals over the next 12 months?





Furthermore, only 22% of the respondents are very confident in their ability to deliver on ESG goals over the next 12 months. Most of the respondents (58%) are only somewhat confident.

This suggests there is a disconnect between high-level ESG decision-makers and the procurement department. Procurement may not have all the resources it needs to carry out the company's ESG directors. It could also be true that there is a lack of clear guidance from executives or that the company's mandates are unrealistic.

### Based on your experience, what stage have you reached in developing a sustainable procurement function?

Initial—We've gained an understanding of our context and have established a vision for sustainable procurement.



Baseline—We've set up internal and external sustainability policies, and we've piloted priority initiatives.



Maturing—We've structurally embedded sustainable procurement into our operations and are enhancing our policies.



Mature—We've deployed our sustainable procurement policies, processes, and solutions at scale, both internally and within the supply chain.



Indeed, only 24% of the respondents say they've reached a "mature" level in their development of a sustainable procurement function. They've deployed sustainable procurement policies, processes, and solutions at scale, both internally and within the supply chain.

Most of the respondents consider their procurement departments either "maturing" (42%) or "baseline" 31% when it comes to sustainability. They've structurally embedded sustainable procurement into their operations or are just beginning to establish internal and external sustainability policies.

If procurement teams are to play a much more substantial role in ESG, they'll need a more prominent seat at the table when making decisions about how to establish the company's policies at scale. This would allow for more collaboration between procurement leaders and other executives. The function may also require additional resources, such as new analytics capabilities or even additional staff who are skilled in sustainable supply chain issues.

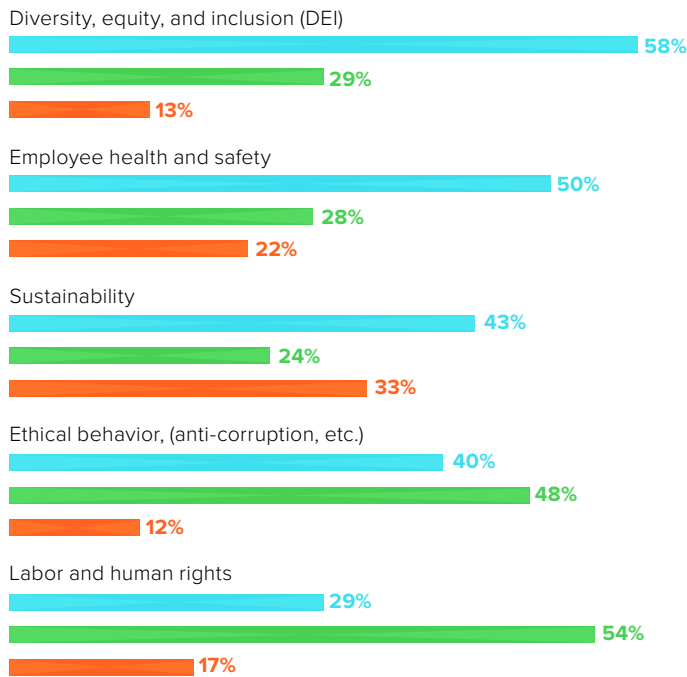
# DEI and Employee Health Take Precedence as ESG Issues

In the past, some companies thought of ESG issues mostly in terms of sustainability. This is especially true of procurement, and supply chain sustainability has arisen as a principal objective for most companies.

But ESG strategies must also include directives on issues like diversity and inclusion, gender equality, and employee health and wellbeing.

## Have the following ESG issues gained or lost significance to your procurement organization's strategy for the next two years?

● Gained Significance   ● No Change   ● Lost Significance



Most of the respondents (58%) agree that DEI will gain significance as an ESG issue within the procurement organization. Procurement teams will work to improve diversity within their internal staff, and they will actively search for ways to improve employee equity and make the workplace more inclusive.

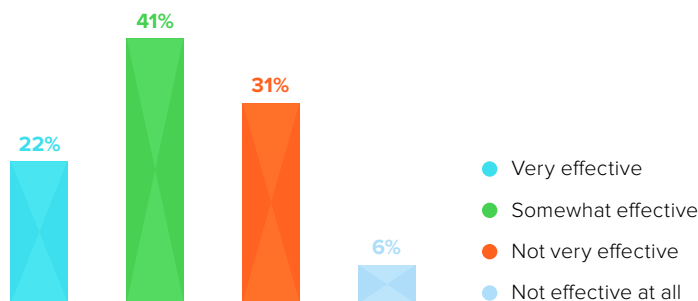
However, the procurement department must also push these objectives outward, extending them to their suppliers. Companies that partner with suppliers of strong ethics can benefit from multiple rewards, including increased innovation and collaboration.

Half of the respondents also say employee health and safety will increase in importance over the next two years. This is likely a direct response to the recent COVID-19 pandemic, which is still ongoing.

Many companies have established permanent or semi-permanent working conditions that promote employee health, ensure better safety for employees, and go beyond regulatory standards. These include steps to prevent the spread of illness, but also better health benefits, such as paid time off for mental health reasons.

Notably, about one-third of the respondents (33%) say sustainability will lose significance as an ESG issue for the next two years. These organizations may be satisfied with their existing sustainability commitments, as some companies have already established goals for net-zero emissions.

### Given your current data technologies, how effective is your ability to enforce your ESG policies among your upstream suppliers?



Unfortunately, only 22% of the respondents say their ability to enforce ESG policies among suppliers is very effective. Over one-third of the respondents (37%) say their ability to do so is either not very effective or not effective at all.

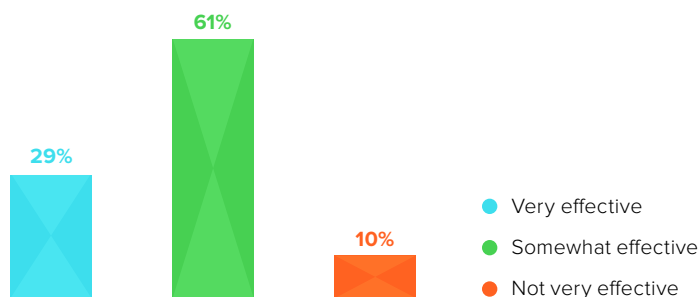
Some of these respondents say they need better technology integrations with their suppliers, as these would enable them to measure ESG metrics. However, most of these respondents say that their challenges stem from a lack of prioritization, a lack of education, and the need for a shift in mindset both internally and among their suppliers.

“I believe it’s the mindset that needs an upgrade,” says a supply chain director at an industrial manufacturing organization. “If we don’t enforce thinking about the future, a term like ESG won’t really make sense.”

“There needs to be more ESG-oriented education across the organization to make it a core value for everyone to participate in,” says a risk management VP at a consumer products company.

Similarly, a supply chain director from a manufactured goods company says, “Considering ESG, there needs to be better education or knowledge sharing in the upstream supply chain.”

## How would you rate your organization's current ability to leverage procurement data for its ESG strategy?



Most companies could also stand to improve their ability to leverage procurement data for ESG initiatives. At 61%, most of the respondents say they are only somewhat effective in doing so.

Nonetheless, 29% say they are very effective in using procurement data to inform or power their ESG strategies. These companies have likely integrated their analytics with data flows from across the supply chain and can gain sincere measurements on issues like emissions, pay equity, diversity, and more.

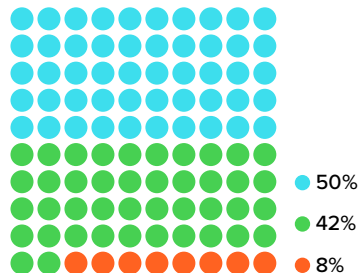
# Procurement is Likely to Increase ESG Investments to Overcome Challenges

Results from the study imply that procurement departments need to make more significant progress in their ESG capabilities, particularly when it comes to education, leadership, and data integration. However, there are some promising results as well.

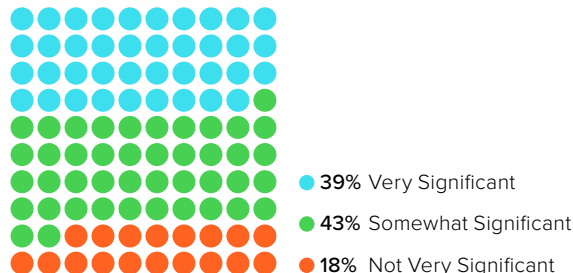
Significant portions of the respondents say their procurement and supply chain environments are mature when it comes to ESG. They also believe they are very effective in their ability to enforce ESG policies among suppliers and leverage procurement data for ESG initiatives.

## How significant are the following procurement challenges to your current ESG strategy?

Measuring progress toward ESG objectives



Benchmarking our ESG efforts against the rest of the industry



Still, the ability to measure ESG metrics is a significant challenge that most procurement functions need to overcome.

For example, half of the respondents say measuring progress toward ESG objectives is a very significant procurement challenge. Another 42% say it is a significant challenge.

Similarly, almost half of the respondents (43%) say benchmarking ESG against the rest of the industry is a somewhat significant challenge, while 39% say it is a very significant challenge.

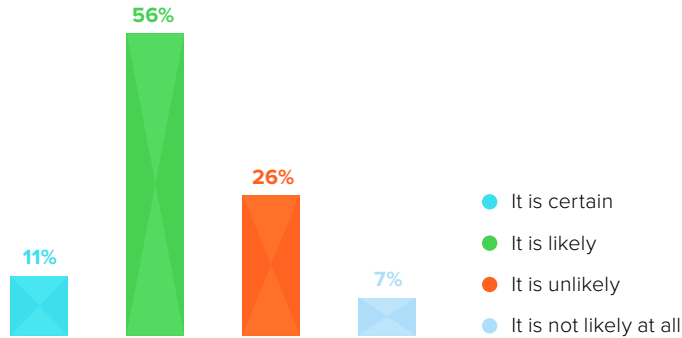
Ironically, it can be challenging to benchmark ESG results against the rest of the industry if the rest of the industry is also struggling to measure internal progress toward ESG objectives. As such, many organizations will need to focus on their internal measurement capabilities before the global procurement community can benchmark against one-another. This will certainly require future investments.

Thankfully, technology platforms can make benchmarking easier and more automated, both for the company and the industry at large.

For example, business spend management platform Coupa launched a community benchmarking initiative in its network. It releases a regular report based on actual business spend transactions, anonymized and aggregated across its community of thousands of organizations. Altogether, the community tracks data based on trillions of dollars in spend.

Initiatives like this offer a simple way for companies to track industry KPIs, including those related to ESG.

## What is the likelihood your procurement organization will increase its investment in ESG over the next 6 months, keeping in mind the possibility of an approaching recession?

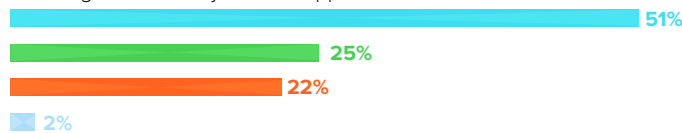


Most of the respondents (67%) say it is at least likely that they will increase their investments in ESG over the next six months, even if there is a recession. This implies that most respondents believe ESG is critically important. It is also noteworthy because so many respondents recognize their current technology investments are inefficient for enforcing ESG policies among their suppliers.

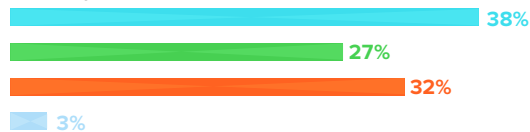
## How effective is your ability to enforce the following ESG policies across your supply chain?

Very effective    Somewhat effective    Not very effective    Not effective at all

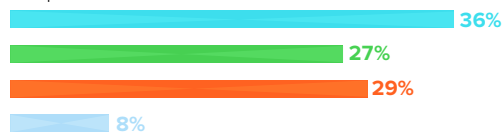
Ensuring sustainability across suppliers and subcontractors



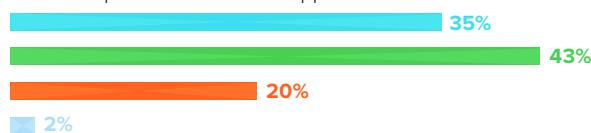
Ensuring ethical behavior across suppliers and subcontractors (anti-modern slavery, anti-corruption, etc.)



Scope 2 / 3 CO2 emissions



Tier 1 / 2 spend with diverse suppliers



The respondents also recognize that they are good at enforcing some policies, but not others.

At 51%, most of the respondents say they are very effective at ensuring sustainability across suppliers and subcontractors. Another 25% say they are somewhat effective in doing so.

Similarly, 78% say they are at least somewhat effective at committing their Tier-1 and Tier-2 spending to diverse suppliers.

However, the respondents struggle in other areas of their ESG policies.

Over one-third (35%) say they are not very effective or not effective at all in ensuring ethical behavior across suppliers and subcontractors. Unethical behavior among suppliers represents a significant risk to the company, as a supplier's actions reflect directly upon the company. Suppliers that engage in corrupt and unethical activities like bribery and even human trafficking are not always easy to identify, as they may operate in jurisdictions that aren't as prudent about clamping down on these activities.

Over one-third of the respondents (37%) say they are also ineffective or not very effective at enforcing their policies on Scope 2 and Scope 3 CO2 emissions. Scope 2 refers to emissions from purchased or acquired resources from the company's suppliers, while Scope 3 refers to emissions extending to the suppliers of the company's suppliers.

For example, if a supplier operates outdated machinery that has a high rate of emissions, the organization purchasing from them may not know it if that supplier doesn't measure its emissions output. Likewise, a company's primary suppliers may be meeting emissions standards, but the organizations that supply those suppliers may not.

Ensuring ethical and sustainable behavior among a vast network of suppliers is a significant challenge, but it is not insurmountable. Procurement leaders can set high expectations for their suppliers in contractual agreements. They can also onboard their suppliers into collaborative technology tools, where both parties can work together to solve challenges.

Finally, third-party data, such as supplier intelligence, should play a role in supplier decisions. Self-reported data is important, but it may not always be accurate or trustworthy in supplier negotiations.

# Conclusion: Next Steps for Improving ESG Through Procurement



In their final line of questioning, researchers asked the respondents to describe what steps their procurement departments are making to improve ESG.

Several respondents say their primary focus now is expanding procurement's knowledge of ESG and developing future projects. They are working to "educate individuals within the organization about ESG policies," as one risk management director puts it.

**"We are supporting the formation of a new ESG framework that will redefine our future in terms of ESG,"** says a procurement director from a consumer products company.

A supply chain VP from an industrial manufacturing company says, "Procurement is working on expanding its knowledge and expertise in ESG to improve and sustain what's important."

Other respondents say they are focused on deploying technology that will support procurement's role in ESG. This aligns with previous responses that indicate companies aren't satisfied with their existing technology and its ability to measure ESG metrics.

**"We are investing time and capital in identifying and developing technology that will support sustainability in the future,"** says a procurement director at a pharma company.

**"Procurement is participating in improving the ESG-oriented infrastructure of the organization,"** says a procurement director from a chemicals, plastics, and polymers company.

Similarly, a C-level procurement executive at a manufactured goods company says they are "working on improving our ESG rating through new solutions."

Most respondents appear to recognize that they'll need a combination of education, infrastructure, and technology for procurement to support their organizations' ESG goals. However, they also recognize that these initiatives must be backed by significant investments.

Organizations must work internally to ensure every department is both educated and focused on ESG policies. They must then empower those functions to measure, report, and enforce those policies. Once this is accomplished, procurement can more effectively scale the company's ESG goals among suppliers, even if they are far upstream or far across the world.





## Key Suggestions

- **Educate the procurement department about the company's ESG policies.** This will help leaders keep them in focus when making decisions.
- **Empower procurement with an ESG infrastructure, including technologies for measurement, reporting, and enforcement.** Capital investments may be required to ensure the function has the tools it needs to benchmark success.
- **Use technology and supplier intelligence to enforce your ESG policies among suppliers.** Use accurate reporting, analytics, and third-party data to inform decisions when negotiating supplier contracts. Supplier-provided reporting may not always be accurate in negotiations.
- **Maintain your commitments to sustainability but renew your focus on DEI and employee health and safety.** These are the ESG issues that will gain significance among procurement departments over the next two years.

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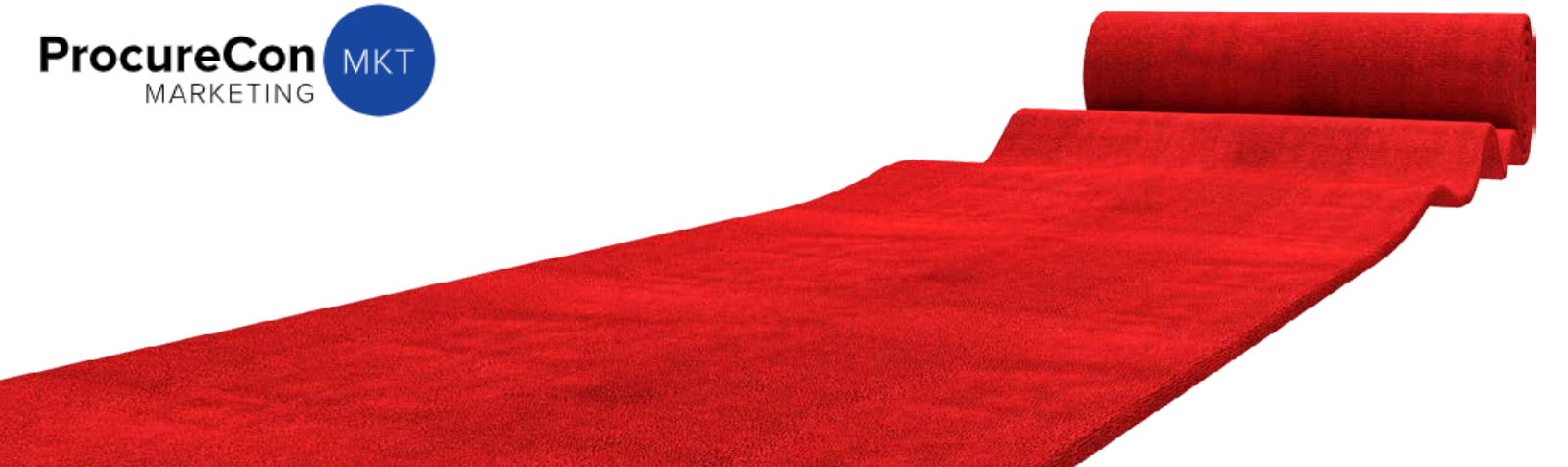
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# About the Authors



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