

# Scaling Up Sustainable Procurement

## A New Phase of Expansion Must Begin

White paper based on the 2017 HEC/EcoVadis  
Sustainable Procurement Barometer  
7<sup>th</sup> Edition

**Olivier Bruel** - Professor Emeritus, HEC Paris  
**Olivier Menuet** - Senior VP Energy, SNCF & Lecturer, HEC Paris  
**Pierre-François Thaler** - Co-Founder & Co-CEO, EcoVadis

**HEC**  
PARIS

**ecoVadis**  
SUPPLIER SUSTAINABILITY RATINGS



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## EXECUTIVE SUMMARY

The importance of sustainable procurement (SP) continues to grow rapidly. No longer seen as a nice-to-have discipline, SP has evolved into an integral business function responsible for reducing costs, mitigating business risk, protecting and improving brand reputation, driving revenue, and supporting innovation and growth.

As a result, Fortune 500 organizations across the globe are investing heavily to ensure sustainability is ingrained across all aspects of their supply chain and procurement operations. The challenge – especially for chief procurement officers (CPO) and chief sustainability officers (CSO) - is to ensure the investment pays off and has the desired impact across the supply chain in accordance with CEOs' and top managers' expectations.

Since the first study carried out over 10 years ago, the HEC/EcoVadis Sustainable Procurement Barometer has measured the evolution of SP practices in global procurement organizations and aimed to provide an understanding of the SP landscape, including sector and geographical differences, industry strengths, improvement areas, new frontiers for innovation, and the potential levers for success in the future.

The last Barometer, published in 2013 and titled “Time To Measure Value Creation”, found global organizations struggling to harness the attention and support of top management and lacking solid footing around performance metrics and objective setting. We are today witnessing an SP landscape nearing adolescence, so to speak, with many organizations shifting their focus on growing their programs to achieve a significant increase in coverage. In this year's report we see a theme of ‘scaling up’ emerging for established programs as we find organizations are at a critical juncture for SP growth. Covering ‘strategic’ or ‘large spend’ suppliers is simply not enough. Disasters like Tianjin and Rana Plaza are reminders that significant risks remain unaddressed in most global supply chains. There is immense scope of work to be done to cover the ‘long tail’ of risk areas representing significant risks. The more mature SP programs are seeking the right strategies and investments needed to scale up their programs to include breadth and depth of coverage of their supply base.

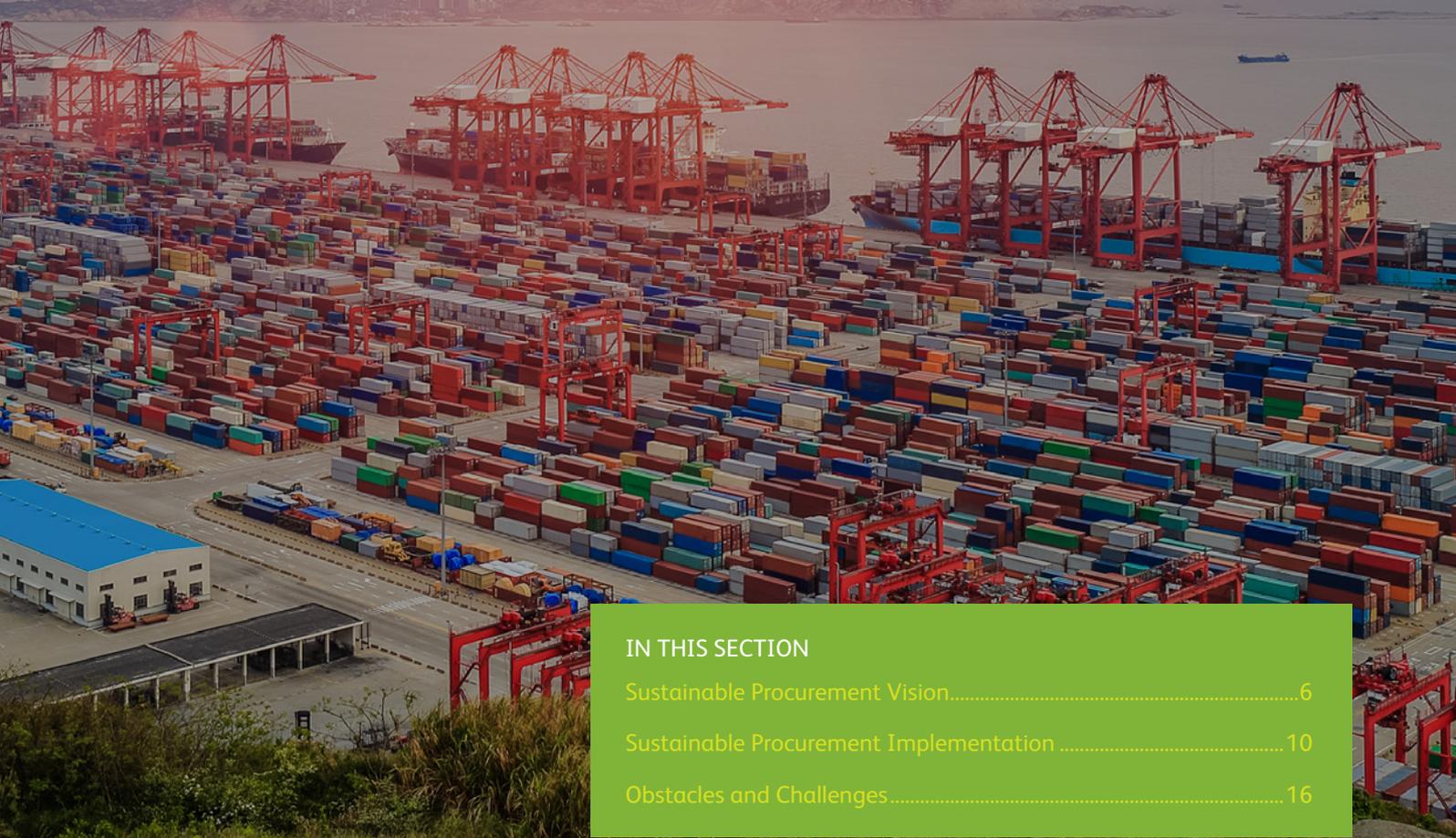
For the first time in the HEC/EcoVadis Sustainable Procurement Barometer, an additional survey was also conducted with suppliers to gather data and insights from their perspective. Findings from this survey suggest that not only increased engagement, but also better internal alignment with suppliers will be critical to develop strategic partners to innovate on sustainability and beyond.

In the coming years, sustainability in procurement will need to rapidly evolve into a new phase of maturity in order to meet the growing demands of stakeholders and executive management, and moreover to align with the ambitions of the UN COP21 Paris Agreement.

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# BENCHMARK 2017

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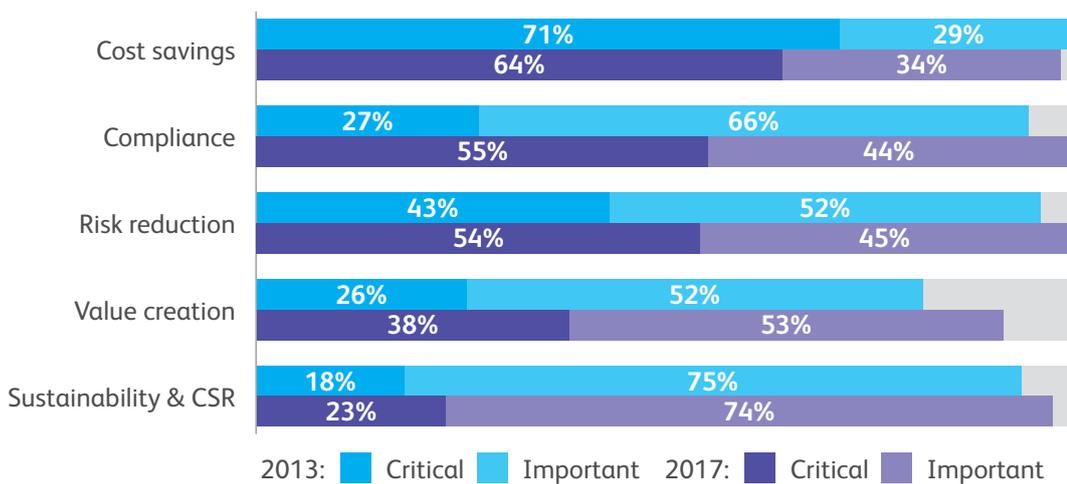
# SUSTAINABLE PROCUREMENT VISION

## Procurement Priorities

As in 2013, **cost savings, compliance, and risk reduction** were cited as the **key priorities** within procurement organizations. It is very notable, however, the **sharp increase of compliance** as a procurement priority, overtaking risk as the #2 priority, **behind cost savings**. We attribute this shift to increasing regulations in Europe and in the United States which have directly affected procurement and supply chain CSR (e.g., California Supply Chain Transparency Act, UK Modern Slavery Act, Dodd-Frank Act on Conflict Minerals). The priority for **Sustainability & CSR** build on 2013 results, moving up 5 points as a **critical factor for 23 percent** of procurement organizations.

### HOW IMPORTANT ARE THE FOLLOWING PRIORITIES FOR YOUR PROCUREMENT/ SUPPLY CHAIN ORGANIZATION?

Main priorities of procurement organizations 2013 vs 2017



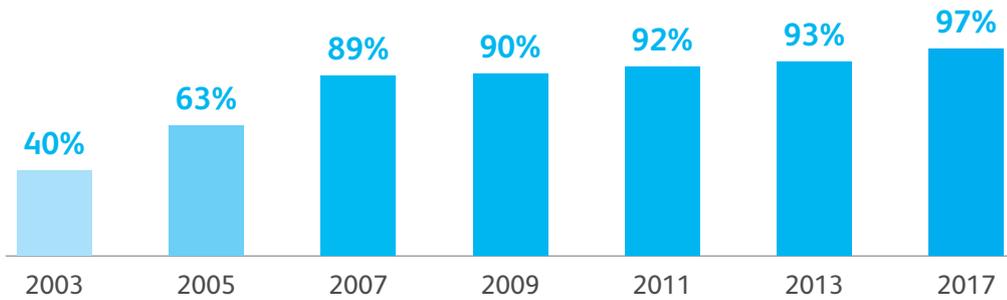
## Importance of Sustainable Procurement

Nearly **100 percent** (97%) of organizations surveyed consider SP **important or critically important**. This continues the upward trajectory of previous years and illustrates how established the SP field has become, a major development in **less than 10 years' time**. There is still much progress to be made, however, as only 23% of respondents reported that CSR/sustainability is critical (see above on Main Priorities). While the level of critical importance of CSR/sustainability

has increased since 2013, it is still low compared to other priorities and not yet a top-3 item on the CPO agenda.

**HOW IMPORTANT IS SUSTAINABILITY/CSR FOR YOUR PROCUREMENT/SUPPLY CHAIN ORGANIZATION?**

Sustainability & CSR: Important or critically important



While the level of critical importance of CSR/sustainability has increased since 2013, it is still low compared to other priorities and not yet a top-3 item on the CPO agenda. There is still progress to be made.

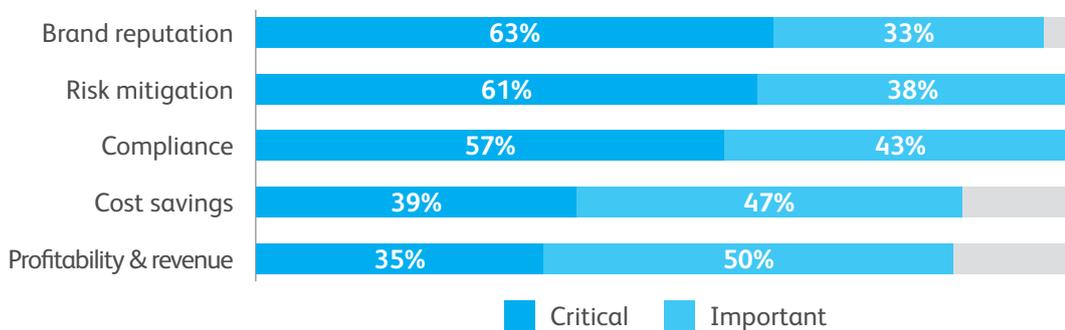
**Sustainable Procurement Drivers**

Looking specifically at **SP programs**, our survey revealed a number of **business drivers** for the widespread investment into SP. The three most important business drivers:

- **Brand reputation** – identified as a critical factor by 63 percent of organizations
- **Risk mitigation** – identified as a critical factor by 61 percent of organizations
- **Compliance** – identified as a critical factor by 57 percent of organizations

**HOW BIG OF A FACTOR ARE THE FOLLOWING BUSINESS DRIVERS FOR YOUR SUSTAINABLE PROCUREMENT PROGRAM?**

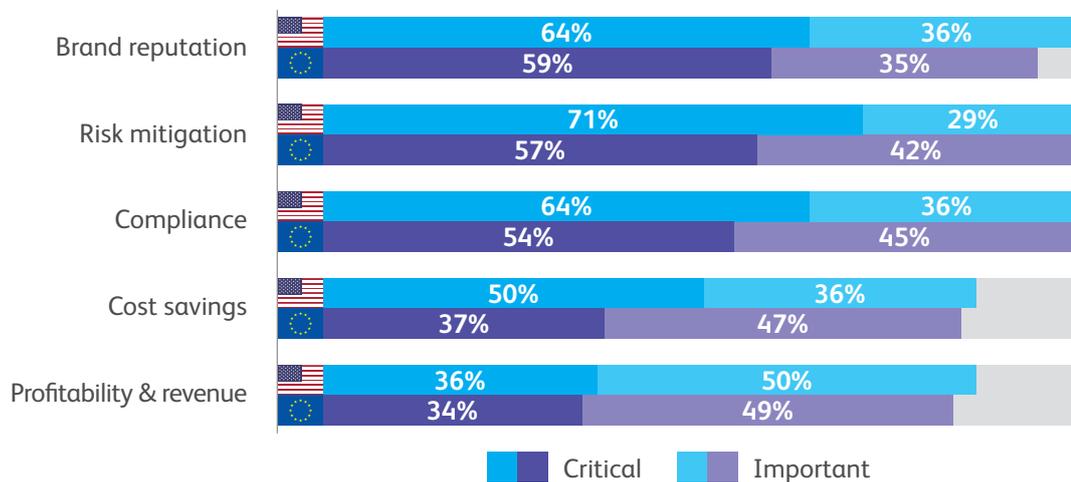
Main factors driving Sustainable Procurement practices



When comparing to our 2013 study, this year we see **a convergence between the US and Europe** on the same top three drivers and priorities for SP programs: **Brand Reputation, Risk Mitigation, and Compliance**. We hypothesize this is due to programs maturing on both sides of the Atlantic and may signal a more global movement toward standardized processes.

Interestingly, in the US, the primary SP driver is risk mitigation, while in Europe, the number one driver is brand reputation. Not surprisingly, compliance remains a key consideration on both sides of the Atlantic, especially as the number and complexity of global regulations continued to rise in 2017.

Main factors driving Sustainable Procurement practices - United States / Europe



We see a convergence between the US and Europe on the same top three drivers and priorities for SP programs.

## Shifting Focus Areas of CSR Criteria

CSR and SP concerns a **broad range of issues**, from human rights to GHG emissions to anti-bribery practices, and it is natural that **focus areas of SP strategies may shift over time**. We are witnessing a shift today toward **social/labor and business ethics** and ‘maintenance mode’ or decrease of investment on the **environmental management** side.

**What’s driving this change?** Part of the answer lies in the fact that environmental efforts have been maturing for a longer time and perhaps peaked in 2015 with COP21. Meanwhile, social issues are growing on the agenda, and the emergence of a new breed of digitally-enabled ‘NGO 2.0’ with new tools, such as China Labor Watch, LaborVoices, MadeInAFreeWorld, and others are bringing a spotlight on these issues in the supply chain. The proliferation of human rights- and business ethics-related news, including stories on the Thai fishing sector and corruption within FIFA, have also brought attention on a wide scale.

Major initiatives and research have pushed awareness, including the release of the Corporate Human Rights Benchmark (CHRB) and the Know The Chain Human Rights Benchmark. And moreover, new laws have been proposed, voted on, or come into force, including the UK Modern Slavery Act.

Consider the following findings:

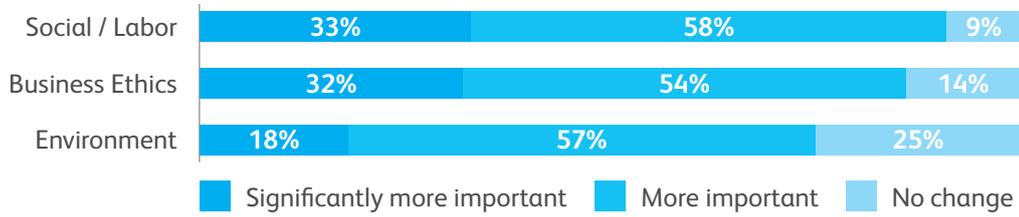
- Only 18 percent of organizations are placing significantly more importance on the **environment** today than they were three years ago
- 33 percent of organizations are placing significantly more emphasis on **social and labor issues** than three years ago
- 33 percent are placing significantly more emphasis on **business ethics**

We are witnessing a shift today toward social/labor and business ethics and ‘maintenance mode’ or decrease of investment on the environmental management side.

OVER THE PAST THREE YEARS, HAS YOUR ORGANIZATION PLACED MORE OR LESS IMPORTANCE ON MONITORING THE FOLLOWING CSR CRITERIA IN YOUR SUPPLY CHAIN?

Importance of CSR criteria in the last 3 years

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# SUSTAINABLE PROCUREMENT IMPLEMENTATION

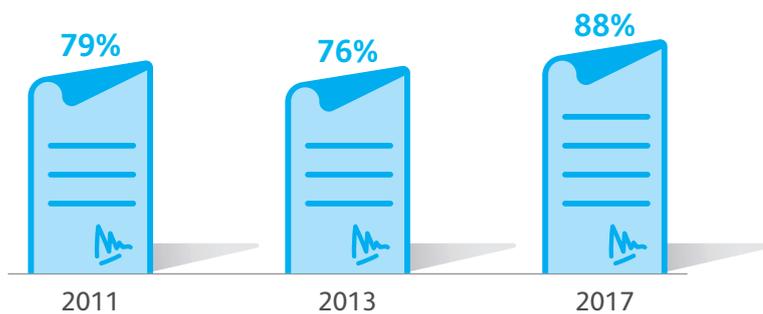
## Policies, Goals, and Reporting

Our inquiry on the state of SP implementation began with questions about the fundamental elements of an SP program: **policies, goals, and reporting**. Our findings show that policies and goal setting are at an advanced stage, while reporting lags behind.

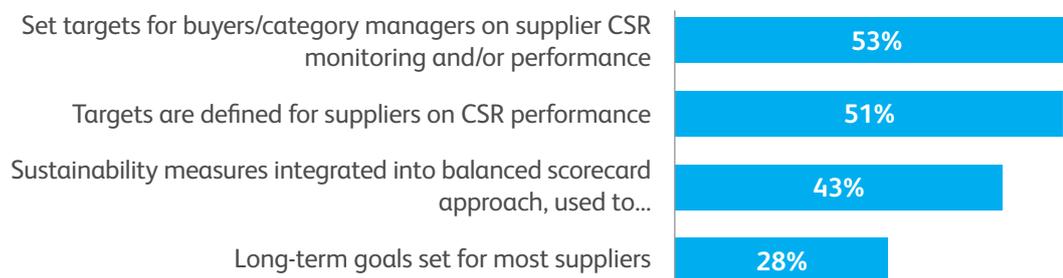
- 88 percent of respondents reported having a supplier **code of conduct** or **SP contract clause** in place, an increase of 12 percentage points from 2013
- Additionally, approximately half of respondents reported that they **set targets for buyers/category managers** on supplier CSR monitoring and/or performance, and over 40 percent reported using a balanced **scorecard approach** to sustainability measures and goal setting.

PLEASE INDICATE YOUR ORGANIZATION'S ENGAGEMENT IN THE THE DIFFERENT ASPECTS OF CSR AND SUSTAINABLE PROCUREMENT (SELECT ALL THAT APPLY)

Supplier code of conduct or specific contract clause in place?



## Goals



“ We don’t punish our suppliers for not meeting the code of conduct but rather engage them first for support. This has instilled trust and opened the door for more communication and real progress on their part.”

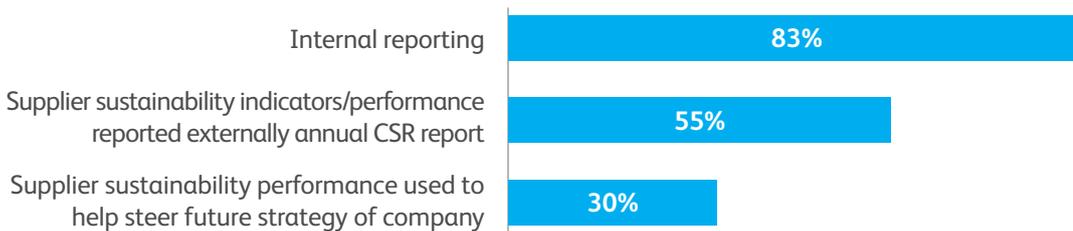
- Top 20 Industrial Conglomerates Company

While policy implementation and goal setting are significantly advanced - and many organizations are approaching industry benchmark levels (see SP Maturity Matrix, Part II) - the maturity level of **SP reporting and transparency** lags behind.

Our survey found that approximately only half of respondents (55 percent) report **externally** on supplier CSR/sustainability performance, and 45 percent are still at an **internal** reporting level of maturity and SP transparency.

PLEASE INDICATE YOUR ORGANIZATION'S ENGAGEMENT IN THE THE DIFFERENT ASPECTS OF CSR AND SUSTAINABLE PROCUREMENT (SELECT ALL THAT APPLY)

Reporting & Transparency



“ Our needs for increased transparency and external reporting to public and private stakeholders is growing. That’s why we need to have good sources of data and for that, we need solid programs in place that address our material issues so that we are able to report on them.”

- Top 5 Pharmaceutical Company

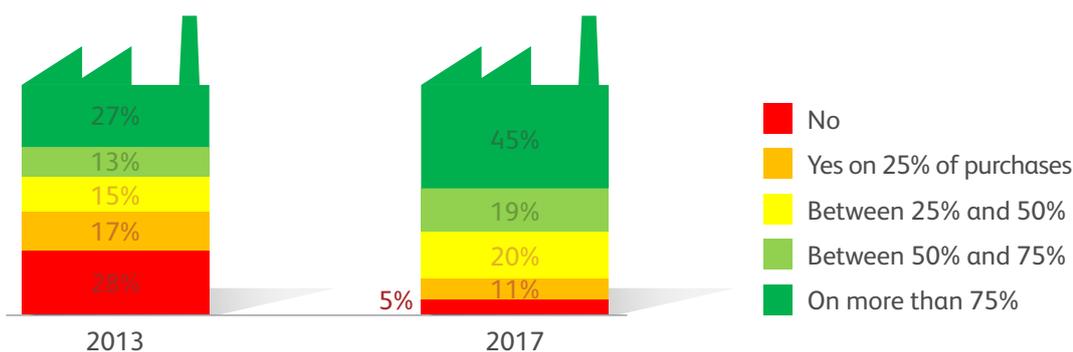
Global Supply Chain Coverage Expands Drastically

Coverage of the supply base as measured by the “percentage of suppliers covered by the SP program” is where the rubber meets the road: this year, the results provide a strong indicator that many companies are now, or will soon be, **scaling up** their programs.

In 2013, only 27 percent of organizations reported that their SP program covered more than 75 percent of volume spend with their **strategic supplier base**. Today that number is 45 percent – **a gain of 18 percent points in coverage**. Although this is encouraging, we must remember to temper our enthusiasm: covering ‘big spend’ suppliers is necessary but not adequate, as they are already more scrutinized and present far lower risks. It is often in the ‘tail spend’ where there are many ‘small volume spend’ suppliers who present significant risks. It should also be noted that the definition of ‘strategic suppliers’ is not universally defined and can fluctuate significantly between organizations.

PLEASE RATE WHAT LEVEL OF COVERAGE YOUR SUPPLIER ASSESSMENT AND/OR AUDIT PROGRAMS COVER FOR STRATEGIC SUPPLIERS

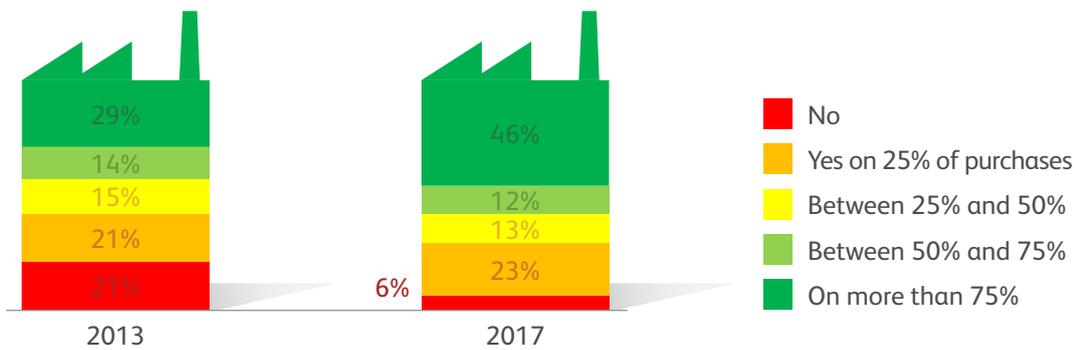
Spend volume covered by SP policy: strategic suppliers 2013 vs 2017



Growth in coverage is similar among **high-risk suppliers**, with 46 percent of organizations reporting today that they have coverage of 75 percent of spend or more with these suppliers – **an increase of 17 percentage points over 2013**.

PLEASE RATE WHAT LEVEL OF COVERAGE YOUR SUPPLIER ASSESSMENT AND/OR AUDIT PROGRAMS COVER FOR HIGH-RISK SUPPLIERS

Spend volume covered by SP policy: high-risk suppliers 2013 vs 2017



### Depth of Visibility Into Supply Chain CSR/Sustainability

While supplier coverage has increased, **supply chain CSR visibility** remains primarily with **tier one** suppliers. In fact, only 15 percent of organizations said they have complete supply chain visibility into the CSR and sustainability performance of both tier one and two suppliers, and only six percent report having full visibility into tier three suppliers and beyond. This is the number one challenge today for sustainable procurement organizations. As discussed previously, it is often further down in supply chains where the most significant risks lie. The 2013 disaster at Rana Plaza is an example of how tremendous risks are present at the origins of supply chains and a stark reminder of the urgent need to increase visibility by scaling up SP programs.

WHAT LEVEL OF DEPTH OF VISIBILITY DO YOU HAVE INTO YOUR SUPPLY CHAIN WITH REGARDS TO CSR AND SUSTAINABILITY?

Depth of supply chain visibility regarding CSR/sustainability



### Organizational Structures

The most notable finding regarding organizational structures in 2017 is the sharp rise in identification of a **SP champion**. This finding supports the overall observation that top management has increased the commitment to SP initiatives. That being said, only 38% of organizations include sustainability

“ Multi-tier visibility and traceability to the origins of our supply chains and transparent reporting on this to our stakeholders is rapidly becoming a requirement for us. It is an extreme challenge. Many in our tier two are not even known to us, and we are at tier six, seven, and eight for some of our raw materials. So a major challenge lies ahead.”

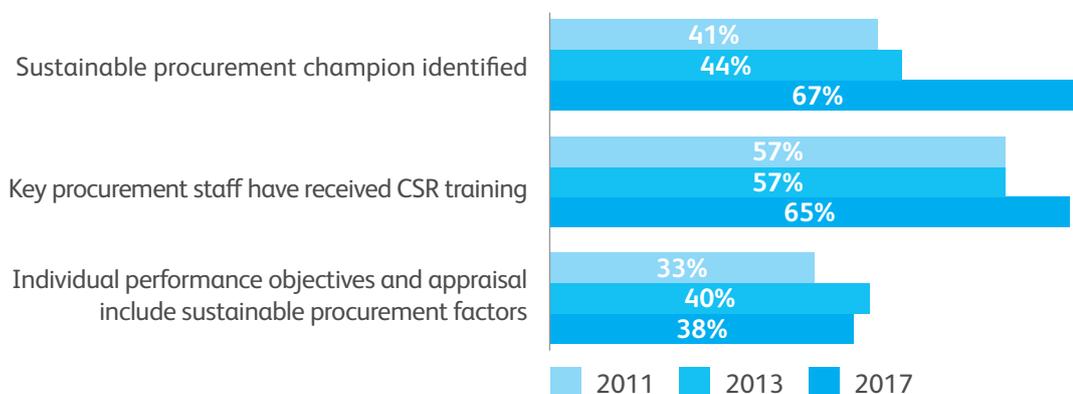
- Top 5 Pharmaceutical Company

factors in their **individual performance objectives and appraisals**. This is a critical point and probably the next tipping point for procurement organizations to fully embrace SP in their strategic and operational practices.

- 67 percent of organizations have an internal **SP champion** – which marks a 23 percent increase over 2013
- 65 percent of organizations provide **CSR training** to key procurement staff
- 38 percent of organizations include SP factors in **individual performance objectives and appraisals**

PLEASE INDICATE YOUR ORGANIZATION'S ENGAGEMENT IN THE THE DIFFERENT ASPECTS OF CSR AND SP.

### Organizational structures



## CSR Data Integration

Once sustainability data is collected and the program is put into action, the question turns to how the intelligence is being used by the procurement team to make business decisions. The survey reveals:

- 75 percent of organizations use CSR data when selecting **new suppliers**
- 63 percent have specific CSR weighting requirements when managing **RFPs, RFXs and tenders**
- 58 percent use CSR data for their **annual supplier evaluations**
- 45 percent use CSR data during the **contract renewal** phase of negotiations

Implementing an effective SP program requires organizations to **incentivize suppliers** to be more sustainable and act more responsibly by making CSR and sustainability data a key factor in sourcing decisions. It is important to note that the top two items here link CSR criteria to **immediate/short-term** commercial benefit (e.g., being selected for new orders). The others are linked to **medium-** (e.g., contract renewal) and **long-term** commercial upside (e.g., preferred supplier programs).

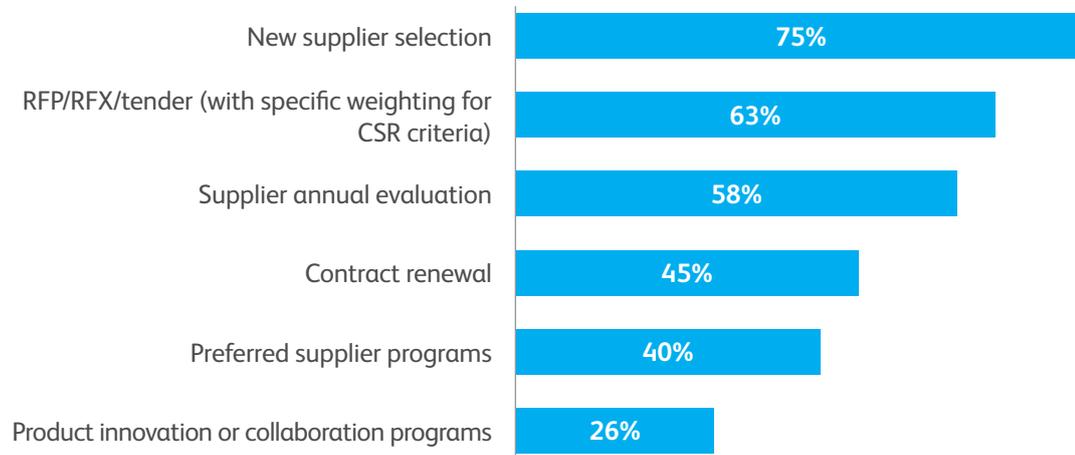
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Implementing an effective SP program requires organizations to incentivize suppliers to be more sustainable and act more responsibly by making CSR and sustainability data a key factor in sourcing decisions.

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PLEASE INDICATE IF YOUR SUPPLIER CSR DATA AND INDICATORS ARE INTEGRATED INTO ONE OR MORE OF THE FOLLOWING PROCUREMENT PROCESSES OR DECISION CRITERIA. SELECT ALL THAT APPLY.

### CSR data and indicators integration



## Sustainable Procurement Tools

Our findings show that use of **tools to support SP** has increased incrementally, with the exception of Self-Assessment Questionnaires (SAQ). Interestingly, 22 percent of respondents (more than one out of five) report using **Total Cost Models** including sustainable development criteria (Life Cycle Analysis), a sign of greater SP maturity on the horizon. This approach to SP tool adoption and sustainability integration, including the use of **Supplier Sustainability Databases and Scorecards**, will be critical for Procurement organizations to embrace in the coming years if they are to move their SP programs to a new level of maturity.

- 65 percent have technology that evaluates **countries and categories** by sustainability risk
- 62 percent have **supplier audit and corrective action plans** – an 11 percent increase from 2011
- 57 percent utilize **supplier self-assessments (SAQ)**, a drop of 7 percent from 2011
- 47 percent rely on **supply sustainability databases or scorecards** provided by third parties, a 3 percent increase from 2011 and 2013

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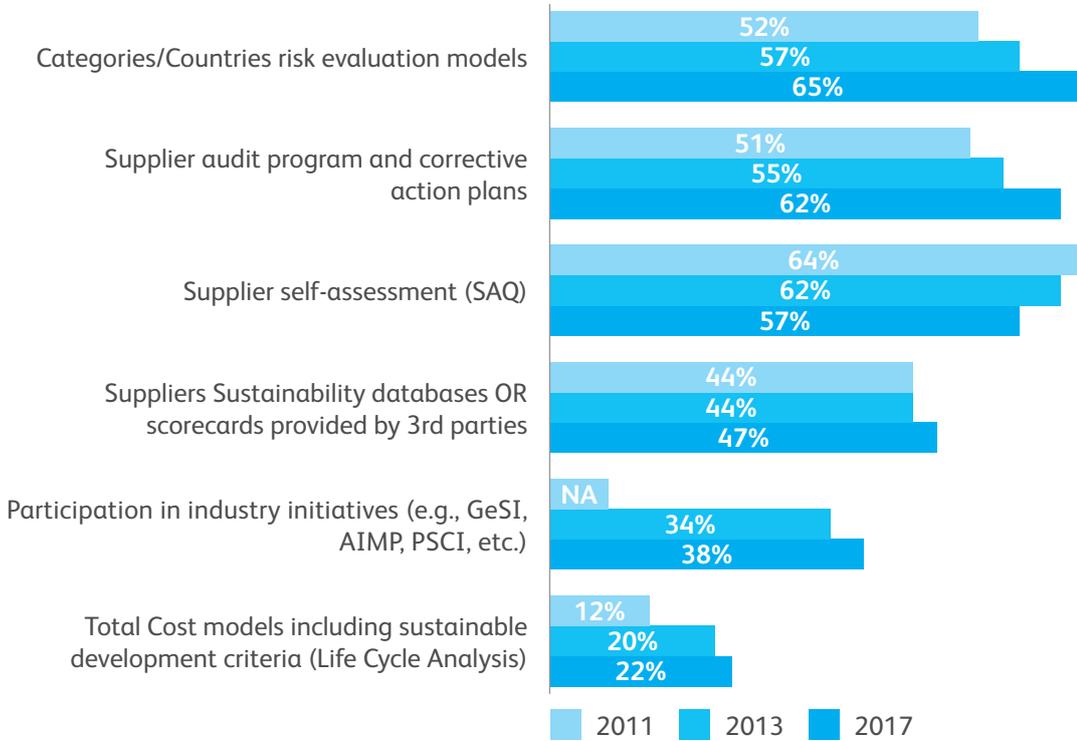
“ Auditing and SAQs have created fatigue. Furthermore, these exercises are not producing our desired results. We are decreasing the volume and optimizing the quality of our audit program.”

- Top 20 Industrial Conglomerate Company

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WHAT TOOLS HAVE YOU ALREADY IMPLEMENTED TO SUPPORT YOUR SUSTAINABLE PROCUREMENT INITIATIVE? SELECT ALL THAT APPLY.

Tools implemented to support Sustainable Procurement





# OBSTACLES AND CHALLENGES

## Main SP Obstacles and Challenges

As in any initiative, procurement and CSR teams face a host of internal obstacles that hold their SP programs back from driving maximum business value.

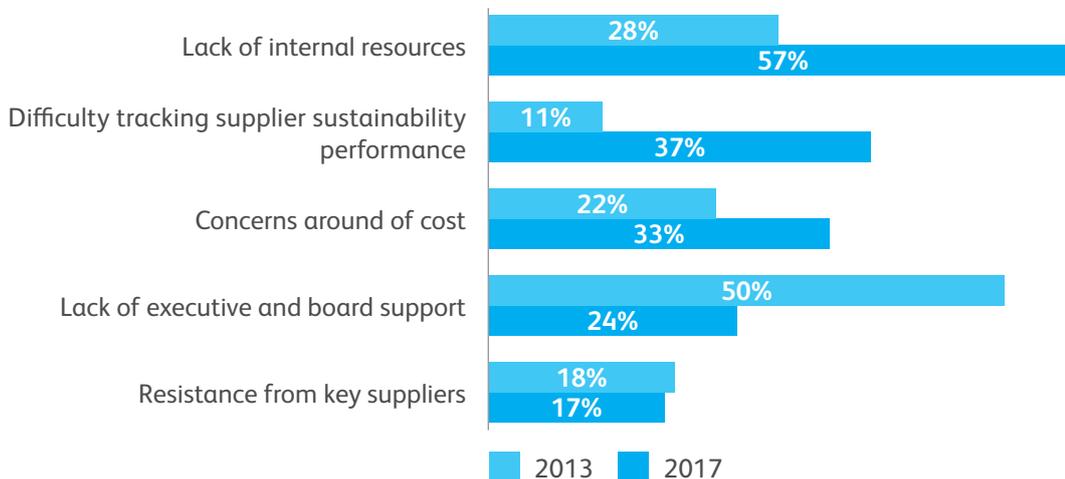
This year, the five largest **obstacles and challenges** in the way of SP programs were as follows:

- A lack of internal resources
- Difficulty tracking supplier sustainability performance
- Concerns around cost
- Lack of executive or board support
- Resistance from key suppliers

Compare these findings to 2013, and a vastly different picture can be painted. **In 2013, the number one internal obstacle was a lack of executive and board support. Today, that challenge doesn't crack the top three.**

WHAT ARE THE BIGGEST OBSTACLES AND CHALLENGES PREVENTING YOUR ORGANIZATION FROM MORE EFFECTIVELY ENGAGING AND COMMITTING TO SUPPLY CHAIN AND PROCUREMENT SUSTAINABILITY? SELECT YOUR TOP TWO.

### Obstacles & Challenges



In 2013, the number one internal obstacle was a lack of executive and board support. Today, that challenge doesn't crack the top three.

Sustainability has captured the attention of consumers, regulators, activists and the media, and management has taken notice. The number one driver is likely consumers, who are using their social conscience to guide purchasing decisions and brand loyalty.

Diving deeper into the data, an interesting picture starts to appear. While executives are finally on board with SP initiatives-- and, as we showed earlier, the identification of sustainable procurement champions has skyrocketed-- procurement teams are still reporting that a **lack of internal resources** and a **difficulty in tracking** supplier sustainability performance are holding their programs back.

What gives? On one hand, this could mean that top management is only talking the talk – saying one thing but failing to adequately equip their teams with the necessary budget and resources to be successful. On the other hand, the C-suite could be a true champion of sustainability, but the procurement team is lacking the right combination of technology, people, and approach for an effective program.

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Procurement teams are still reporting that a lack of internal resources and a difficulty in tracking supplier sustainability performance are holding their programs back

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## Challenges and Length of Implementation

Our analysis shows that the more mature a program gets, the more **cost concerns decrease** and **performance monitoring capabilities increase**. The perception of not having enough internal resources still continues to grow steadily with program maturity, likely due to the team’s desire to accomplish more and have a greater impact across its supply chain and the world.

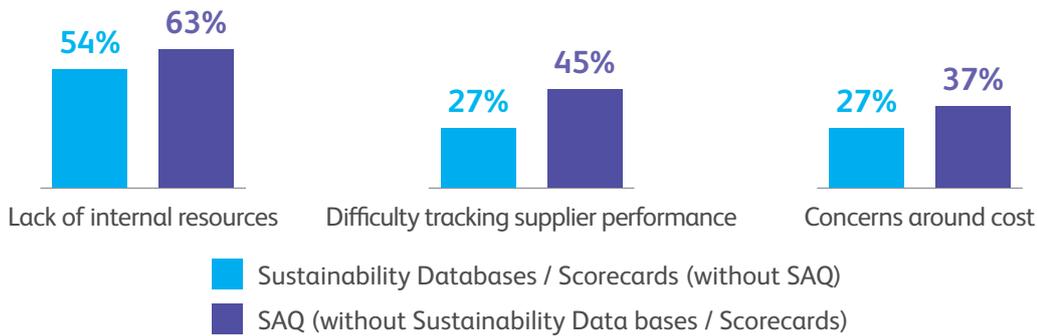
Key Challenges vs Length of Implementation



## Challenges and Tool Adoption

By examining the correlation between **tool adoption** and **key obstacles and challenges**, we see the explanation for the decrease in use of Supplier Self-assessment Questionnaires (SAQ) in the Tools discussion earlier. Of companies who were using SAQ alone, 18% more companies (45% vs 27%) report difficulty tracking supplier performance, 10% more companies (37% vs 27%) report concerns around cost, and 9% more companies (63% vs 54%) report a lack of internal resources as hindering their progress.

## Tool adoption vs key obstacles & challenges



## Sustainable Procurement Results

As noted earlier in the report, organizations are driven to implement SP programs for a variety of reasons – chief among them: risk mitigation, brand reputation, and compliance.

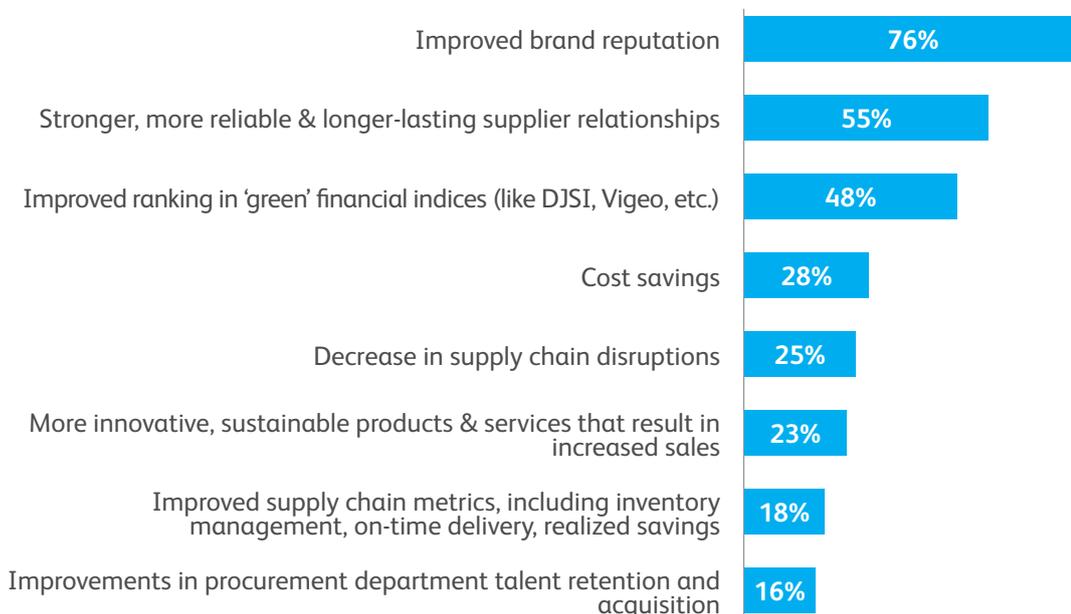
Going a step further, we evaluated where organizations have seen tangible **business results** that can be directly attributed to SP:

- 76 percent report improved **brand reputation**
- 55 percent report having stronger, more reliable and longer-lasting **supplier relationships**
- 48 percent report **improved ranking** in ‘green’ financial indices (like DJSI and Vigeo)

Other business benefits directly correlated to SP include **cost savings** (28 percent) and a **decrease in supply chain disruptions** (25 percent).

**WHICH OF THE FOLLOWING RESULTS CAN YOU ATTRIBUTE TO YOUR SUSTAINABLE PROCUREMENT PROGRAM? SELECT ALL THAT APPLY.**

### Results attributed to Sustainable Procurement



“ We use sustainability as a partnership builder by creating a safe space for everyone to get on board. Once you develop a collaborative relationship around CSR and sustainability, it can spur other types of collaboration.”

- Top 10 Medical Equipment Company



# SCALING SUSTAINABLE PROCUREMENT

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## SUSTAINABLE PROCUREMENT LEADERSHIP

In this year's HEC/EcoVadis Sustainable Procurement Barometer, we conducted dedicated analyses of **Sustainable Procurement 'Leaders'** who reported positively on a range of survey criteria to understand any unique characteristics of SP Leaders vs the rest of the survey population. Our most notable findings relate to the **length of implementation** and the **business benefits** attributed to SP.



**Our definition** of SP leadership was based on positive responses on all of the following criteria:

- ✓ Supplier performance guides future **strategy** of company
- ✓ Sustainability measures **integrated** into balanced scorecard approach
- ✓ Minimum of 25% program **coverage** on high-risk and strategic suppliers
- ✓ Minimum Tier 1 level of supply chain **visibility** concerning CSR/sustainability

### Length of Implementation

Our survey found that the **length of implementation** - the age of SP programs in number of years - was clearly correlated with SP leadership. While the non-leader population was relatively evenly spread in age of program, SP Leaders were clustered at the higher end, and, notably, with a distinct jump at the higher end, with over half (55 percent) of SP Leaders' programs implemented **seven or more years ago**.

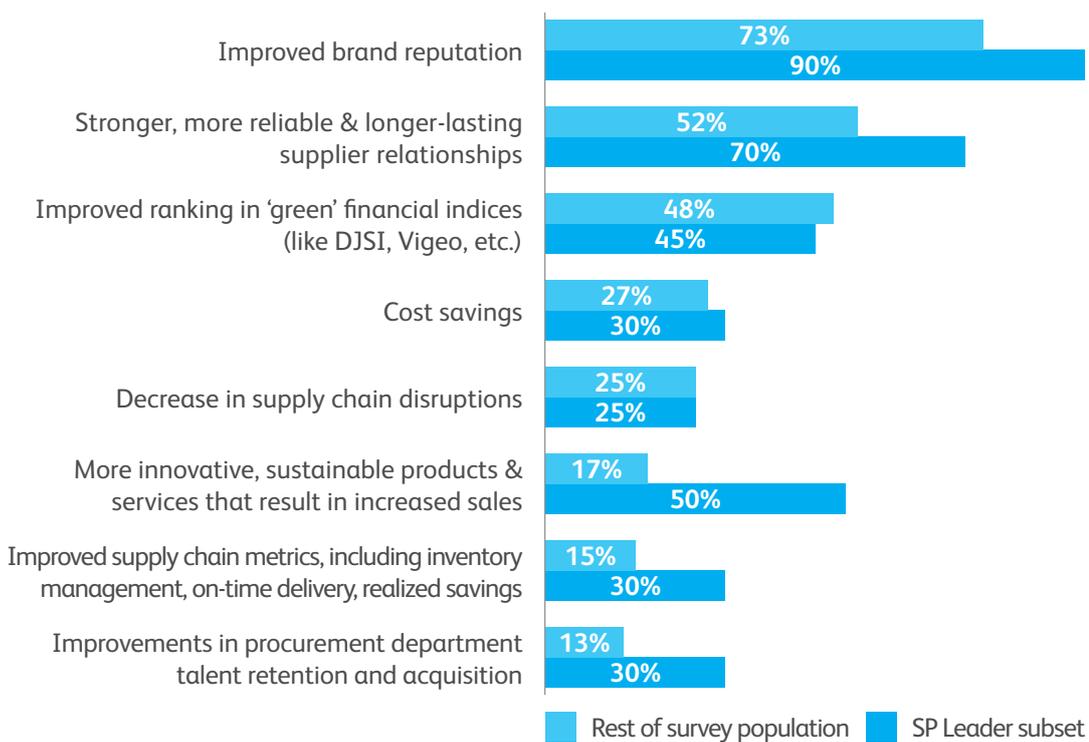
Length of implementation (number of years)



New and Enhanced Benefits

The SP Leaders also reported an **increase in benefits in nearly every category** – from brand reputation and supplier relationships to cost savings and key supply chain metrics (inventory, realized savings, delivery, etc.). The biggest increase for SP Leaders, however, can be seen in terms of **revenue and sales**: 50 percent of SP Leaders have seen increased revenue from the sustainable and innovative products and services they have sourced – a 33 percent increase over the non-leaders.

Results attributed to Sustainable Procurement  
Comparison of SP Leaders and Rest of Survey Population



“ I do believe in the correlation between sustainability and innovation. When a supplier demonstrates their commitment to CSR, they are demonstrating their ability to look forward - that they have a long-term vision. I think this is fundamental to the capacity for innovation.”

- Top 5 Beverages Company

## Sustainable Procurement Maturity Matrix

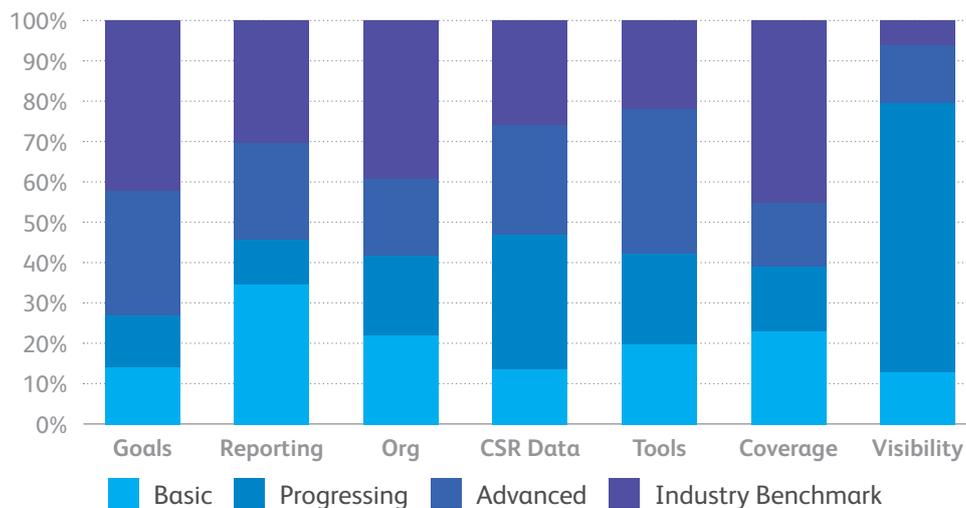
Previous editions of the HEC/EcoVadis Sustainable Procurement Barometer have analyzed the maturity of SP programs by way of a ‘maturity matrix’ model. This year we find it relevant as well, particularly as the SP landscape in 2017 shows major signs of progress, offering clearer contrasts between organizations and solid examples of SP leadership.

The **Sustainable Procurement Maturity Matrix** below organizes seven key components of SP programs (Goals, Reporting, Organization, CSR Data Integration, Tools, Program Coverage, CSR Depth of Visibility) into four stages of organizational maturity (Basic, Progressing, Advanced, Industry Benchmark). The 2017 survey population was analyzed via the matrix model to help understand SP maturity in 2017 across key program components.

Sustainable Procurement Maturity Matrix

	GOALS	REPORTING	ORG	CSR DATA	TOOLS	COVERAGE	VISIBILITY
Level 4 INDUSTRY BENCHMARK	Sustainability measures integrated into balanced scorecard approach	SP steers company strategy	CSR part of Lead Buyers' objectives (MBOs)	Product innovation or collaboration programs	Total Cost Models incl. sustainability criteria (Life Cycle Analysis)	75%	Tier 3 and beyond
Level 3 ADVANCED	Supplier CSR targets set for buyers/ category managers	External SP reporting (tied to internal)	Key procurement staff receive CSR training	Preferred supplier programs	Supplier sustainability databases or scorecards	50%-75%	Tier 1 & 2
Level 2 PROGRESSING	Long-term performance goals set for most suppliers	External SP reporting (not tied to internal)	Key procurement staff receive CSR training	Annual supplier evaluation Contract renewal	Third-party audits	25%-50%	Tier 1
Level 1 BASIC	CSR targets defined for suppliers	Internal SP reporting	SP champion identified	New Supplier selection RFP / RFX / tenders	Category/ country risk evaluation Self-assessment questionnaire (SAQ)	< 25% of purchases	< Tier 1

## Sustainable Procurement Maturity Matrix - Survey Results



As organizations implement supplier collaboration programs and advanced SP tools, they are better able to scale their programs successfully and make gains on visibility into the Tier 2, 3, and beyond

The survey population was nearly **evenly spread** across the spectrum, with an approximate quarter scoring into each maturity level (when averaging percentages per level).

- The component ranking highest at the basic level is **Reporting**
- The component most clustered at the bottom-half (sums of Level 1 and 2) is **Visibility**
- The component ranking highest at the industry benchmark level is **Coverage**
- The component most clustered at the top-half (sums of Levels 3 and 4) is **Goals**

The results from this analysis lends support to our themes of **maturity** and the importance of **scaling**, topics that we believe are key to understanding the last three years of SP practice and the challenges ahead. The analysis illustrates an SP landscape with mature organizational structures, strategic goal setting, and ambitious program coverage. Reporting, tool adoption, and CSR data integration, however, are less advanced. This may help explain the skewed level of CSR visibility that we see in our results (66% at Level 2 or Tier 1). As organizations implement supplier collaboration programs and advanced SP tools, they are better able to scale their programs successfully and make gains on visibility into the Tier 2, 3, and beyond.

## Procurement Maturity Matrix

Recent research on strategic sourcing and procurement management offers additional insight on SP maturity by offering a broader context (sourcing and procurement considered as a whole) in which to situate the analysis of SP maturity specifically<sup>1</sup>.

This research suggests that SP maturity is closely correlated with the overall maturity of the sourcing and procurement function.

<sup>1</sup> For a deeper analysis on the Procurement Maturity concept, see Olivier Bruel et al., *Strategic Sourcing Management – Structural and Operational Decision-Making* (KoganPage, 2016), Chapter 21.

The **Procurement Maturity Model Matrix** below outlines maturity levels (Basic/Transactional, Internal Optimization/Functional, Global Optimization/Transfunctional) across seven components of sourcing and procurement. In terms of SP, if a company is at Levels 1, 2, to mid-3 (less mature), it adopts more of a defensive approach (risk avoidance and mitigation), while at Levels mid-3, 4, to 5, it takes a proactive SP approach, with greater focus on TCO, revenue, mid-term margin, and innovation.

	'BASIC' APPROACH Transactional	INTERNAL OPTIMIZATION PROCUREMENT FUNCTION Functional focus (downstream procurement)		'GLOBAL' OPTIMIZATION Transfunctional focus (upstream procurement)	
Levels	1	2	3	4	5
General Contribution	Management of supply / 'Passive' procurement (execution)	Start of use of identified downstream levers / Reproducible procurement processes	Generalization of the downstream procurement approach / Recognized procurement function contributing to the margin	Integration of the procurement function in product design or deals / Contractual approach / Participation of procurement in the business / Procurement contributing to innovation	'Sharing' of company's procurement performance / Procurement function 'steers' recognized procurement / Participation to value creation
Procurement policy / internal levers	Focus on the handling of purchase requests / Procurement approach based on technical families / Purchases sorting (Pareto analysis 20/80)	Formal segmentation of the portfolio / General procurement policy / Consolidation / Pooling Requirements planning / CSR risk analysis (REACH, RoHs)	Segmentation (including indirect procurement) / Differentiated procurement policy / Analysis of procurement markets / External consolidation / Partial outsourcing / Progressive internationalization / e-Sourcing / Generalized risk rating	Upstream lever actions / Standardization / Target-cost approach / Make-or-Buy / Participation of procurement in projects (including Capex) / Technological watch and sourcing / Global international approach (business support) / Deployment of eco-design	Control over ALL levers / Business partners and specifiers involved / Procurement strategy in the Corporate Strategy
Supplier policy / External levers	'Supply' approach / Negotiation for amount >(1€/€/USO) / Some calls for tenders	Calling for competition (calls for tenders) / Mid-term master agreements for cat. A suppliers [price, horizon, delivery conditions] / Sustainable Procurement Charter / Supplier CSR commitment	Calling for competition (calls for tenders with CSR criteria) / Deployment of a supplier panel / Master agreements / Operational partnership (quality/cost/lead times) [total cost of acquisition approach] / Scheduled decrease of suppliers / SRM (start) / Generalized risk rating	Idem + Formalized improvement plans / Development or innovation partnership / Co-innovation / Co-development / Generalized 'panel' approach / Generalized SRM / TCO approach (procurement+ supply chain)	80% suppliers in partnership / Co-Innovation / Strategic alliances / Joint ventures / Generalized SRM

	'BASIC' APPROACH Transactional	INTERNAL OPTIMIZATION PROCUREMENT FUNCTION Functional focus (downstream procurement)		'GLOBAL' OPTIMIZATION Transfunctional focus (upstream procurement)	
Levels	1	2	3	4	5
Processes / Tools / Practices	Setting up and respect of the procurement department's standard procedure / No direct formal contact with internal customers	Delegation (if OK) / Formal rules on drafting requirements specifications / follow-up of suppliers / RFI / RFP / RFO	Procurement manual / Procedures diffused and applied / Internal audits / Supplier audits and management (supplier quality assurance or CSR) / e-RFx	Systematic periodical internal and external audits / Detailed procedure(s) for product or business design and development (all departments included) / e-RFx + portals	Certification of all procurement processes (procurement department and other departments)
Information and decision-making systems	Basic office tools / Specific application or procurement ERP module / Basic workflow (processing of purchase requisitions and orders)	Internal centralized procurement database (capitalization on experience per procurement category) / Supplier files / Procurement ERP system or office tools	Generalized database (procurement intranet, Wiki) / Database on upstream markets and sourcing / Use of ERP web sites or e-procurement or spend analysis	Contribution to the database by all players OUTSIDE procurement department / ERP / e-sourcing / Wiki knowledge bases (internal/ external)	Integrated Extranet AND Internet system (use of Web applications) / Wikis (internal, external) / ERP connections with strategic suppliers
Procurement human resources (collaborators)	Identification of the buyers (better use of the existing competencies)	Definition and sharing of the principles of HR management (job profiles, competencies assessment) / Buyer-training plan	2/3 of players correspond to profiles / Recruitment and training / Setting up of upstream sourcers and project buyers	80% of procurement buyers meet professional standards / Training / information aimed at users and specifiers / Setting up of upstream sourcers and project buyers / Implementation of designer-buyer duo teams / Internal mobility	Collaboration of all departments / Generalized contractual approach
Internal / External communication (stakeholders)	Mere identification or internal customers	Systematic analysis of requirements / First phase of a contractual 'customer' approach	Manual on procurement procedures shared / Diffusion of procurement policy (CEO, users, partner suppliers) / 'Pilot-workshops' on requirements specifications defined with users / Anticipation of future requirements meetings	Upstream-procurement 'pilot workshop' / Active participation of procurement in project or business groups / Communication plan / Supplier 'motivation' actions / Deployment of Key Supplier Management	Generalized communication plan (all targets INCLUDING panel suppliers): business partners and stakeholders / Evaluation of supplier satisfaction

© 2013 Prof. O. Bruel (HEC Paris) developed for the HEC Executive Master Global Sourcing and Supply Chain

We believe that the SP leaders in our 2017 study are on average at the Level mid-3 to 4 in the Procurement Maturity Model, exhibiting a high level of sourcing and procurement practice in general and thus thriving in optimal conditions for SP initiatives. In these companies, procurement is integrated into long-term corporate strategies and not simply focused on basic practices and short-term operational and economic results.

Our previous research has suggested that companies need time to reach a procurement maturity level of 4 and beyond. The results of our 2017 Barometer research suggest the same for SP - approximately at least five years or more.



# SUPPLIER PERCEPTIONS AND ENGAGEMENT

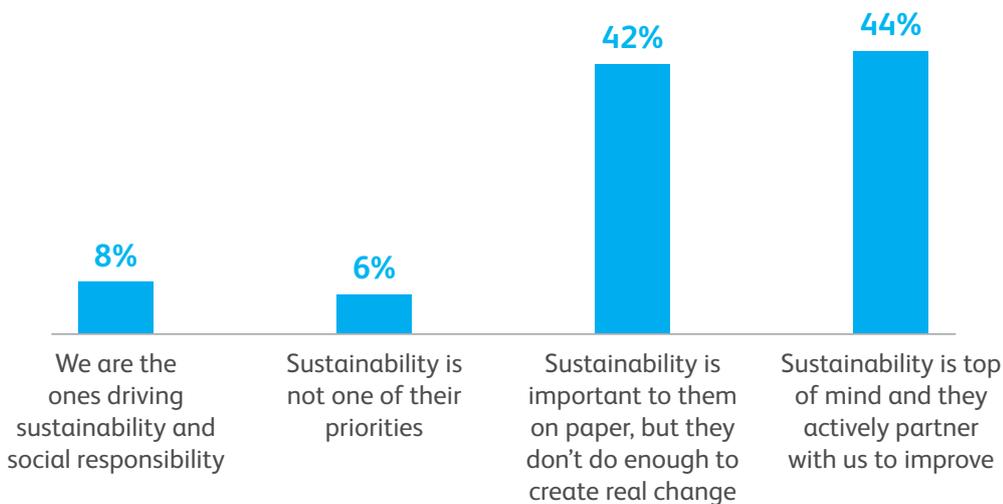
Our supplier survey yielded notable findings related to methods of engagement in the supply chain and the motivation among suppliers to move beyond compliance in CSR/sustainability performance.

Asked about the perception of **clients' commitment** to supply chain sustainability, less than half of respondents answered that they believe clients are committed and actively engaged.

- 44 percent believe that sustainability is top of mind among clients and that they actively partner to improve performance
- 56 percent believe that clients are less than committed or that CSR/sustainability is not a priority

## CONSIDERING THE ORGANIZATIONS YOU SUPPLY THAT ARE AT LEAST \$1 BILLION IN REVENUE, HOW WOULD YOU CATEGORIZE THEIR COMMITMENT TO BUILDING A SUSTAINABLE SUPPLY CHAIN?

Commitment to sustainable supply chain among organizations you supply (at least \$1BN in revenue)

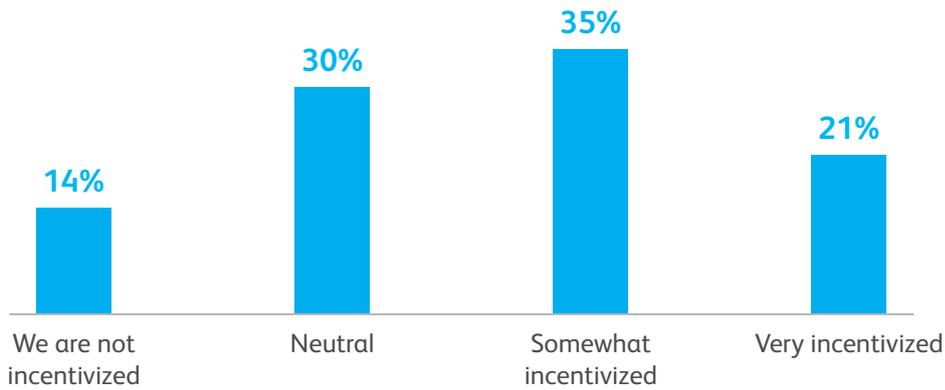


The percentage of respondents that feel **strongly incentivized to move beyond compliance** was even less, with only 21 percent of respondents reporting that they feel very incentivized, and nearly half of respondents (44%) feeling neutral or not incentivized.

“ I believe that supplier engagement and awareness campaigns can only be successful if all parts of the business that interact with suppliers are aligned, otherwise you are destined to send mixed messages that will put your level of commitment in question.”

- 10 Medical Equipment Company

BEYOND COMPLIANCE, HOW INCENTIVIZED ARE YOU BY YOUR BUYERS TO BE SUSTAINABLE AND SOCIALLY RESPONSIBLE?



Our findings suggest that setting performance targets and collaborating on improvement plans are the most successful in demonstrating commitment and incentivizing suppliers to move beyond compliance.

## Best Practices on Supplier Engagement

How clients engage you on sustainability & CSR



As we did within our main survey, we conducted dedicated analysis of a **supplier leader subset** that reported positively on a range of criteria. This analysis was conducted to better understand perceptions and motivations within the supply chain, and to hopefully uncover best practices for buyers and suppliers. Our most notable findings relate to **suppliers' perceptions** of clients' commitments to CSR, the **level of engagement** from clients, and the efficacy of different methods of **supplier engagement**.

Our definition for the supplier leader subset was defined by respondents' positive responses to all of the following:

- Very incentivized by buyers to go beyond compliance in sustainability and social responsibility performance
- Believe that sustainability is **top of mind** to clients and that clients **actively partner** to improve performance

Our findings suggest that **setting performance targets** and **collaborating on improvement plans** are the most successful in demonstrating commitment and incentivizing suppliers to move beyond compliance.

## Supplier Engagement Maturity

Our research findings on supply chain engagement and supplier motivation can also be analyzed by way of a maturity model. The **Maturity Matrix in Supplier Relationships** below outlines the defining characteristics of supplier relationships across five levels of maturity (Transactions, Contracts, Panel Improvement Process, Policies, and Values)<sup>2</sup>.

	MAIN CONTENT	MAIN FEATURES
Level 5 VALUES	<ul style="list-style-type: none"> <li>• Ethics</li> <li>• Respect of commitments</li> <li>• Social responsibility</li> <li>• Environmental responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• One-to-one relations</li> <li>• Management/ KSM meetings</li> <li>• Project teams</li> <li>• Confidentiality agreements</li> </ul>
Level 4 POLICIES	<ul style="list-style-type: none"> <li>• Innovation</li> <li>• Technological perspective</li> <li>• Product/market developments</li> </ul>	<ul style="list-style-type: none"> <li>• Restricted supplier conventions / KSM</li> <li>• Joint supervision/project teams</li> <li>• Non-disclosure agreements/SRM</li> </ul>
Level 3 PANEL IMPROVEMENT PROCESS	<ul style="list-style-type: none"> <li>• Qualification principles/ RFI</li> <li>• Expected performance criteria</li> <li>• Improvement plans</li> <li>• Enlarged performance indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier conventions</li> <li>• Assessment meetings</li> <li>• Information on Intranet portal / SRM</li> </ul>
Level 2 CONTRACTS	<ul style="list-style-type: none"> <li>• RFP - RFQ calls for tenders</li> <li>• Selection criteria</li> <li>• Negotiation</li> </ul>	<ul style="list-style-type: none"> <li>• Technical communication on contractual expectations</li> </ul>
Level 1 TRANSACTIONS	<ul style="list-style-type: none"> <li>• Management of physical flows</li> <li>• Accounting chain</li> </ul>	<ul style="list-style-type: none"> <li>• No communication</li> </ul>

© 2010 Jean Potage, original Prime Model (above simplified version by Olivier Bruel)

This SRM model finds that lower-level procurement professionals or beginners practice at Levels 1 and 2, taking a defensive approach to supplier relationships. Level 3 finds organizations beginning to mature, this evidenced by the introduction of collaborative initiatives with key suppliers. Finally, organizations are fully mature at Levels 4 and 5, where collaboration, cooperation, and shared values are at the heart of supplier relationships.

<sup>2</sup> For more details, see: Bruel et al., *Strategic Sourcing Management*, Chapter 4, Sec. 4-5

Maturity in supplier relationships is characterized by open dialogue and a drive for improvement. Organizations operating at these higher levels place more importance on supplier feedback and commonly implement Supplier Satisfaction Surveys or Supplier Seminars for qualitative feedback. Additionally, achieving a high level of supplier relationship practice often entails dedicated resources (e.g., Key Supplier Managers or “KSM”) to stimulate cooperation and create value from optimization and innovation initiatives.

Both the **Procurement** and **SRM** maturity models can and should be cross-analyzed and considered for a well-rounded analysis. Indeed, to be mature and open-minded in the Supplier Relationship approach, one needs to practice Procurement at a minimum of Level 3. And this requires years...

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# CONCLUSION AND RECOMMENDATIONS

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## CONCLUSION

What does it take to become an adult? Approximately 20 years or so. And how long does it take for a tree to grow? About the same - 20 years or more. A new discipline in business, then, especially if not directly linked to a P&L quantitative approach, might therefore parallel this timeline.

Sustainable Procurement is, in relative terms, a brand new discipline, started less than 15 years ago. And while major progress to this end has been made in recent years, CSR and sustainability are not purely quantitative disciplines, as social and environmental performance measurement has not yet been institutionalized in the financial domain. That being said, we are convinced that all intangible assets generated by SP yield real gains for both the acting organizations as well as all stakeholders - including internal customers, external suppliers, and buyers.

This report represents the seventh edition of the HEC/EcoVadis Sustainable Procurement Barometer, and we believe more strongly than ever that the critical importance of SP is well demonstrated. While obstacles and challenges remain (e.g., lack of individual SP objectives for all buyers), the SP landscape shows more promise in 2017 than in any previous years.

We thus call on CPOs around the world: do not wait! Your CEOs are eager to further integrate your performance and results in their decisionmaking. Furthermore, SP is a thriving discipline that any procurement professional would be thrilled to implement. Partner with your CSOs and Suppliers who are your best allies on the roadmap to sustainability and responsibility in the supply chain. Start today and join the thousands of global organizations around the world who are making progress on the triple bottom line!

## Recommendations

- ✓ **Ensure the quality of external reporting** on supply chain & supplier performance, a crucial component for transparency and success in SP. This fundamental component was shown to be lagging in our survey results.
- ✓ **Stay the course:** It may take five or more years to reach upside returns from your SP program. New initiatives will first experience tactical improvements (e.g., cost savings, reduced disruption risk, compliance). However, as programs mature toward the 'SP Leader' profile -- whose programs are on average older than non-leaders -- they begin reporting strategic upside benefits like increased revenue, improved relationships, and enhanced brand reputation.

- ✓ **Find tools that will scale** for increased program coverage and depth and to reach next-level benefits without taxing your internal organization, or tools that can do so in a ‘leveraged-scaling manner’ (i.e., tools with efficiencies of scale). Remember that the long tail of smaller/low-spend suppliers represent significant risks.
- ✓ **Stay in sync with supplier perceptions** and the efficacy of engagement methods. Our study has suggested that setting performance targets and collaboration on improvement plans are key to demonstrating commitment and incentivizing performance beyond compliance, both fundamental to higher-level supplier relationships and, ultimately, strategic initiatives with key suppliers.

## Looking Forward

What are the next steps for SP organizations? What do the next three, five, seven years have in store, and what will be the key levers for progress, maturity, and growth in SP practice?

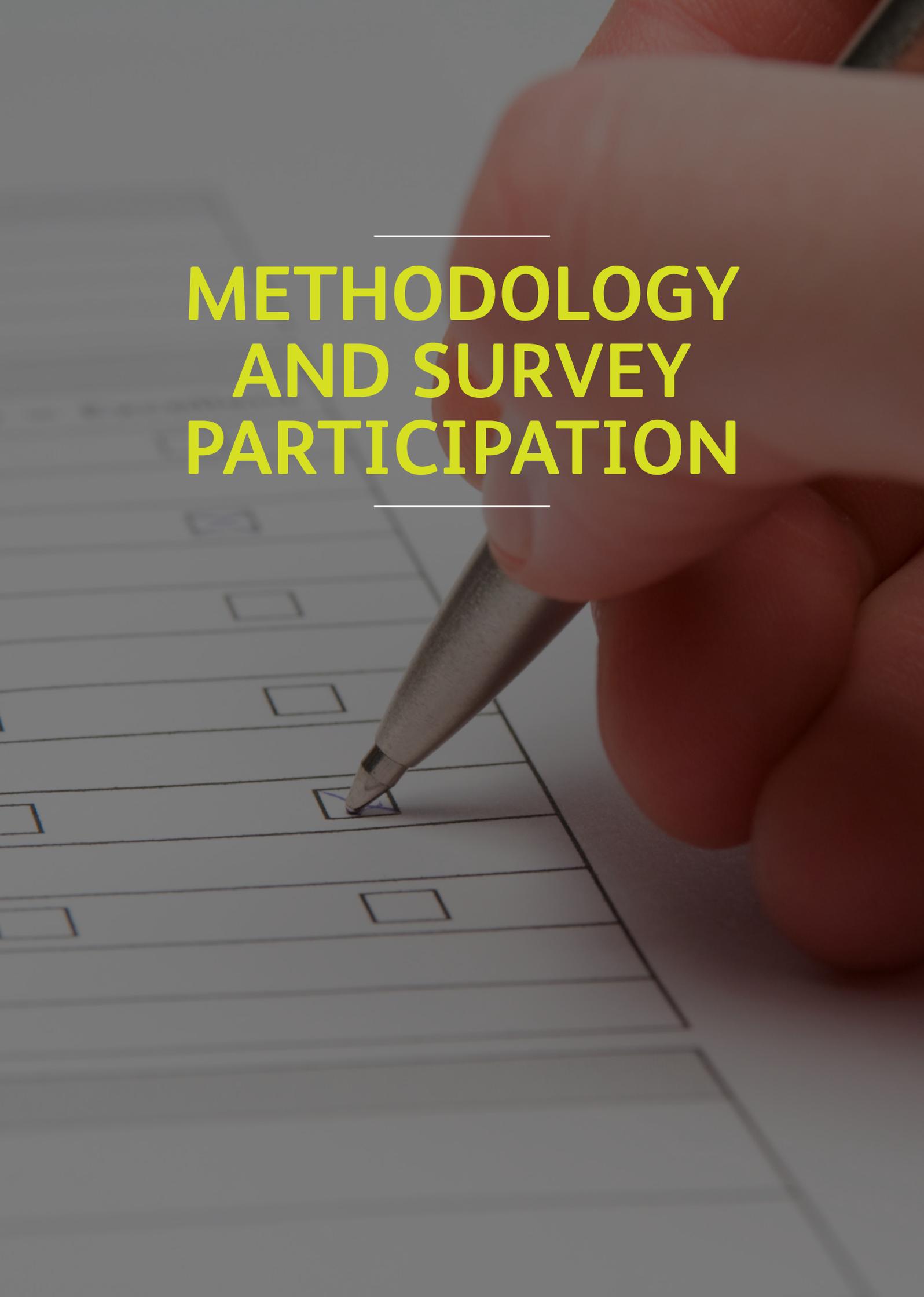
We envision a Procurement organization based on two new pillars. Firstly, a real **Total Cost of Ownership (TCO)** discipline integrating all aspects of Life Cycle Analysis (LCA). The trendline into this year’s survey results provide some confidence on this front (11% in 2011, 20% in 2013, 22% in 2017). Secondly, the **integration of stakeholders** in SP targets, strategies, and operations. As procurement organizations increasingly externalize competencies outside of their core to external suppliers, who better than strategic suppliers to help clients move forward on their SP roadmap? The time has come for a new era in supplier relationships and a next level of confidence in strategic suppliers.

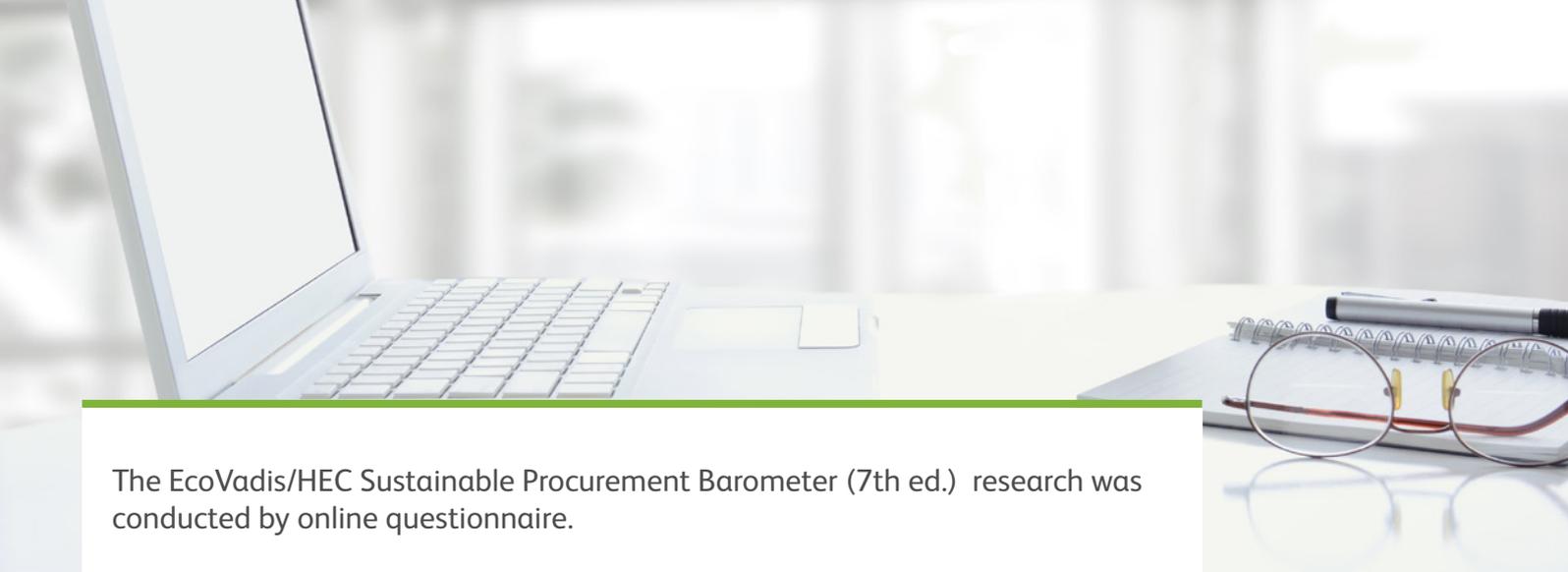
Furthermore, the vision could be that CSOs report on a dotted line to CPOs, or reverse, for a stronger linkage between these two key organizational functions. This would better demonstrate each function’s value to the business, its stakeholders, and our planet.

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# METHODOLOGY AND SURVEY PARTICIPATION

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The EcoVadis/HEC Sustainable Procurement Barometer (7th ed.) research was conducted by online questionnaire.

## Main Survey: Buyers

Our main survey's population consisted of 120 companies. About 75 percent of respondents were based in Europe. 25 percent of the respondents came from France, followed by 18 percent from the UK and 12 percent from the US.

In terms of size, close to half (42 percent) of respondents were from companies turning over between 5 billion and 25 billion dollars annually, while 25 percent were above 25 billion, and 34 percent under 5 billion. Companies with annual revenues of at least 500 million were selected for analysis in the report.

Although responses were spread across industry sectors, there was strong representation (14 percent) from the manufacturing sector. The next strongest sectors represented were retail & consumer goods (13 percent), services (12 percent), and ICT/telecommunications (9 percent).

## Secondary Survey: Suppliers

Our supplier survey's population consisted of 360 companies. About half of respondents were in CSR/sustainability-related positions, and of those, about half were in positions related to supply chain sustainability or responsible sourcing. The other approximate half of respondents were in positions related to procurement, risk management, and compliance.

In terms of size, the majority (78 percent) of respondents were from companies turning over less than 1 billion dollars annually, while 12 percent were between 1 billion and 5 billion, and 11 percent over 5 billion.

There was strong representation (39 percent) from the manufacturing sector. The next strongest sectors represented were Chemical (14 percent), Services (11 percent), and ICT/telecommunications (7 percent).

## Sustainable Procurement Maturity Matrix

The Sustainable Procurement Maturity Matrix (Part II) is designed to give a broad orientation on the maturity of various SP program components, from 'basic' to 'industry benchmark' levels, and is by no means an exhaustive or universally applicable model.

The 2017 Barometer Survey was not designed to gather supporting information and details related to program coverage, nor were respondents given the opportunity to elaborate in great detail on this topic.

As is common in survey research, the 2017 Barometer Survey results were likely influenced by self-selection bias, resulting particularly from mature and benchmark-level SP professionals (i.e., SP professionals in mature programs feeling 'extra' motivated to participate). This minimal level of bias has always been expected and observed in the Barometer research survey series.

# 10 YEARS OF BENCHMARK REPORTS ON SUSTAINABLE PROCUREMENT



Procurement and Sustainable Development Issues, Practices, Methodologies (2003)



Procurement and Sustainable Development - Practices Benchmarking (2005)



Sustainable Procurement is Growing Up (2007)



Sustainable Procurement: A Crucial Lever to End the Crisis? (2009)



Sustainable Procurement: Back to Management! (2011)



Sustainable Procurement: Time to Measure Value Creation! (2013)

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## About EcoVadis

EcoVadis is the first collaborative platform providing sustainability ratings and performance improvement tools for global supply chains. EcoVadis' easy-to-use CSR scorecards help companies to monitor suppliers' environmental, ethical, and social practices across 150 purchasing categories and 110 countries. Over 150 industry leaders such as Nestlé, GSK, Heineken, Michelin, Johnson & Johnson, Schneider Electric, L'Oréal, BASF, and Subway, and over 30,000 of their trading partners use EcoVadis to reduce risk and drive sustainability and innovation.

