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STANFORD GRADUATE
BUSINESS SCHOOL OF

Value Chain
Innovation Initiative

Sustainable Procurement Barometer 2021

From Resilience to Opportunity:
Sustainability Pays Off Through the Crisis and Beyond

Table of Contents

Foreword	3	Supply Chain Coverage	23	Supplier Perception and Engagement	40
Executive Summary	4	Depth of Visibility Into Supply Chain Sustainability	24	Key Motivators for Supplier Participation in Sustainability Initiatives	42
Introduction	5	Obstacles and Challenges	25	Supplier Perception of Large Companies' Commitment to Sustainability	44
Defining Sustainable Procurement	6	Obstacles and Challenges to Implementing a Sustainable Procurement Program	26	Supplier Resilience During the COVID-19 Crisis	45
Sustainable Procurement Leadership	6	Sustainable Procurement Results and Benefits	27	Conclusion	47
Sustainable Procurement Vision	7	Sustainability and Resilience During the COVID-19 Crisis	31	Methodology and Survey Participation	50
Sustainable Procurement Priorities and Outcomes	8	Focus on Mid-Size Companies	35		
COVID-19's Impact on Sustainable Procurement Trends	11	Sustainable Procurement Tools and Tactics	37		
Sustainability Focus Areas	12	Sustainable Procurement Results and Benefits	38		
Sustainable Procurement Implementation	15	Sustainability Commitment and the COVID-19 Pandemic	39		
Policies, Reporting and Goal-Setting	16				
Integrating Sustainability Criteria Into Procurement Processes	18				
Sustainable Procurement Tools	21				

Foreword

Sustainability has become a topic of great interest and is increasingly viewed as a source of competitive advantage that innovative companies can tap into. Investors, company boards, executives, employees, customers and the general public are demanding more scrutiny and transparency around sustainable products and practices. Sourcing and procurement are key to a company’s efforts to drive sustainability. Yet, there are often questions among practitioners around what exactly sustainable procurement is, who should be involved, why it should be done and how it can be achieved. This timely report provides answers to these four key questions.

Based on information collected through extensive interviews and surveys, this report explores important trends in sustainable procurement. As sustainability is not just about environmental impacts, particular attention is paid to dimensions such as social

responsibility, diversity and human rights. The scope is certainly much broader than just picking and selecting the right suppliers or components, and includes the whole engagement process. The report also shows the need for, and trend toward, increasing top executive involvement, priority-setting, oversight and direct leadership.

We also ask the question: Is sustainable procurement only something that big, global companies should be interested in? The report sheds light on the role of mid-size companies, as well as the need to engage some “laggards” in industry. The report also clearly describes why sustainable procurement is important. The disruptions resulting from the COVID-19 pandemic and other disasters have led many companies to shift their focus to building resiliency in their supply chains. The report shows how sustainable procurement can enhance this resilience – backed

by demonstrable results from your peers. Finally, through its focus on sustainable procurement leaders, the report also highlights some best practices that have helped companies address the “how” question.

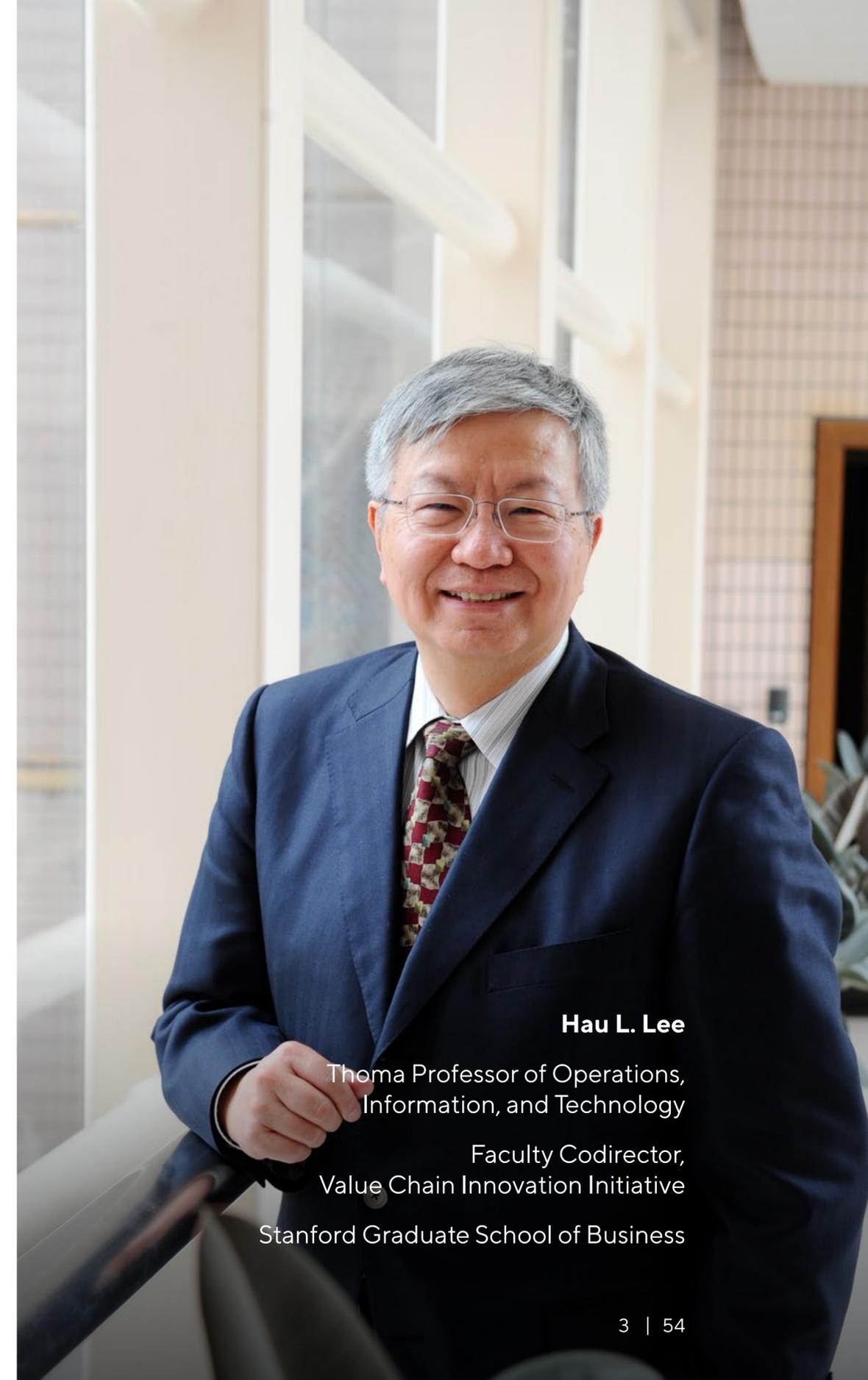
As is emphasized in the report, sustainable procurement is not something that should be done after processes to run your supply chain efficiently are in place. Rather, these practices are integral to managing a supply chain effectively and should now be essential practices of supply chain management. Companies would do well to adopt them well before the next crisis hits.

Hau L. Lee

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Executive Summary

Sustainability was top of mind for both companies and procurement teams before the pandemic, with significant growth in investors and industry groups supporting the stakeholder capitalism movement and commitments such as the Science Based Targets initiative (including its Business Ambition for 1.5°C initiative) and the United Nations Global Compact. Despite initial concerns that the COVID-19 may constrain these efforts, it appears the opposite has happened: Sustainability is becoming even more important to companies around the world. In fact, as executives increasingly recognize that their companies' sustainability practices have contributed to the resilience of their value chains and helped them endure the crisis, the importance of sustainability has increased. Their focus is shifting more and more toward issues related to the environment, labor and human rights and diversity. However, while supply chain objectives may be clear, achieving them remains a significant challenge for many companies.

Key Findings

Delivering on corporate sustainability goals has shifted to the top of the agenda for executive teams with 63% saying it is now “very important” for them, compared with 25% two years ago. At the same time, reducing costs has lost significance, with 36% of respondents saying this is critically important compared with 56% in 2019.

Mid-size companies (between \$100 million and \$1 billion in annual revenue) are clearly in the sustainable procurement game. Though they typically use fewer tools due to their limited resources, the benefits they realize are comparable to large enterprises.

Sustainability contributes to resilience, with 63% of buyers and 71% of suppliers stating that it helped them endure the COVID-19 crisis.

Only 7% of companies (buyers and suppliers) decreased their commitment to sustainable procurement despite the immense challenges of the COVID-19 pandemic.

Supply chain resilience is a desired outcome of a sustainable procurement initiative for 70% of Sustainable Procurement Leaders.

Still, 46% of suppliers see their large customers' (those with revenue of more than \$1 billion) commitment to sustainability as “important only on paper”.



Introduction



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

Methodology and Survey
Participation

Published biennially since 2007, the Sustainable Procurement Barometer is a valuable tool for benchmarking the sustainable procurement practices of companies across all industries. This year’s edition has been developed jointly by EcoVadis and the Value Chain Innovation Initiative at the Stanford Graduate School of Business.

The report is based on two surveys – one for buyers and one for suppliers – conducted as online questionnaires and followed by in-depth interviews with selected participants. The research has always addressed:

- ✔ How sustainability is evolving in terms of procurement priorities and value creation;
- ✔ Sustainability monitoring tools;
- ✔ Supplier engagement;
- ✔ Internal process integration.

In the years leading up to 2020, we saw dramatic progress in sustainable procurement, with hundreds of global leaders scaling up their programs. However, as we emerge from the COVID-19

pandemic, we wanted to find out how it has impacted this trend. Importantly, we also wanted to determine whether companies’ sustainable procurement practices improved the resilience of their supply chains in the face of unprecedented disruption.

Defining Sustainable Procurement

We define sustainable procurement as the adoption and integration of corporate social responsibility principles into a company’s procurement processes and decisions while ensuring stakeholder requirements are met. It encompasses sustainability as it relates to products, materials and supplier practices.

Sustainable Procurement Leadership

As in previous editions, this year’s Barometer also includes a special focus on Sustainable Procurement Leaders. These were respondents who met the following criteria

signifying the maturity of their sustainable procurement programs:

- ✔ Sustainability measures are integrated into a balanced scorecard approach;
- ✔ Minimum of 25% program coverage on high-risk strategic suppliers;
- ✔ Minimum Tier-1 level of supply chain visibility concerning sustainability.

The group that emerged from this analysis consisted of 27 organizations, both large enterprises (13) and mid-size companies (14), accounting for 15% of all participants. Of the Sustainable Procurement Leaders, 70% have had their sustainable procurement programs in place for more than three years, with 20% having run their programs for over 10 years. The study found a number of interesting characteristics of Sustainable Procurement Leaders and significant differences between them and the rest of the sample, which are explored in later sections of the report.



Sustainable Procurement Vision



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

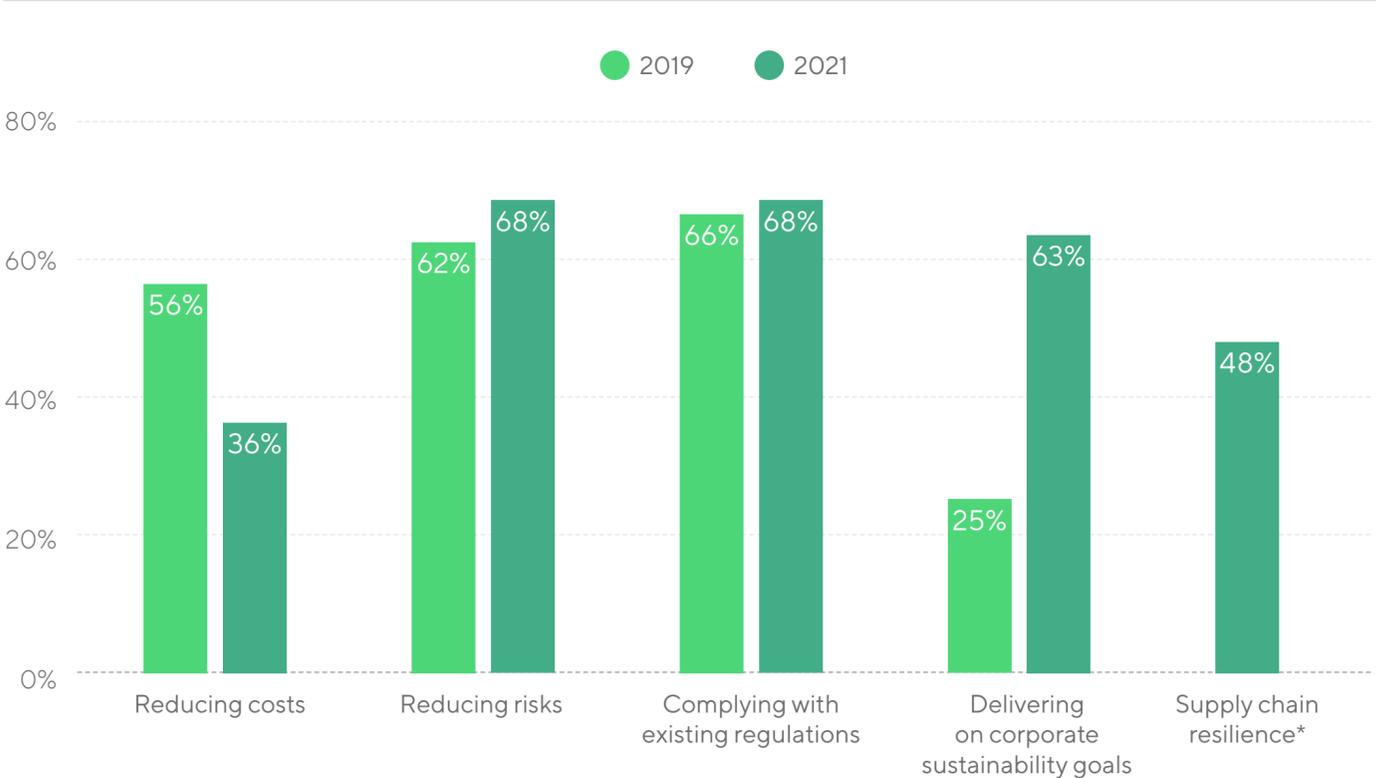
Methodology and Survey
Participation

Sustainable Procurement Priorities and Outcomes

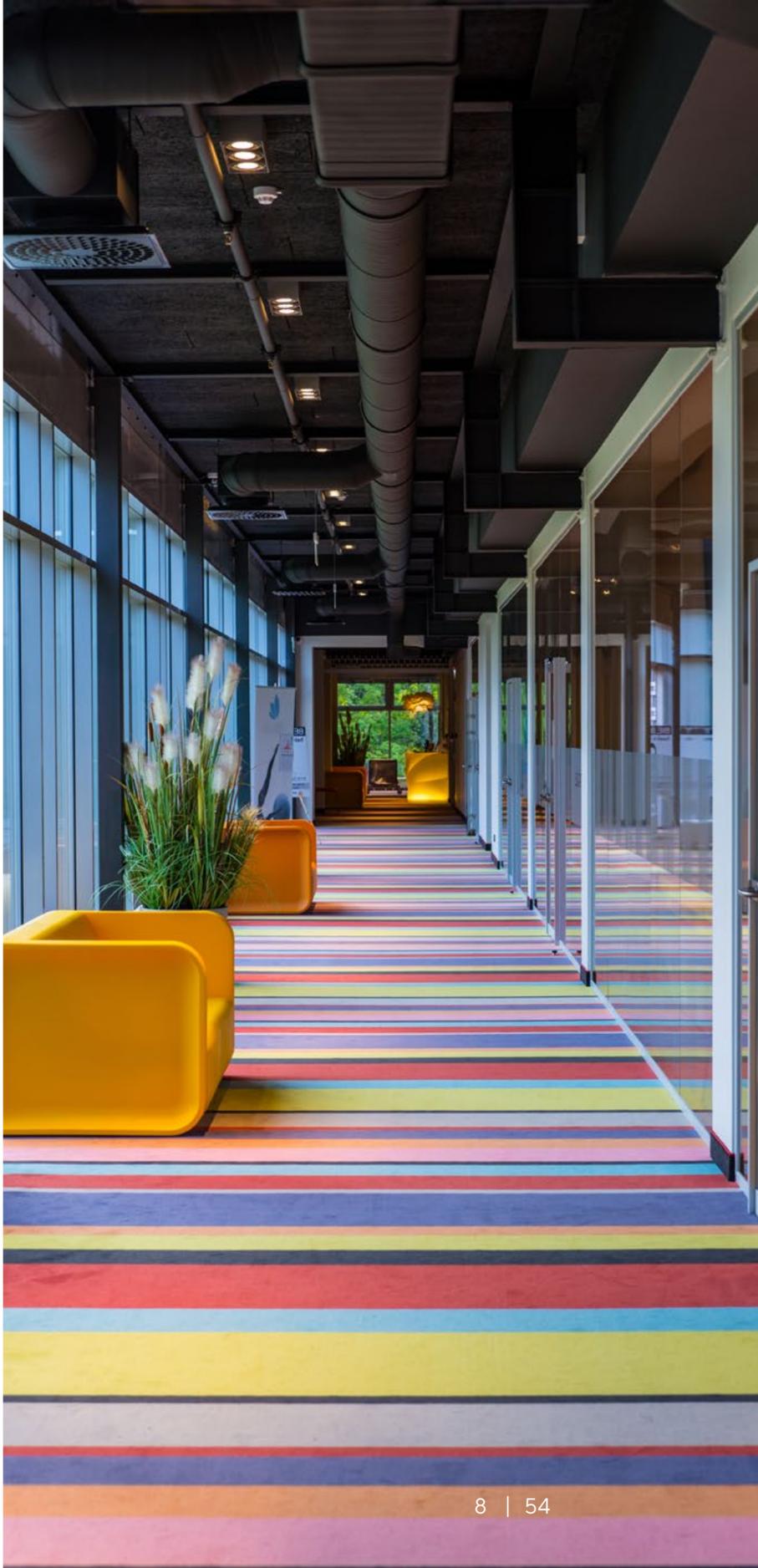
Reducing risks, complying with existing regulations and delivering on corporate sustainability goals and commitments were cited as the top three priorities within procurement organizations. While these findings are in line with what we have seen in previous years, there is a huge increase in the importance of delivering on corporate sustainability goals, with 63% of the respondents stating it has become a “very important” priority compared with only 25% two years ago.

This could be an indication of the growing importance of sustainability among corporate executives and is in line with studies indicating that business leaders are increasingly realizing that sustainable corporate governance and a multi-stakeholder, long-term approach are key to success.

Main priorities of procurement organizations 2019 vs. 2021



*This option was not included in the 2019 survey. This table compares the percentage of companies that listed each priority as “very important.”

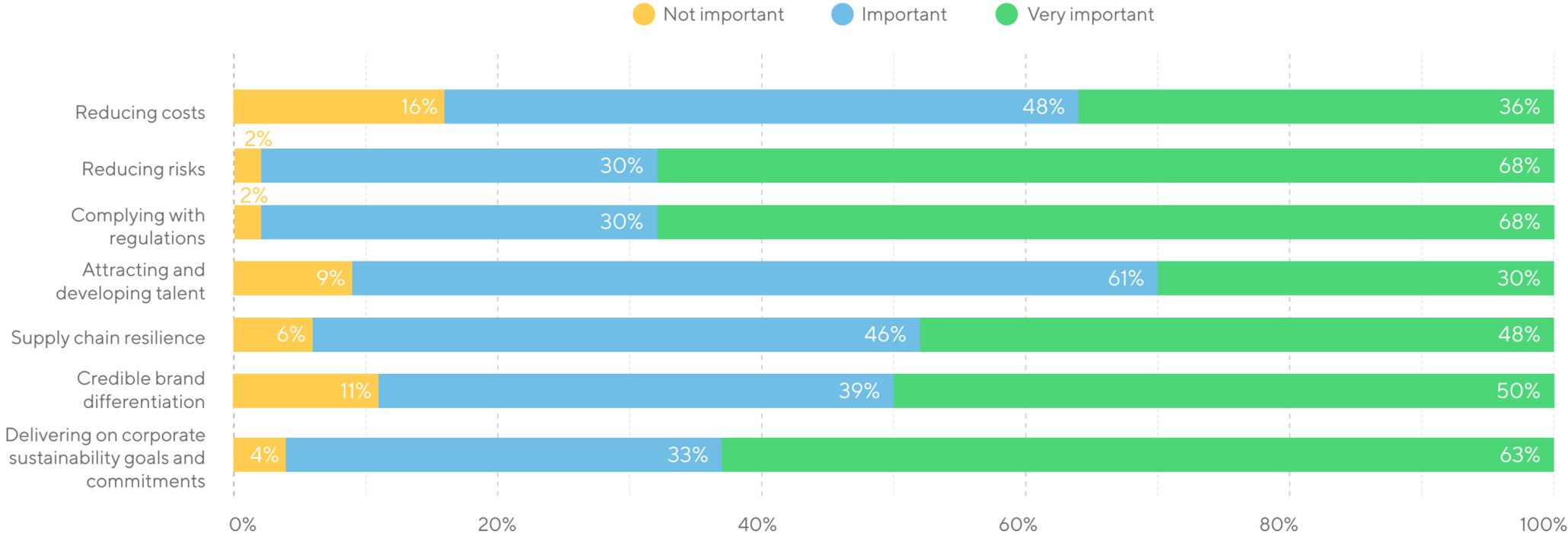


Over a year on from the onset of disruptions caused by the COVID-19 pandemic – potentially the most challenging time supply chain professionals have experienced in decades – the increased focus on risk reduction is hardly surprising.

An increased emphasis on compliance is also to be expected given the tightening regulatory landscape around sustainability on a national, regional and international level. From the European Union’s directives on corporate due diligence and accountability to Australia’s Modern Slavery Act and the Biden administration’s Executive Order on America’s Supply Chains, there is a distinct move toward ensuring that due diligence strategies encompass the entire value chain.

Interestingly, there is much less focus on cost reduction: While 56% of respondents ranked “reducing cost” as very important in 2019, only 36% of respondents did so in 2021.

How important are the following desired outcomes of your sustainable procurement program/initiative?



A Glance at Sustainable Procurement Leaders

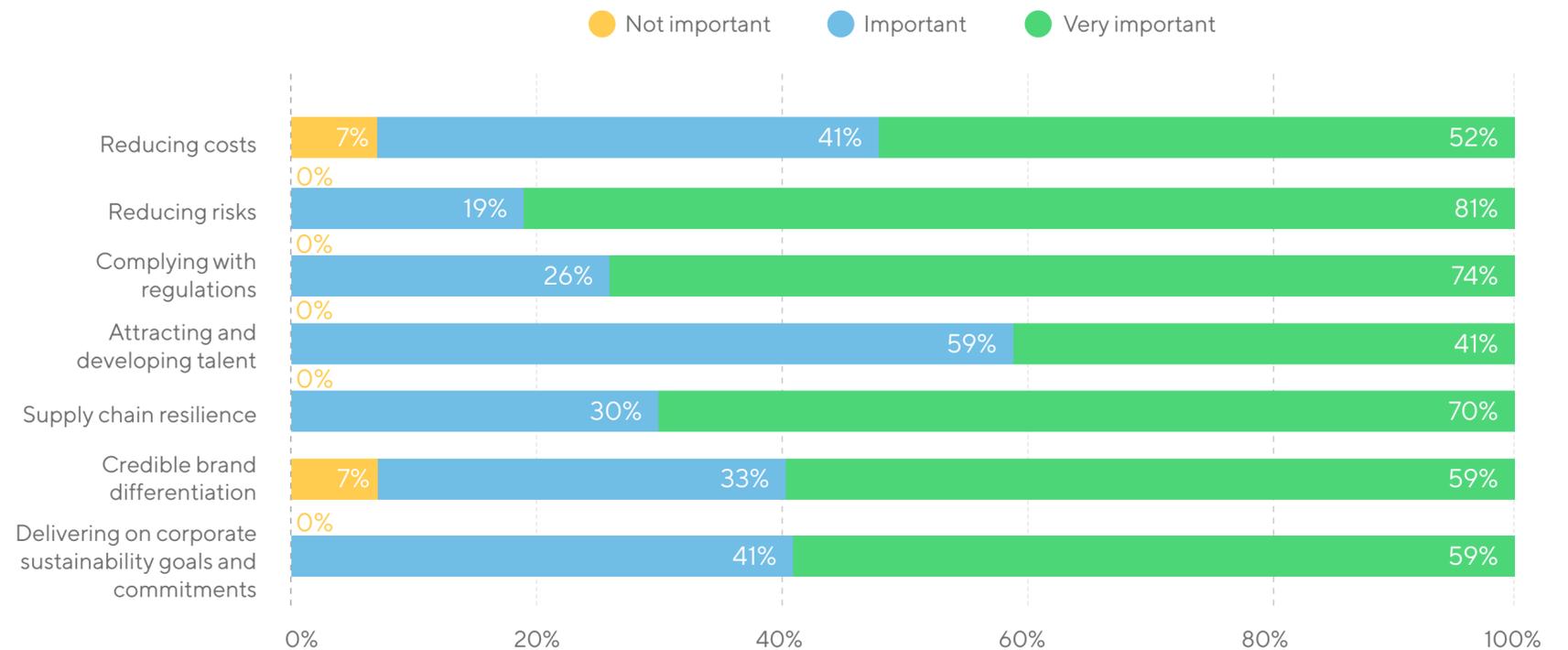
When we drill down into the Sustainable Procurement Leaders group and look at the same desired outcomes, a slightly different picture emerges. Risk reduction and complying with regulations are rated even higher (81% and 74% respectively), with cost reduction seen as a very important outcome by more than half of the respondents. This could be because Leaders view sustainability engagement more holistically, i.e., as an integral part of their supply chain management. It is also likely related to their ability to utilize a wider array of sustainable procurement tools and the maturity of their sustainable procurement programs, which has enabled them to realize more benefits and make necessary adjustments over time.

In addition, a higher percentage of Sustainable Procurement Leaders ranked each of the listed outcomes

as “very important,” with the only exception being “delivering on corporate sustainability goals.” A possible conclusion is that as leaders pay more attention to sustainable procurement and invest more in these programs, their expectations grow. From another perspective, as these outcomes are very important to these companies, they are willing to invest more in sustainable procurement and in increasing supply chain visibility.

Notably, supply chain resilience was rated a “very important” outcome by 70% of respondents. Given that one in five supply chains barely survived the COVID-19 pandemic, there is clearly a compelling lesson to be learned from Sustainable Procurement Leaders that emphasizes the correlation between sustainability and supply chain resilience.

How important are the following desired outcomes of your sustainable procurement program/initiative?

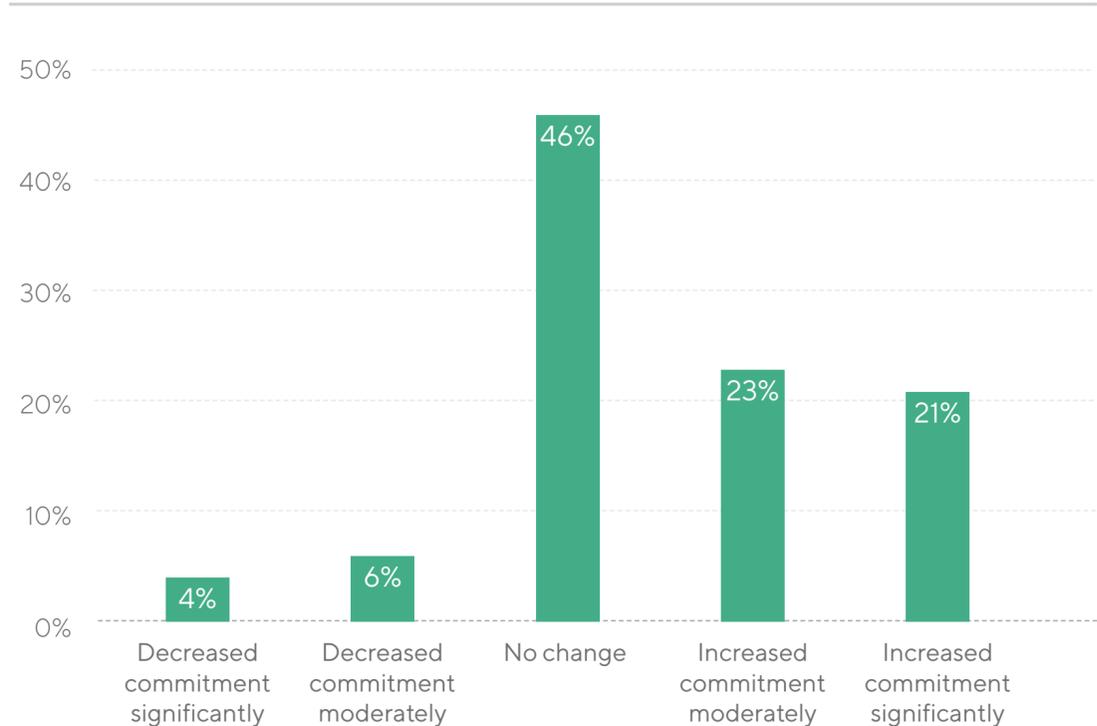


COVID-19's Impact on Sustainable Procurement Trends

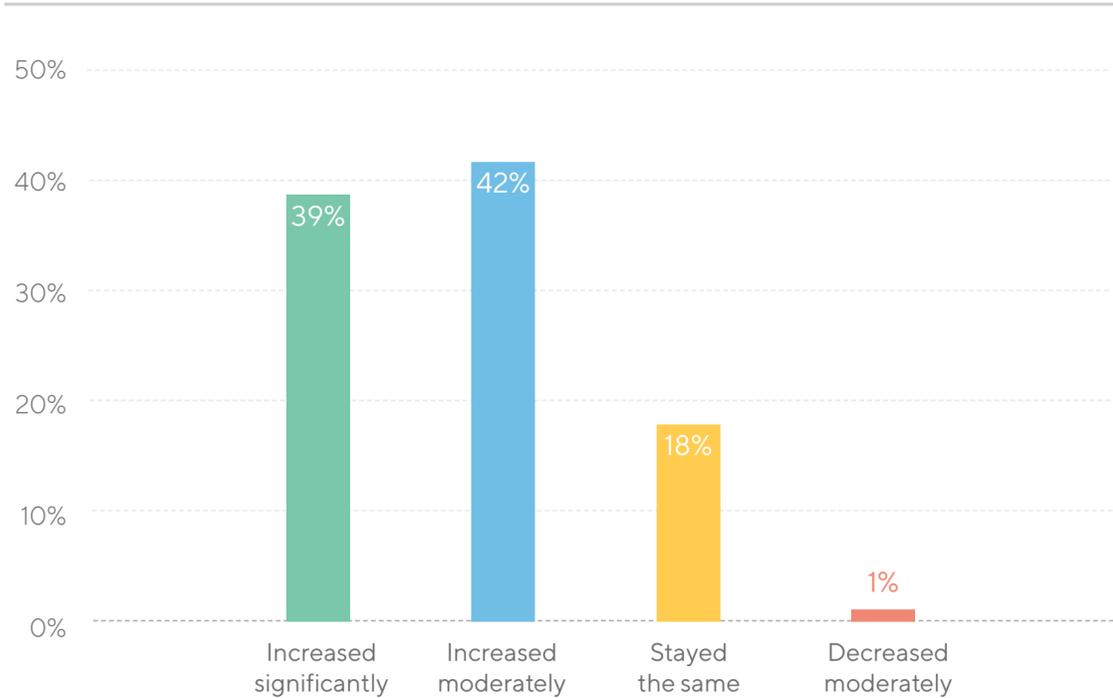
Looking at the extent to which the COVID-19 pandemic has impacted how companies approach sustainable procurement shows that, despite all of the challenges, very few have reduced their commitment to such initiatives. Not only that, nearly half of the respondents have actually increased their commitment to sustainable procurement as a result of the pandemic.

However, more companies have decided to simply maintain their existing initiatives compared to 2019: 46% of this year's respondents reported "no change" in their level of commitment vs. 18% in 2019.

How has the COVID-19 pandemic impacted your organization's commitment to sustainable procurement?



2019 Survey: Would you say that over the past three years, your organization's commitment to sustainable procurement has:



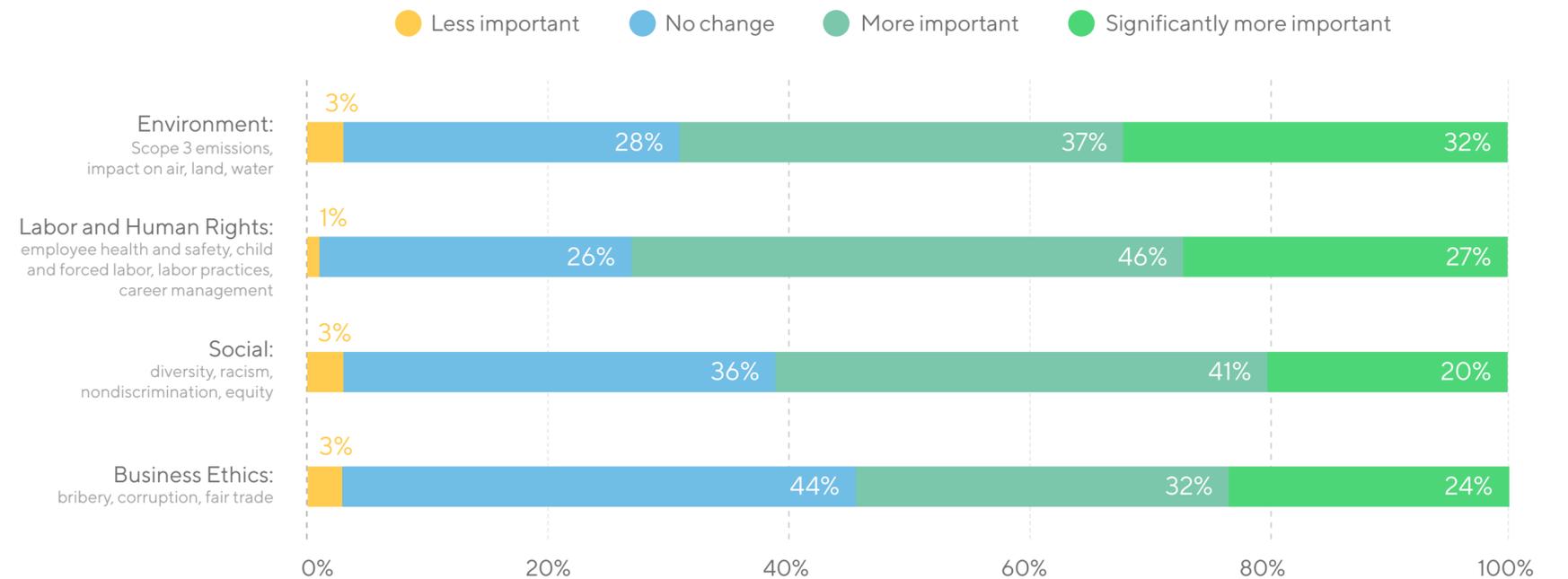
Sustainability Focus Areas

Labor and human rights and environmental concerns are top of mind, with 73% and 69% of respondents ranking these issues respectively as “more important” or “significantly more important” in shaping their procurement strategies. The figures for this are comparable between the general sample and the Sustainable Procurement Leaders. Business ethics is a focus area that the greatest proportion of respondents ranked as having “no change”. Bribery, corruption and fair trade have been effectively addressed for a number of years, with breaches around these issues viewed as reprehensible throughout most countries. It is possible that when it comes to those focus areas, things are beginning to plateau. Interestingly, however, when we look at the social aspect covering diversity, racism, non-discrimination and equity, a significant proportion of respondents ranked this as gaining in importance. This is particularly clear among the Sustainable Procurement Leaders group:

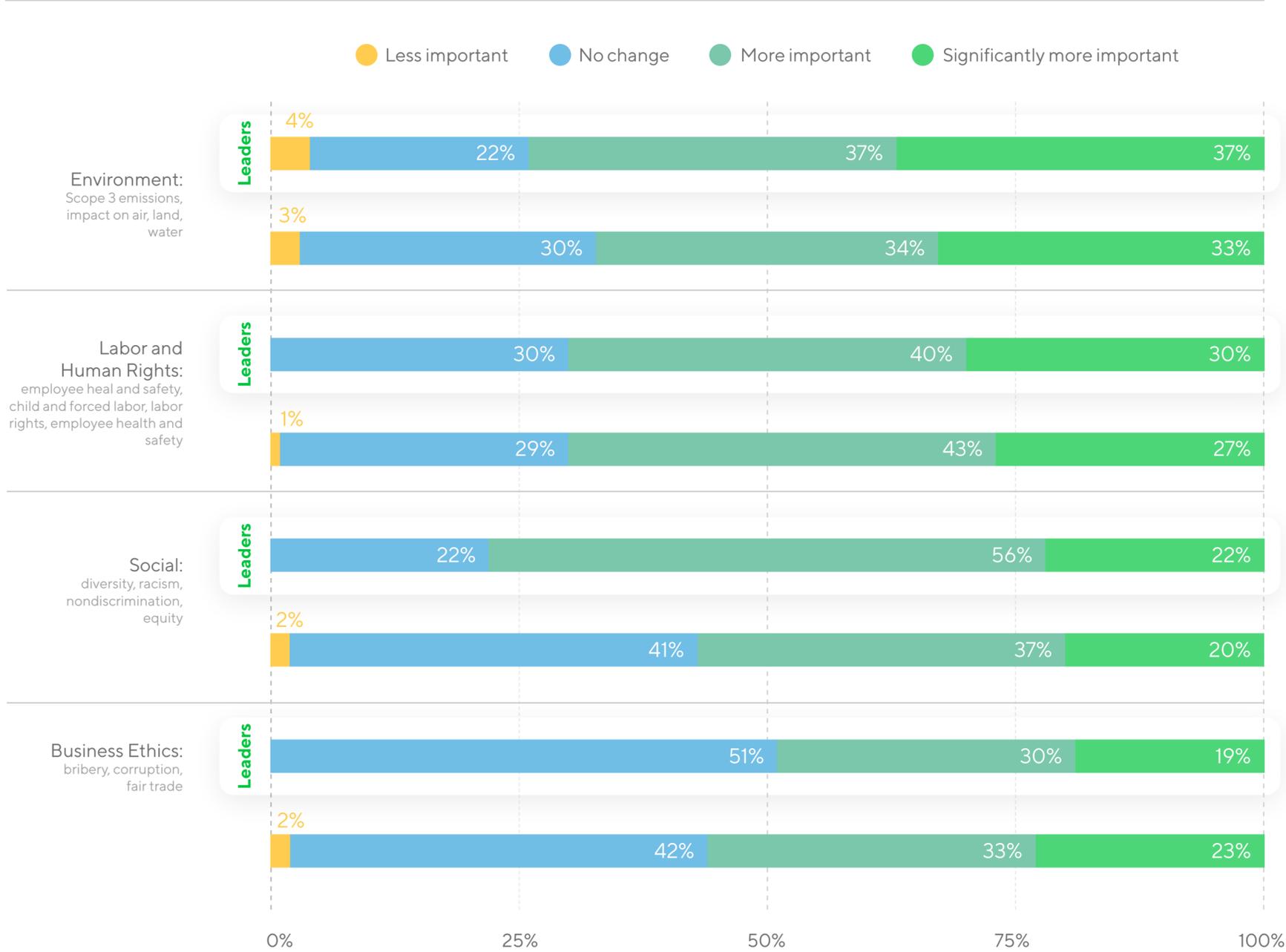
56% ranked this issue as “more important” in shaping their strategy over the next several years and a further 22% consider it to be “significantly more important”.

This study comes a year after the murder of George Floyd and the protests that unfolded in the weeks following his death. It appears that the promises made by the corporate world at the time to invest in fighting racial inequity and foster diversity, particularly in the US, did not ring hollow. Companies are stepping up their response to racial injustice and inequity and addressing issues that historically may have been outside of their focus.

Have the following sustainability issues gained or lost significance in shaping your procurement strategy (supplier selection and management) over the next few years?



Sustainable Procurement Leaders: Have the following issues gained or lost significance in shaping your procurement strategy over the next few years?



“ When it comes to the environmental aspect of sustainability, this is nothing new for the chemical industry – this is part of safety. You will not find a large chemical company that has lasting issues with safety. So, the most important issue for us to address at the moment is actually labor and human rights.

Chemical multinational

“ Diversity has particularly come into focus – but that wasn't because of the pandemic, that was more coming out of the US as a result of the George Floyd case. We've made a big commitment around diversity. And when it comes to modern slavery, we have our supplier code of conduct, but so far we've primarily focused on it in Australia and the UK because of their legislation. However, we do want to globalize it.

Real estate company

“ The pandemic has upscaled sustainability and made it more important. It has really brought the significance of it to light, as well as the risks associated with unsustainable business practices. It's presented a great opportunity for us to embrace it even more.

Retail company

Sustainable Procurement Implementation



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

Methodology and Survey
Participation



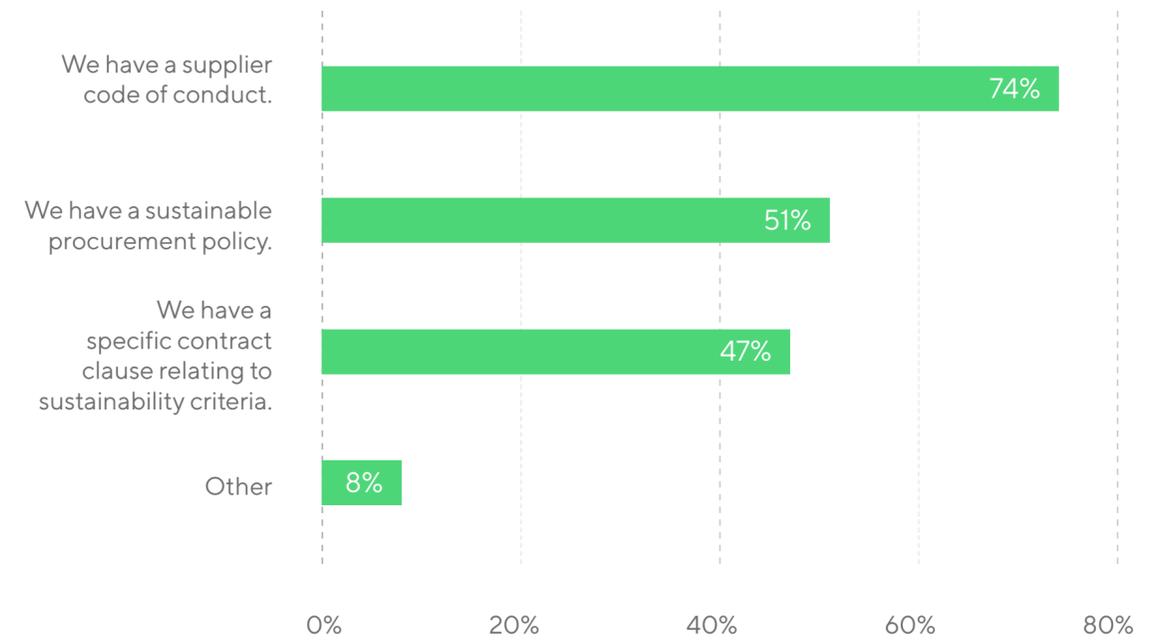
Policies, Reporting and Goal-Setting

When it comes to the practical implementation of sustainable procurement programs, it is best to examine how companies use policies, goals and reporting in their day-to-day work with suppliers.

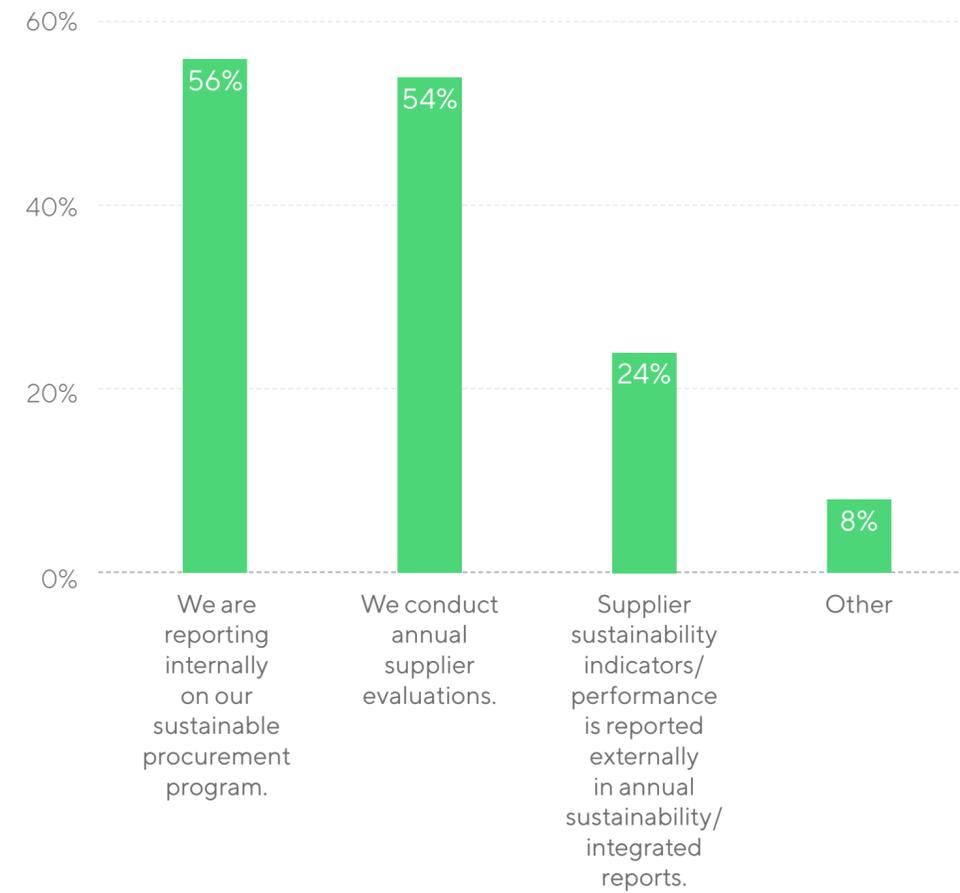
A supplier code of conduct remains the most commonly used policy, with 74% of companies stating they have one. Around half of the companies surveyed have a sustainable procurement policy (51%) and a specific contract clause relating to sustainability (47%).

Looking at how reporting is used to drive sustainable practices, half of the respondents conduct annual supplier evaluations (54%) and report internally on their sustainable procurement programs (56%). Only 24% of companies report externally on supplier sustainability performance.

How does your organization use policies to drive sustainable practices in your supply chain?



How is reporting used in your organization to drive sustainable practices?



Key changes between 2019 and 2021:

74%
of companies have a supplier code of conduct in 2021 vs. 64% in 2019

51%
of companies have a sustainable procurement policy in 2021 vs. 38% in 2019

These trends are another clear indication of the growing importance of sustainability across the corporate world.

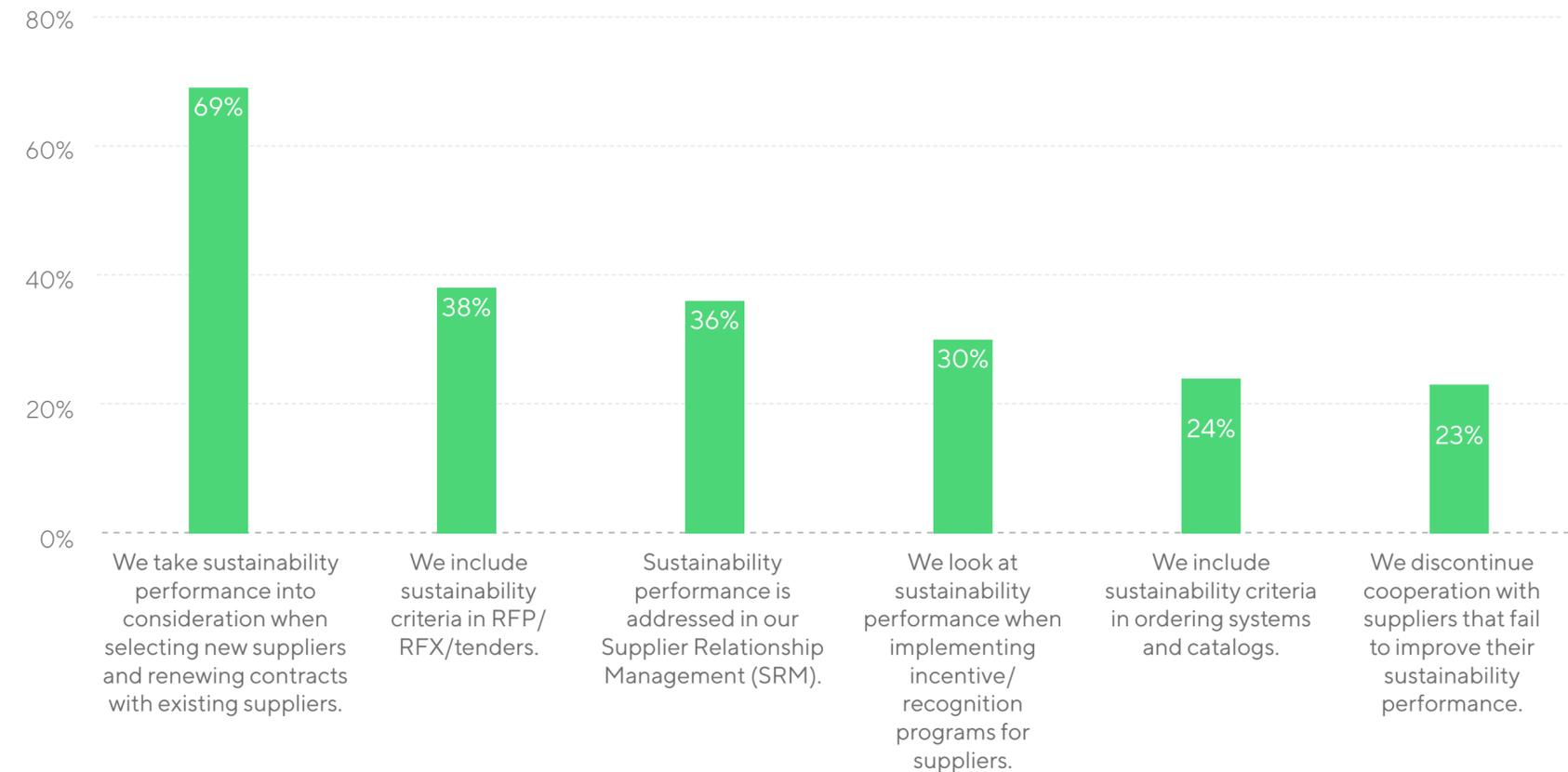


Integrating Sustainability Criteria Into Procurement Processes

The use of sustainability criteria to evaluate new suppliers has become the norm, with 69% of respondents considering sustainability performance when selecting new suppliers and renewing contracts. It is encouraging to see that sustainability is taken into consideration not only at the beginning of the engagement with new suppliers but also throughout the relationship, with 38% of respondents including sustainability criteria in RFP/RFX/tenders and

36% addressing sustainability performance in their supplier relationship management. It is also encouraging that 30% of respondents look at sustainability performance when implementing incentive or recognition programs – this provides an incentive for suppliers to increase investment in sustainability initiatives.

How has your organization integrated sustainability criteria into procurement processes?

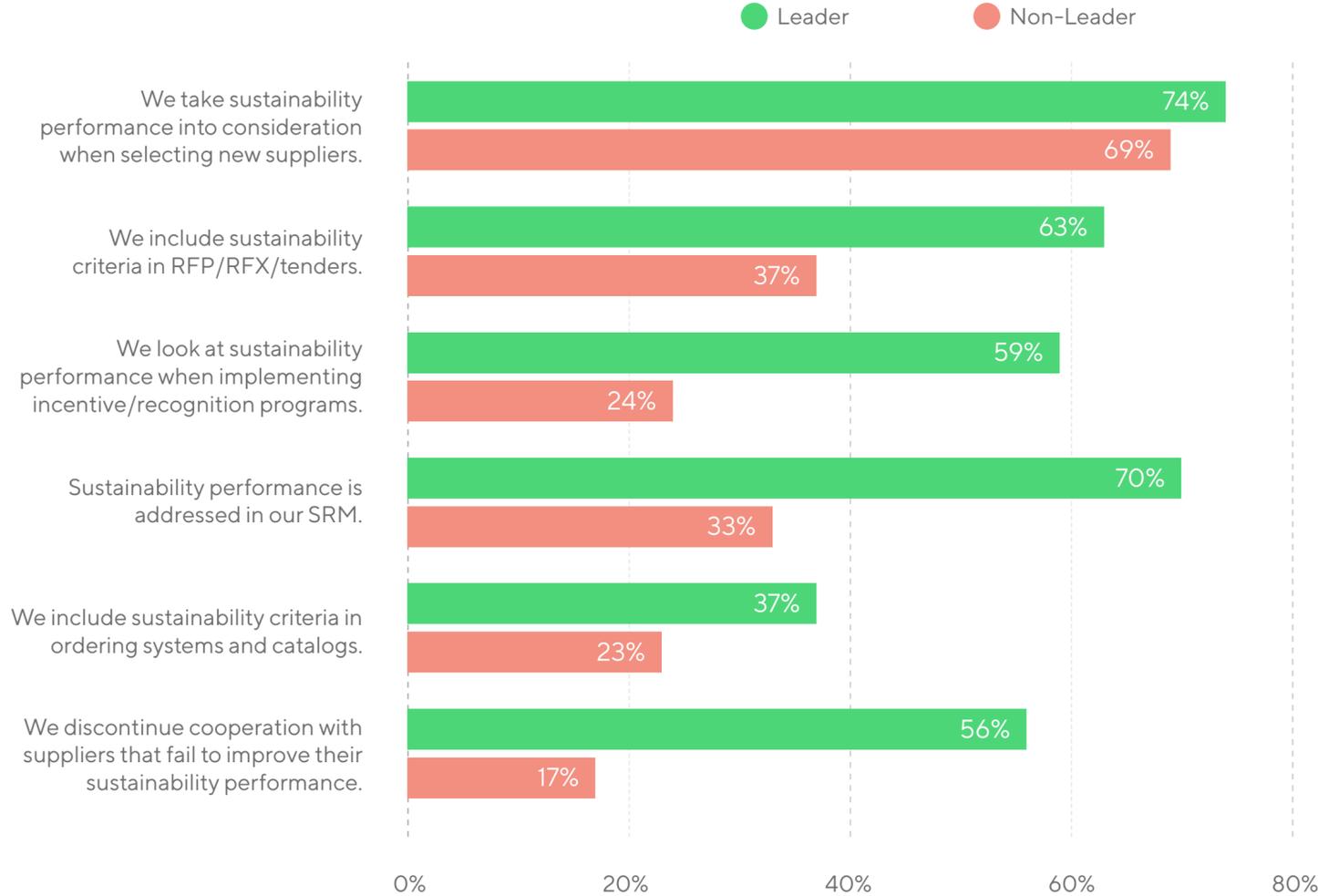




A Glance at Sustainable Procurement Leaders

There is a significant difference between Sustainable Procurement Leaders and non-leaders in the way the two groups have integrated sustainability criteria into procurement processes. While the percentage of companies who consider sustainability when selecting new suppliers is similar across the two groups, a much higher percentage of Leaders integrated sustainability criteria into other procurement processes, and use those criteria in RFPs, for ongoing supplier assessments, to provide incentives, and also to determine whether to discontinue their relationship with non-conforming suppliers.

How has your organization integrated sustainability criteria into procurement processes?





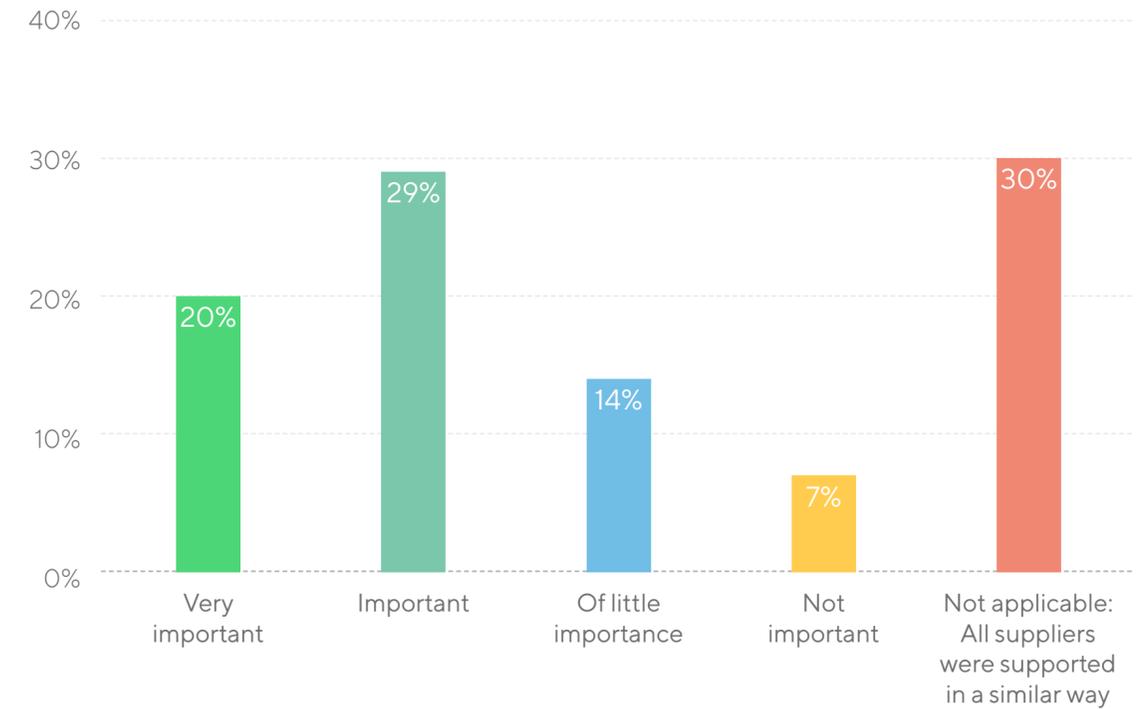
Every time we look for new supply chain partners we check what certifications or audits they have. It may be a wonderful new technology that the market will love, but it could become a liability to both ourselves and our customers if it doesn't come from an ethical and certified supply chain.

Medical device components manufacturer

One example of an incentivizing factor for the more sustainable suppliers that participated in this study is the level of support they received from buying organizations during the COVID-19 pandemic. Of our respondents, 49% indicated

that sustainability criteria were “very important” or “important” for them in deciding how to support their suppliers during the COVID-19 crisis, for instance by providing more business or offering better payment terms.

How important were sustainability criteria in deciding how to support your suppliers during the COVID-19 crisis, e.g., by providing more business or offering better payment terms?

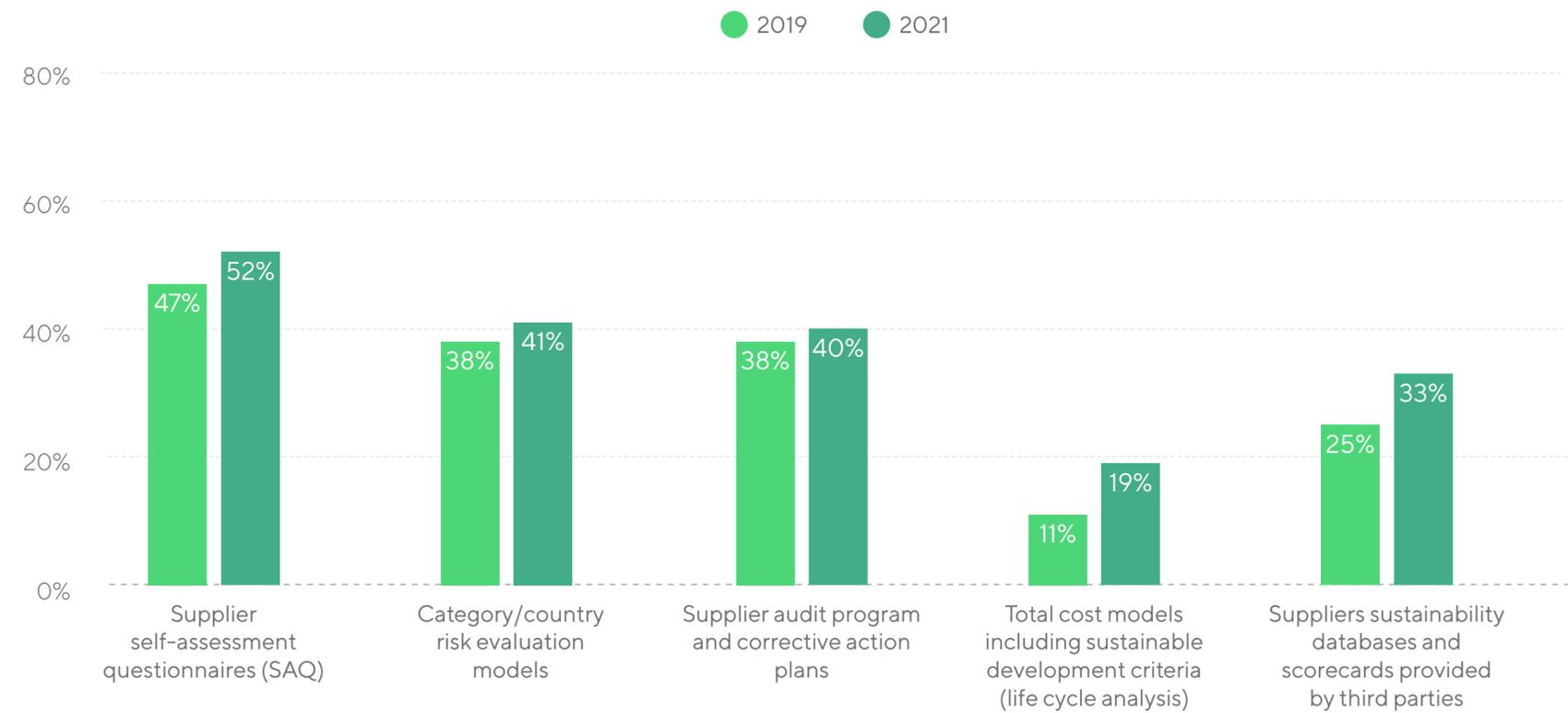


Sustainable Procurement Tools

The most popular tools for supporting sustainable procurement are supplier self assessment (52%), category/country risk evaluation models (41%), and supplier audit programs and corrective action plans (40%). Supplier self assessments and audit programs are certainly useful in identifying current issues. However, companies will likely benefit from more

proactive approaches, such as providing guidelines for buyers on best practices and supplier training programs that help prevent potential issues from arising in the first place. Only 24% of participants reported using each of these two types of tools at present.

What tools do you use to support sustainable procurement?

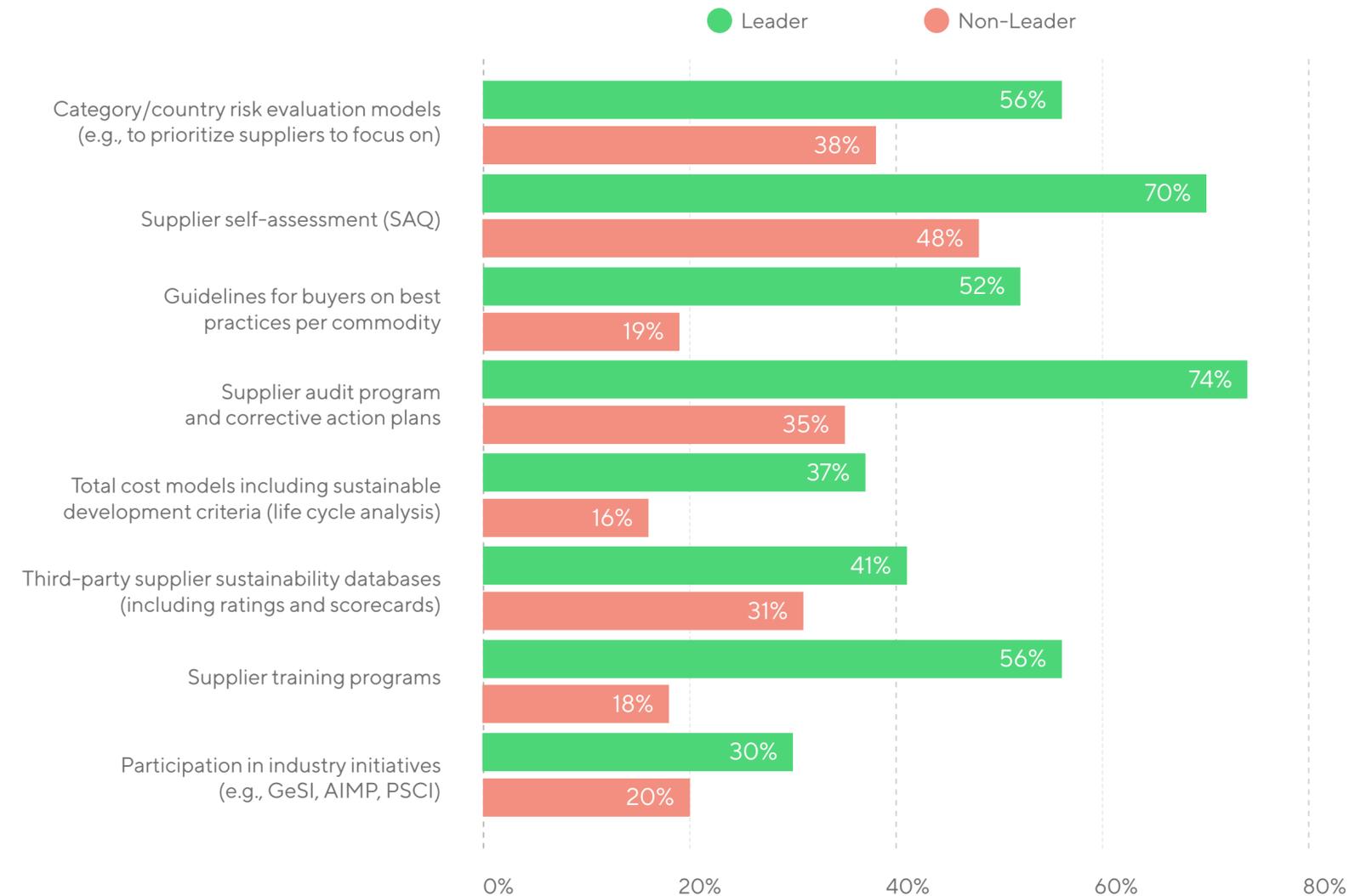


A Glance at Sustainable Procurement Leaders

A higher percentage of Sustainable Procurement Leaders use each of the listed tools, a gap that can reach close to 40 percentage points for some tools and tactics. This may be attributed to the maturity of their sustainability programs, as well as to the greater emphasis they may place on ensuring that their supply base follows sustainable practices.

It is especially interesting to see the higher percentage of Sustainable Procurement Leaders that use each of the two more proactive tools: supplier training programs and guidelines for buyers on best practices. More than half of all Leaders, but less than 20% of the other companies, utilize each of these tools.

What tools or tactics have you already implemented to support your sustainable procurement program/initiative?



“ We work to ensure that we have a third-party assessment or an audit for our core suppliers. We have cascaded this objective to our buyers. If the score of the audit or assessment is low, a corrective action plan is developed. Sustainability is fully integrated into our processes.

Chemical multinational

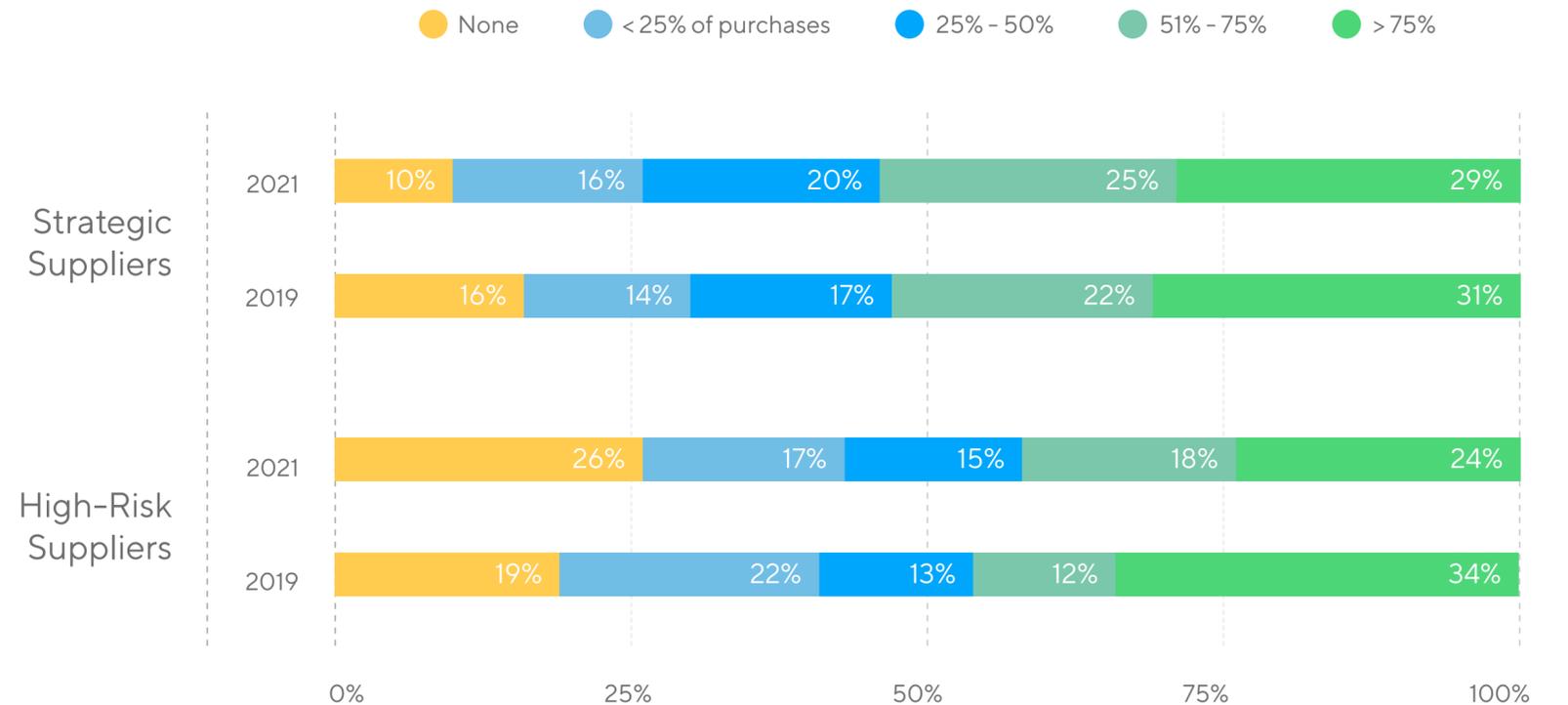


Supply Chain Coverage

In terms of the proportion of suppliers covered by a sustainable procurement program, we have looked separately at the coverage of companies' strategic and high-risk suppliers. We have found that companies emphasize assessing strategic suppliers: For 29% of respondents, the program covered more than 75% of spend, and for an additional 25%,

it covered 50-75% of spend. In contrast, when looking at high-risk suppliers, not only do fewer respondents have programs that cover more than 50% of spend, but more than a quarter have programs that do not cover any high-risk suppliers. This is likely due to the closer relationships that companies build with their strategic suppliers.

Coverage level of supplier assessment/audit program

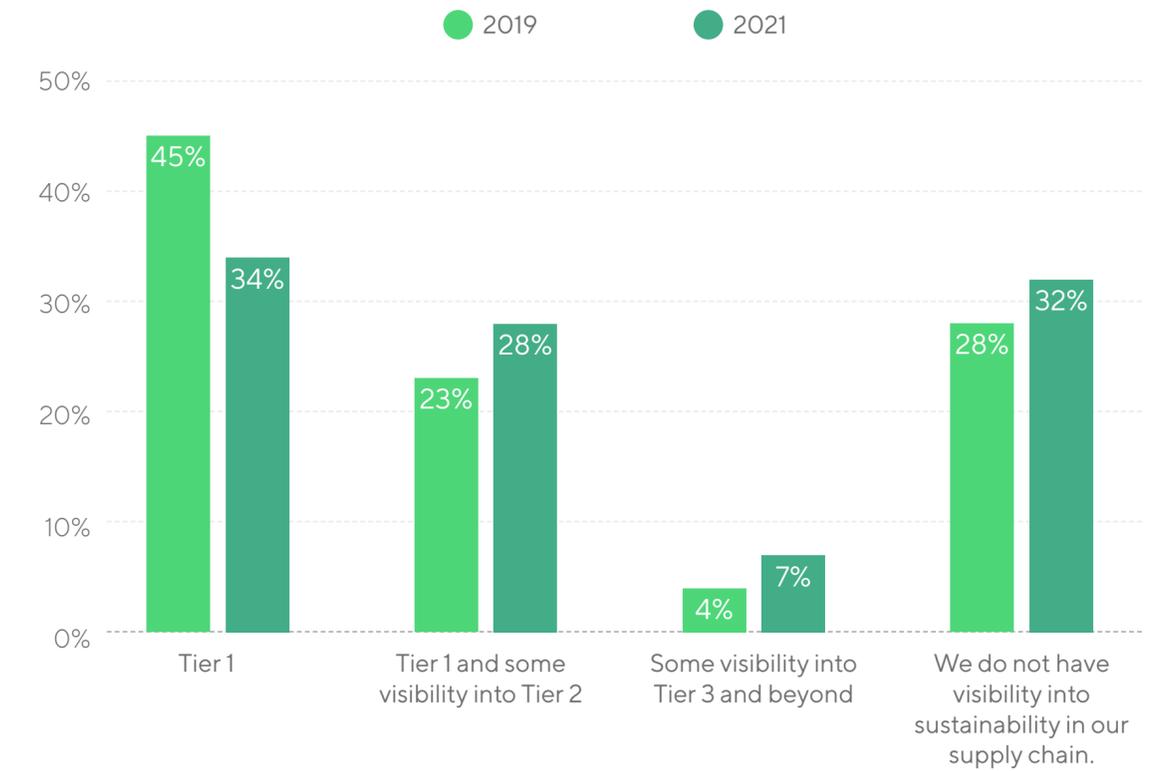




Depth of Visibility Into Supply Chain Sustainability

While a slightly higher percentage of respondents do not have visibility into sustainability in their supply chain in 2021 compared to two years ago, those who do typically have more visibility into Tier 2, Tier 3 and beyond.

What level of depth of visibility do you have into your supply chain with regard to sustainability?



Obstacles and Challenges



Introduction

**Sustainable
Procurement Vision**

**Sustainable Procurement
Implementation**

Obstacles and Challenges

**Sustainable Procurement
Results and Benefits**

**Focus on Mid-Size
Companies**

**Supplier Perception and
Engagement**

Conclusion

**Methodology and Survey
Participation**

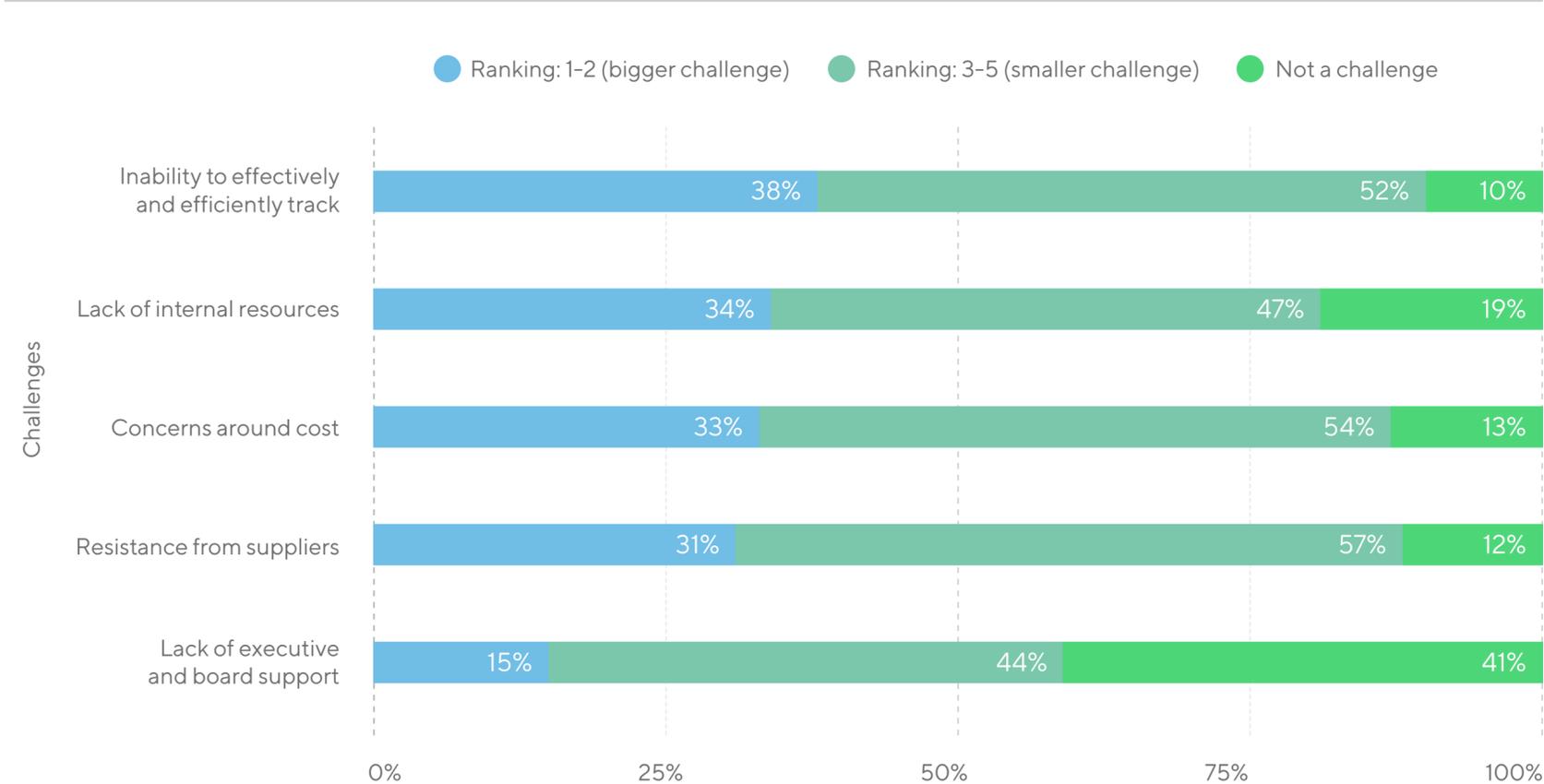
Obstacles and Challenges to Implementing a Sustainable Procurement Program

Sustainable procurement practices are being adopted at scale by companies of different sizes and across geographies. However, the effective implementation of sustainable procurement programs is not without its challenges. In previous editions of the Barometer, we asked study participants to identify the top three obstacles to implementation. These were a lack of internal resources, an inability to effectively and efficiently track supplier sustainability performance and concerns around costs.

This year we phrased the question a bit differently, asking participants to rank each of the obstacles in order of importance.

The top three obstacles, ranked by most participants as one of the two biggest challenges that prevent their organizations from committing to or expanding their supply chain sustainability programs, are identical to those identified in previous years, with “resistance from suppliers” following close behind. These results demonstrate companies’ continued struggle to gain visibility into suppliers’ practices and performance, and to secure sufficient internal resources to cover the costs of such programs.

What are the biggest obstacles and challenges preventing your organization from committing to or expanding supply chain and procurement sustainability?



Only 15% of respondents ranked lack of executive and board support as one of their top two challenges. This was not a challenge for 41% of respondents, which aligns closely with observations we made earlier in the report regarding the growing importance senior management appears to be placing on supply chain sustainability.

Sustainable Procurement Results and Benefits



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

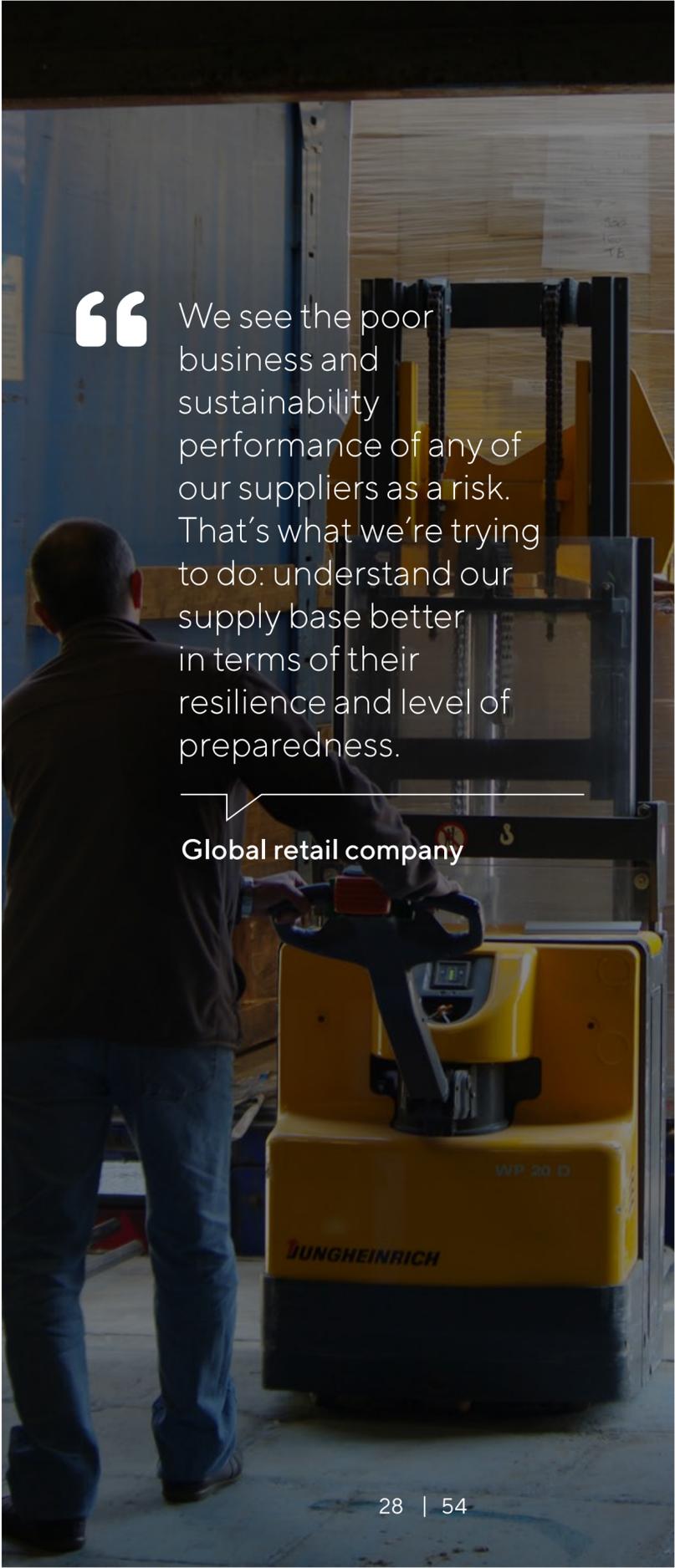
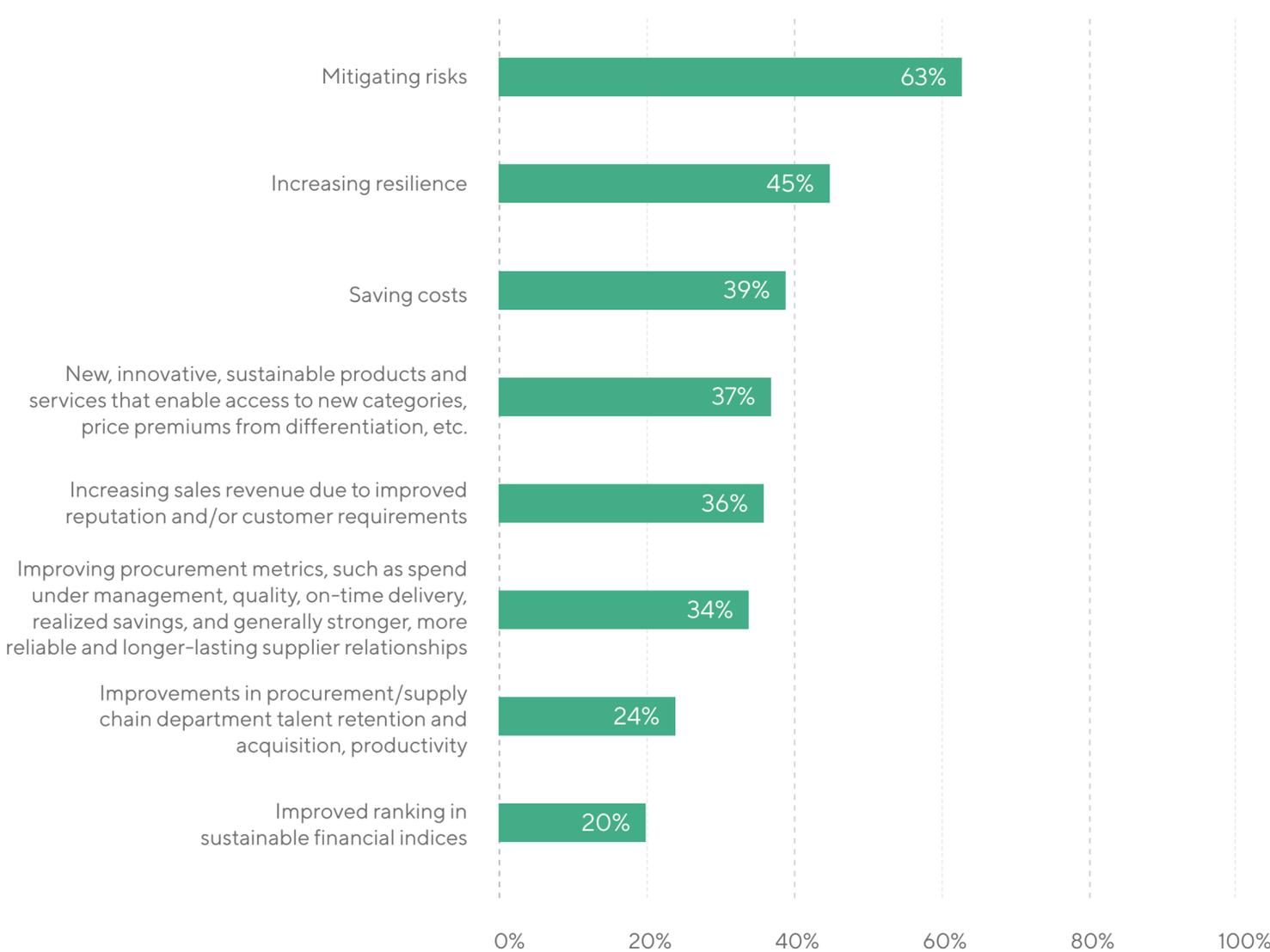
Methodology and Survey
Participation

When asked how their organization benefited from having a sustainable procurement program, the two benefits identified by the highest number of participants were risk mitigation and increased resilience (63% and 45% respectively). This is particularly good news these days, as the COVID-19 pandemic has highlighted the importance of resilience and low exposure to risk. This is also good news given that reducing risk was one of the top three desired outcomes of sustainable procurement programs, and that achieving supply chain resilience was ranked highly by respondents.

Sustainable procurement programs have also helped companies achieve brand differentiation by enabling them to develop more innovative and sustainable products and services. Other benefits reported by about a third of participants include improvements to both their financial (including cost savings and higher revenues) and procurement metrics.

Overall, we can see significant alignment between the goals and results of sustainable procurement programs.

How has your organization benefited from your sustainable procurement program? Select any areas that you strongly believe your company is benefiting from, even if you are not specifically measuring it.



“ We see the poor business and sustainability performance of any of our suppliers as a risk. That’s what we’re trying to do: understand our supply base better in terms of their resilience and level of preparedness.

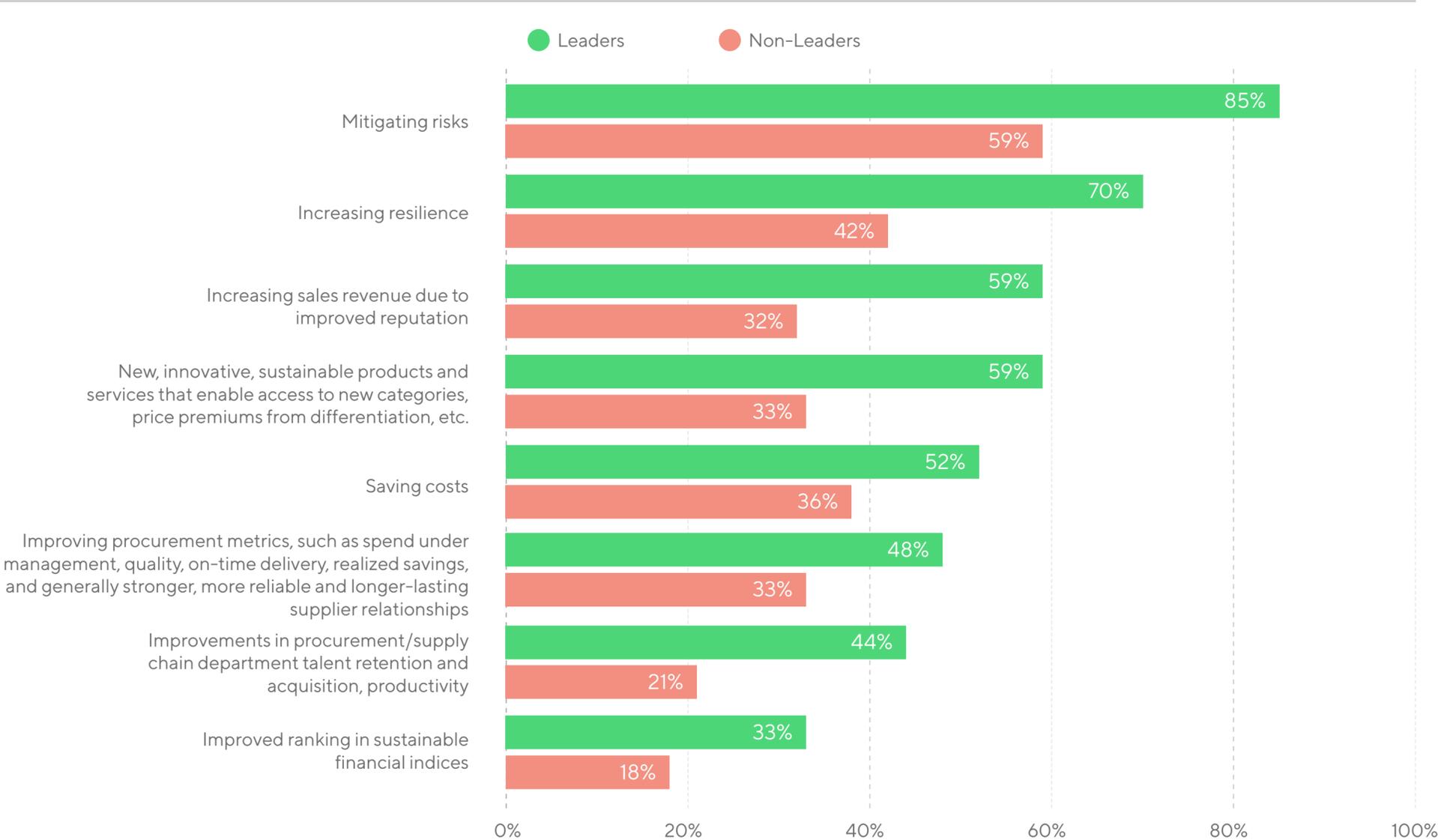
Global retail company



A Glance at Sustainable Procurement Leaders

As was the case in previous years, Sustainable Procurement Leaders reported a higher level of benefits across all categories. In some cases, the value the leaders derived from their sustainable procurement programs was about twice as much as non-leaders, with a marked difference in risk mitigation and supply chain resilience: 85% vs. 59% and 70% vs. 42% respectively. This indicates that the value created by sustainable procurement programs is significantly amplified as they mature. Mature programs enable companies to use richer indicators, engage suppliers more deeply and nurture suppliers to help them become sustainability performers.

Benefits of sustainable procurement: Leaders vs. Non-Leaders



“ We use sustainability as a business model. We have seen that sustainable products grow faster and have better margins – investors are also increasingly interested in sustainability practices and the results they offer.

Chemical company

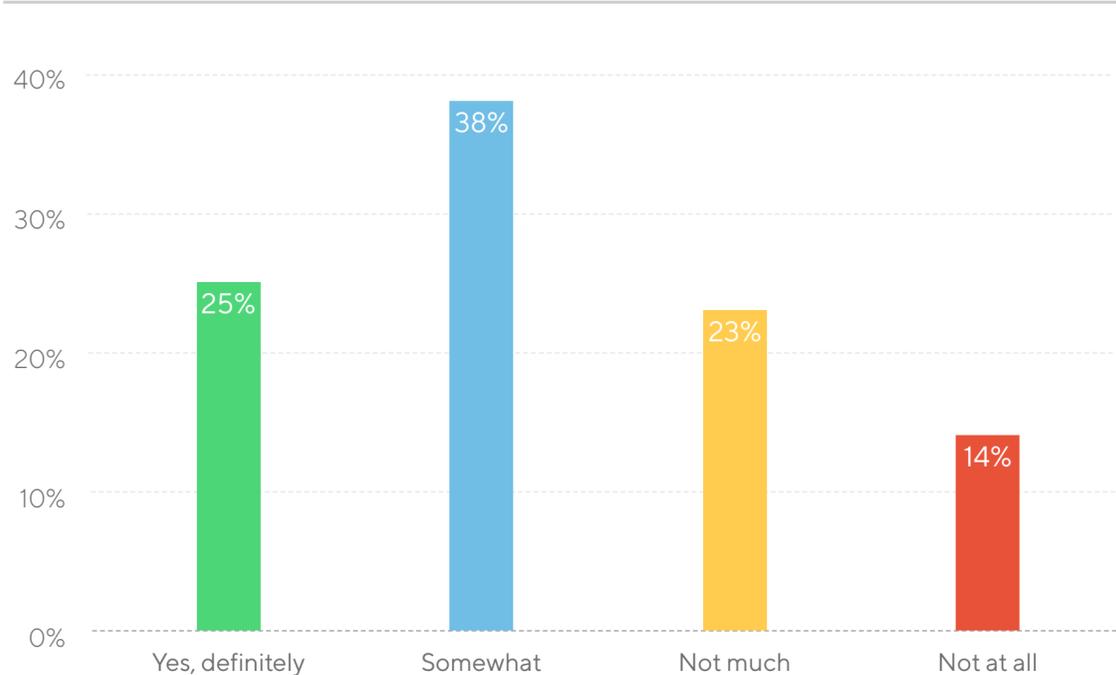
“ Sustainable procurement is no longer a question of „Do we do it?“ but “How do we do it?“ This reframing makes our company more competitive.

Polymer materials manufacturer

Sustainability and Resilience During the COVID-19 Crisis

63% of respondents believe that their sustainable procurement program helped them during the pandemic to a certain extent, with 25% saying that their program “definitely” helped them endure the pandemic. This is yet another indication of the contribution of such programs to increased resilience and reduced risk exposure.

Do you believe that your sustainable procurement program has contributed to your resilience and ability to endure the COVID-19 pandemic?



“ If a company has a sustainable procurement program in place, it demonstrates that it has advanced management processes and a high level of organization. This helps during a crisis.

Chemical multinational

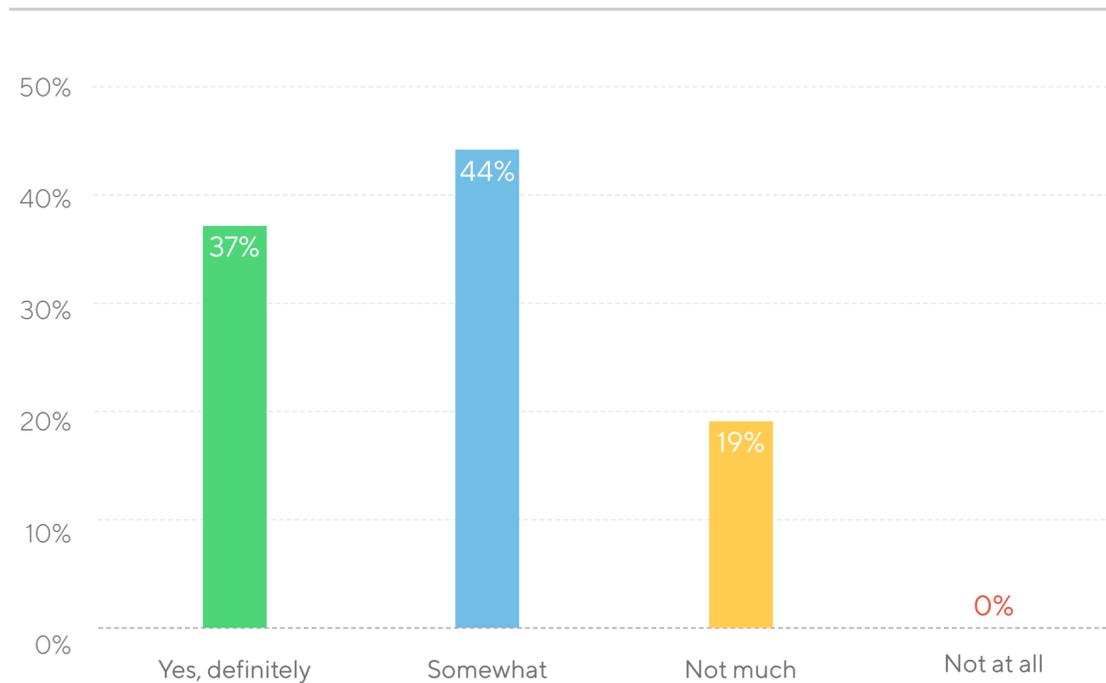
“ What I have heard from many CPOs is that suppliers with very high sustainability standards often perform highly in other areas, like quality and reliability. Assuming this is true, cooperating with suppliers that are compliant with our sustainability criteria will also ensure that we have fewer problems related to, for example, disruptions in the supply chain.

Polymer materials manufacturer

A Glance at Sustainable Procurement Leaders

Looking at the Leaders group, the value of sustainable procurement programs in increasing supply chain resilience is clear. 81% of respondents stated that their initiatives helped them endure the challenges of the pandemic, with 37% saying it “definitely” contributed to their resilience. Sustainable Procurement Leaders typically have greater visibility into their supply chains, more resources to manage their programs and, given the maturity of their programs, better integration of sustainability into all procurement processes. As a result, when the pandemic struck they were able to act more quickly and with greater agility. This is yet another indicator showing that the value of sustainable procurement programs increases with their maturity.

Sustainable Procurement Leaders: Do you believe that your sustainable procurement program has contributed to your resilience and ability to endure the COVID-19 pandemic?



“ You need good employees in general – and especially during a crisis. Our sustainable procurement efforts in particular are helping us attract and retain talent.

Polymer materials manufacturer

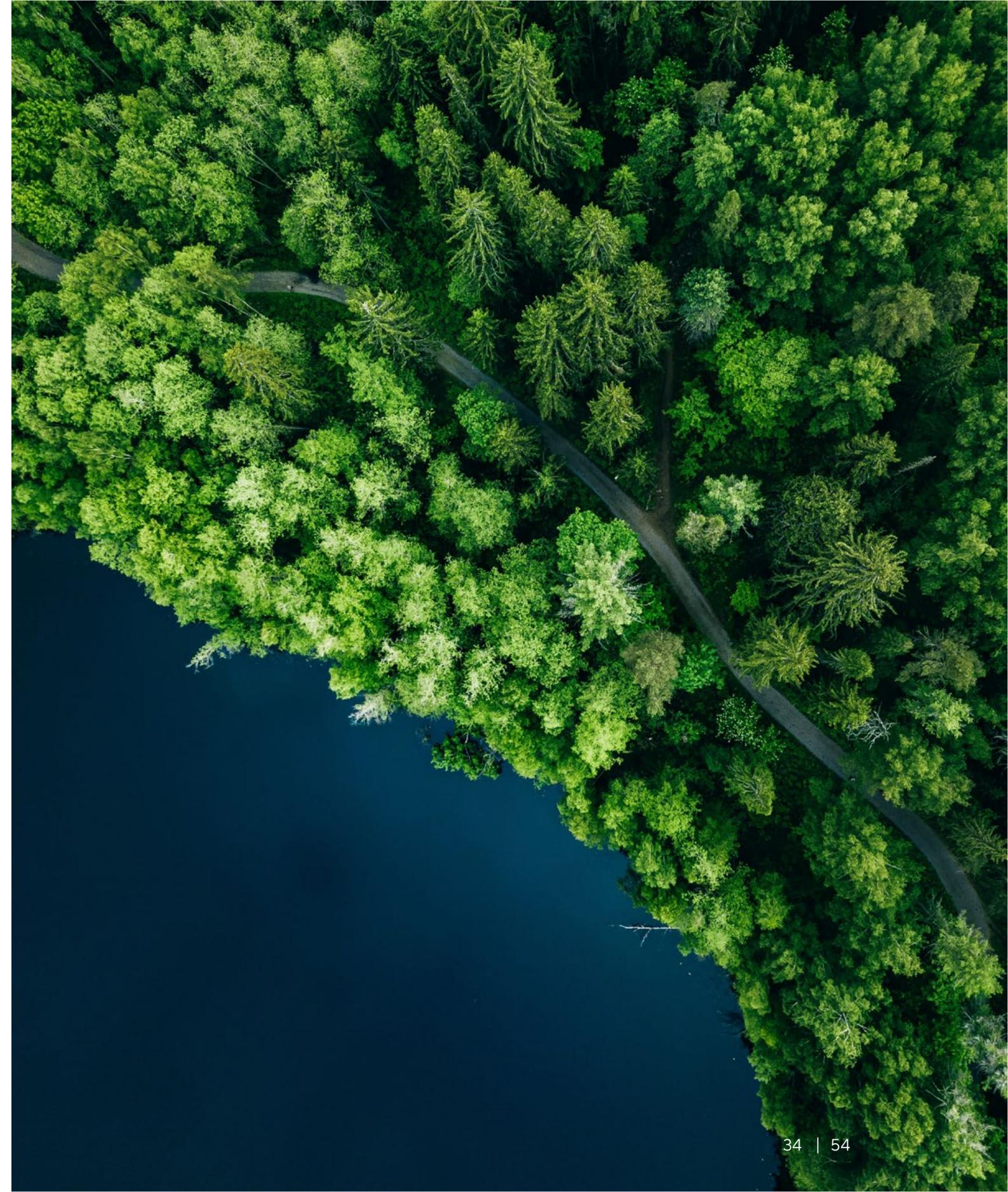
“ If you have visibility, procurement is not a “black box” – it’s very clear where we buy from and why. This has helped us.

Glass packaging company

Sustainable procurement contributes to greater supply chain resilience in multiple ways. While identifying the myriad benefits will require further research, based on the survey findings and in-depth interviews, we can conclude that the impact on both the buying organization and its suppliers is compelling.

On the one hand, companies that have effective sustainable procurement programs in place are better positioned to attract talent and collaborate between departments – giving them the foundation to weather any crisis. And when it comes to their supply chains, the actions they have taken to gain greater visibility, monitor performance and work collaboratively on improving performance in the deepest parts of their supply chain, make it easier for them to assess challenging situations and respond quickly during times of crisis. For buying organizations, the close relationships they develop with their suppliers may help them receive preferential treatment during times of disruption. Plus, when they have to onboard new suppliers, they have proven evaluation processes in place.

At the same time, it appears that suppliers that commit to sustainability are also stronger performers in other areas, such as quality, reliability and efficiency. This, in turn, helps lower the chance of disruption and reduce recovery times. In addition, if Tier 1 suppliers collaborate with their suppliers on sustainable practices, the benefits seen by buying organizations are likely to cascade down to lower tiers of their supply chains. Thus, if a company’s supply chain is only as resilient as its weakest supplier, it goes without saying that sustainable suppliers are more resilient supply chain partners.



Focus on Mid-Size Companies



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

Methodology and Survey
Participation



For large multinational companies, sustainability is now an accepted part of doing business. In its early years, the Sustainable Procurement Barometer typically only received responses from Fortune 500 companies. However, over the years, the study has received more and more attention from mid-size companies. This year, for the first time, we have decided to perform an analysis of mid-size companies (those with annual revenue of between \$100 million and \$1 billion) to see how their practices compare with large companies (annual revenue of above \$1 billion).

When it comes to deriving meaningful value from their sustainable procurement programs, mid-size companies lack the resources that large companies have and may find it more difficult to monitor the wide-ranging and detailed metrics and indicators necessary to track

their performance. They may also struggle to invest in a dedicated sustainability function for their company.

However, mid-size companies have certain advantages over large multinationals that may present them with unique and significant opportunities. They tend to be nimbler and, as a result, more open to innovation. They are also able to shape their sustainability strategy with less pressure from shareholders.

Our analysis shows that although most of these companies are not as advanced as the global giants and use fewer and less advanced tools to assess their suppliers' sustainability performance, they are firmly in the "sustainable procurement game." In fact, a number of mid-size companies were identified as part of the Sustainable Procurement Leaders group.

Companies of this size are poised to tap into a significant opportunity for growth and may represent the next frontier of sustainable procurement progress. Many of them are Tier 1 suppliers of multinational giants and, therefore, are uniquely positioned to drive sustainable procurement practices further down the supply chain.

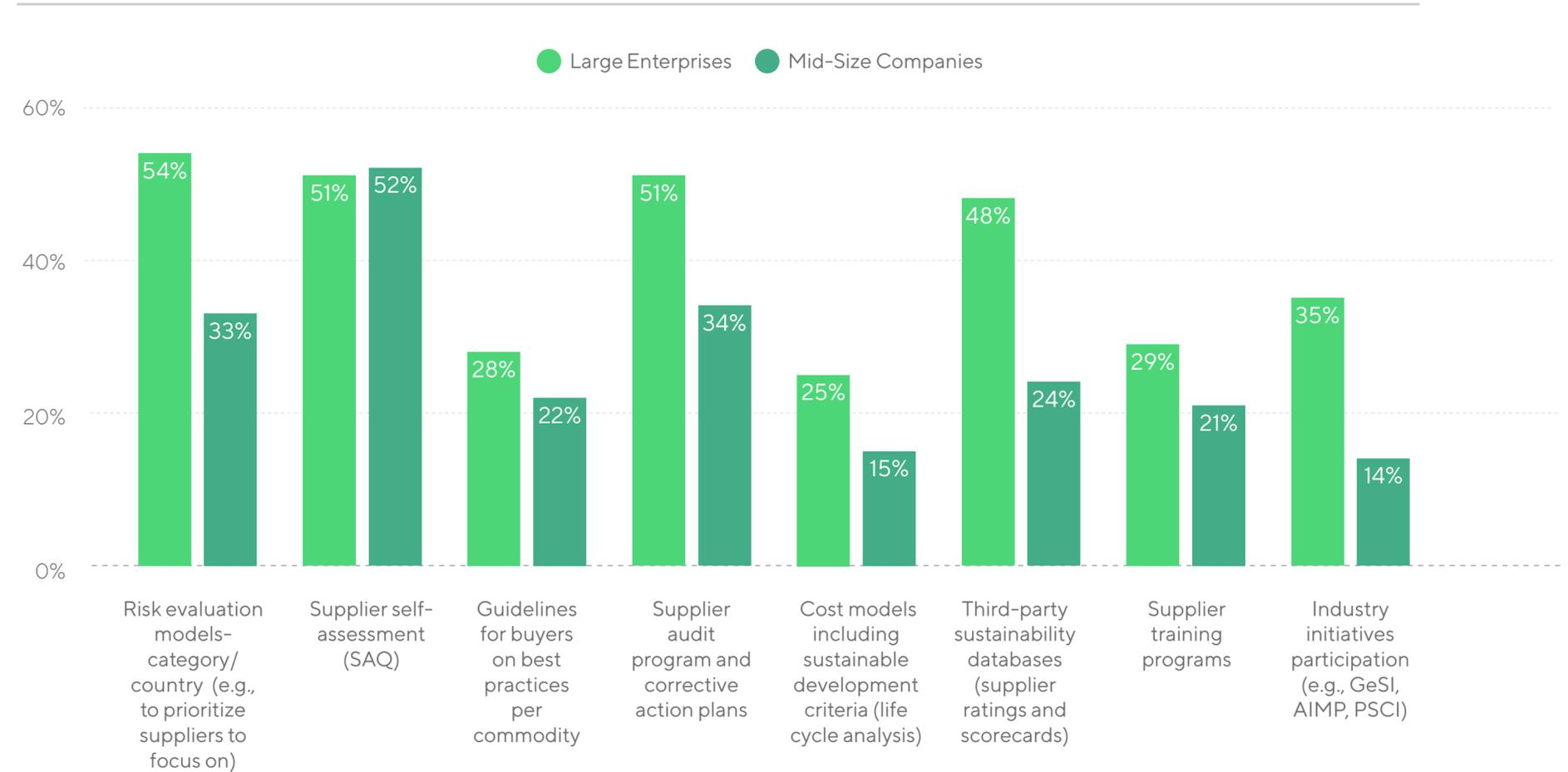


Sustainable Procurement Tools and Tactics

Due to their limited resources, mid-size companies use fewer tools and tactics than large enterprises to drive sustainability practices in their supply chains. They rely more heavily on supplier self-assessment (52%) and while the preference for this tool is at the

same level as for large enterprises, the difference in adoption of some of the other tactics is striking: third-party supplier sustainability databases (24% vs. 48%) and category/country risk (33% vs. 54%).

What tools or tactics have you implemented to support your sustainable procurement program or initiative?





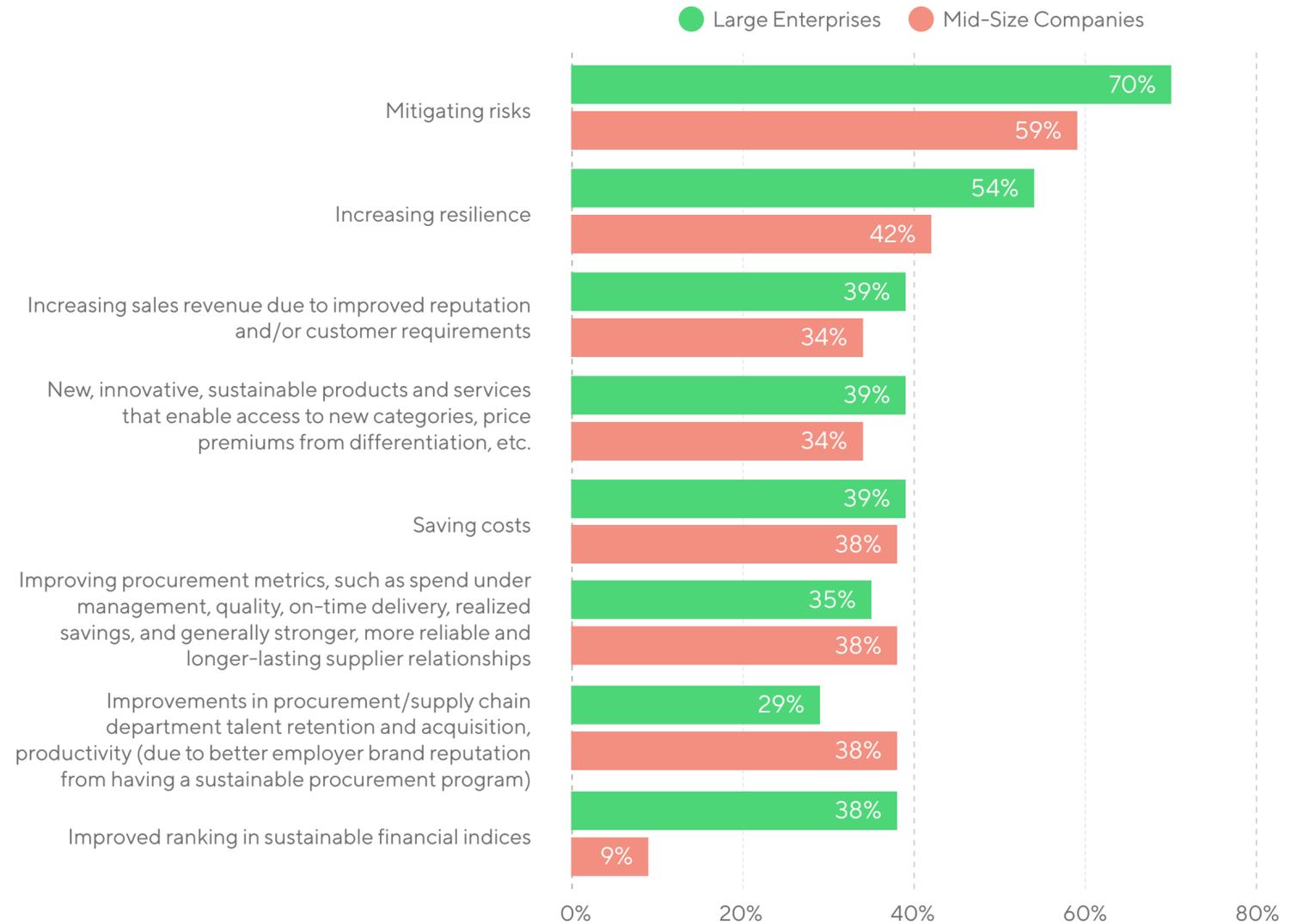
Sustainable Procurement Results and Benefits

Encouragingly, despite their more limited resources, mid-size companies are not that far behind large enterprises in terms of the type of benefits they derive from their sustainable procurement programs. The top benefits realized by this group are the same as for large enterprises and include mitigating risks (59% vs. 70%), increasing resilience (42% vs. 54%),

saving costs (38% vs. 39%) and improved procurement metrics (38% vs. 35%). A larger gap between the two size groups under improved sustainability ranking is to be expected given that mid-size companies are simply less likely to be listed in financial and sustainability indices.

Large Enterprises Versus Mid-Size Companies

How has your organization benefited from your sustainable procurement program?



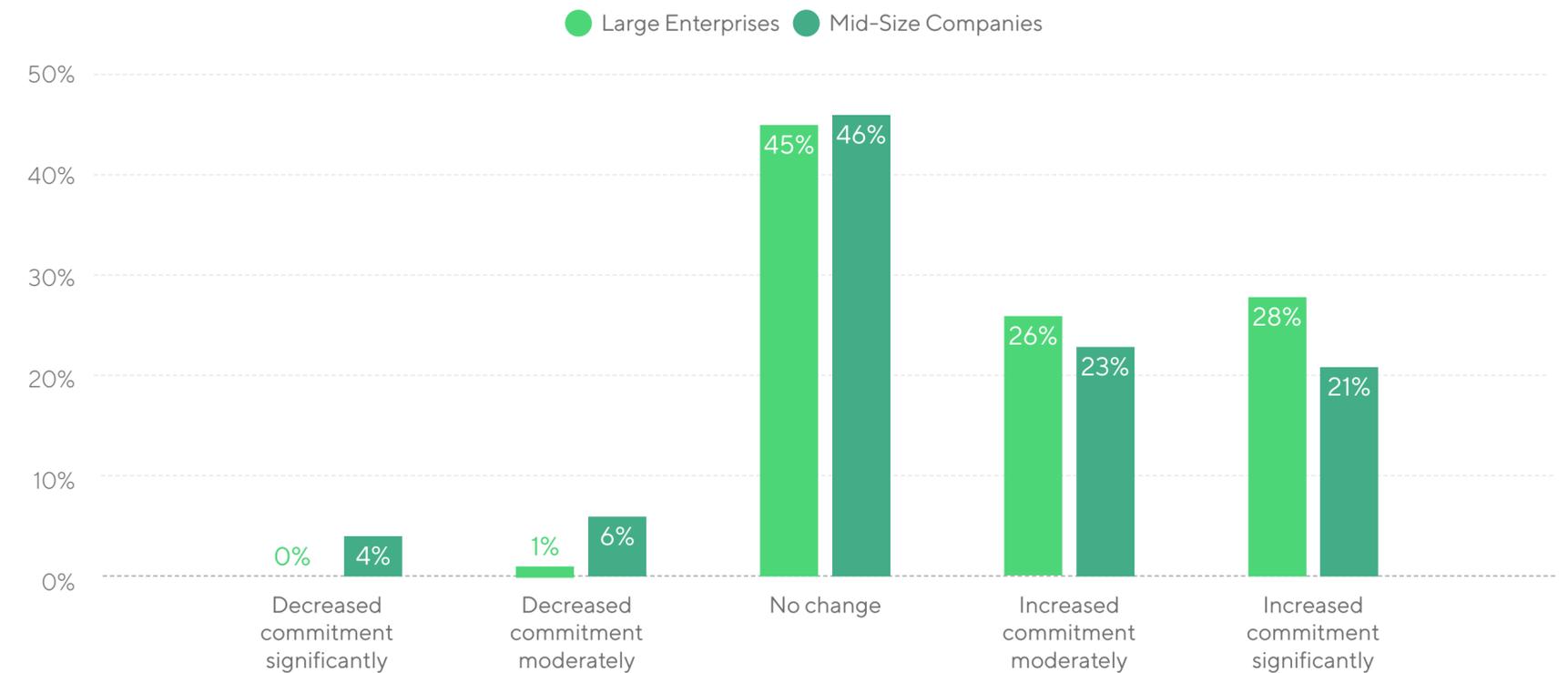


Commitment to Sustainability and the COVID-19 Pandemic

When looking at the impact of the COVID-19 pandemic on companies' commitment to sustainable procurement, the results are very similar between mid-size companies and large enterprises. Nearly half of the companies in both groups increased their commitment to sustainability and a similar proportion

of companies reported no change in their attitude. However, there was a small percentage of companies that had to decrease their commitment to sustainable procurement as a result of the COVID-19 crisis (11%), the majority of which (10%) were mid-size companies.

How has the COVID-19 pandemic impacted your organization's commitment to sustainable procurement?



Supplier Perception and Engagement



Introduction

Sustainable Procurement Vision

Sustainable Procurement Implementation

Obstacles and Challenges

Sustainable Procurement Results and Benefits

Focus on Mid-Size Companies

Supplier Perception and Engagement

Conclusion

Methodology and Survey Participation

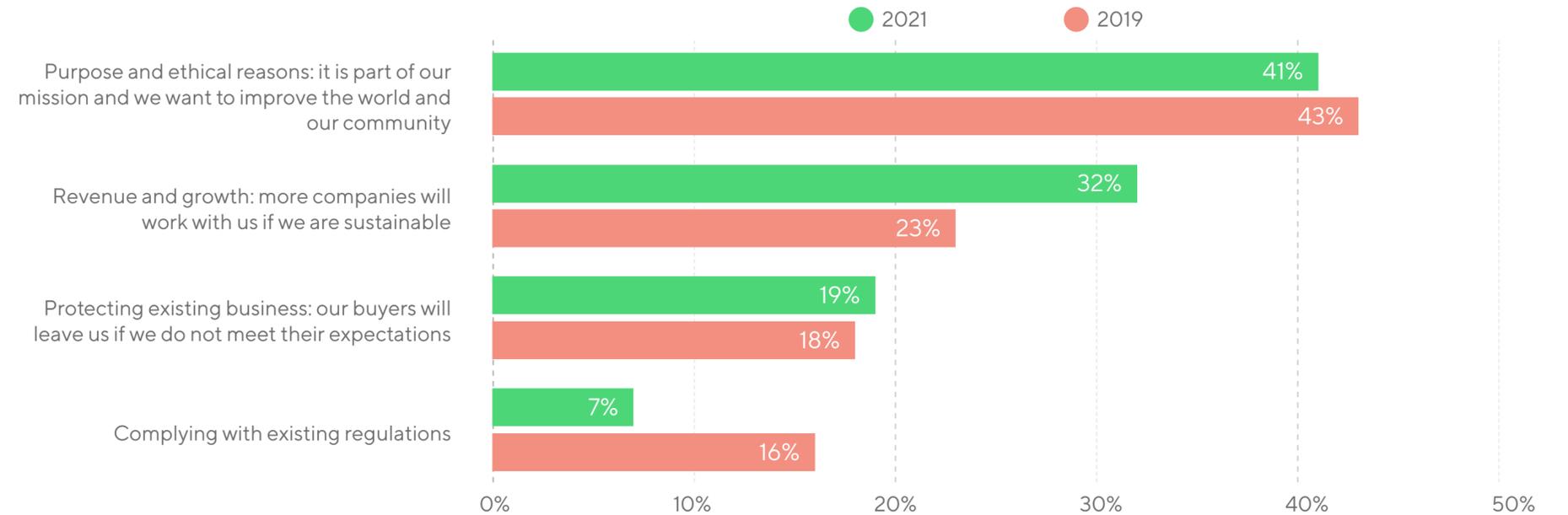
The supplier survey sought to establish what motivates suppliers to engage in sustainability, what incentives or methods of engagement offered by their customers they see as particularly effective and how they view their customers' commitment to sustainable supply chains. Furthermore, to determine the impact of the pandemic, the survey included a COVID-19 focus and was designed to establish whether sustainable practices contributed to suppliers' ability to weather the crisis.

The results show that for more than half of participating suppliers, their primary motivation for engaging in sustainability is market driven: to protect their existing business or expand it. This illustrates the important role of buying organizations in encouraging sustainable practices throughout the supply chain. Encouragingly, the majority of suppliers (61%) feel incentivized, to varying degrees, by their customers to implement sustainable practices. It is also significant that for 41% of suppliers, their primary motivation for

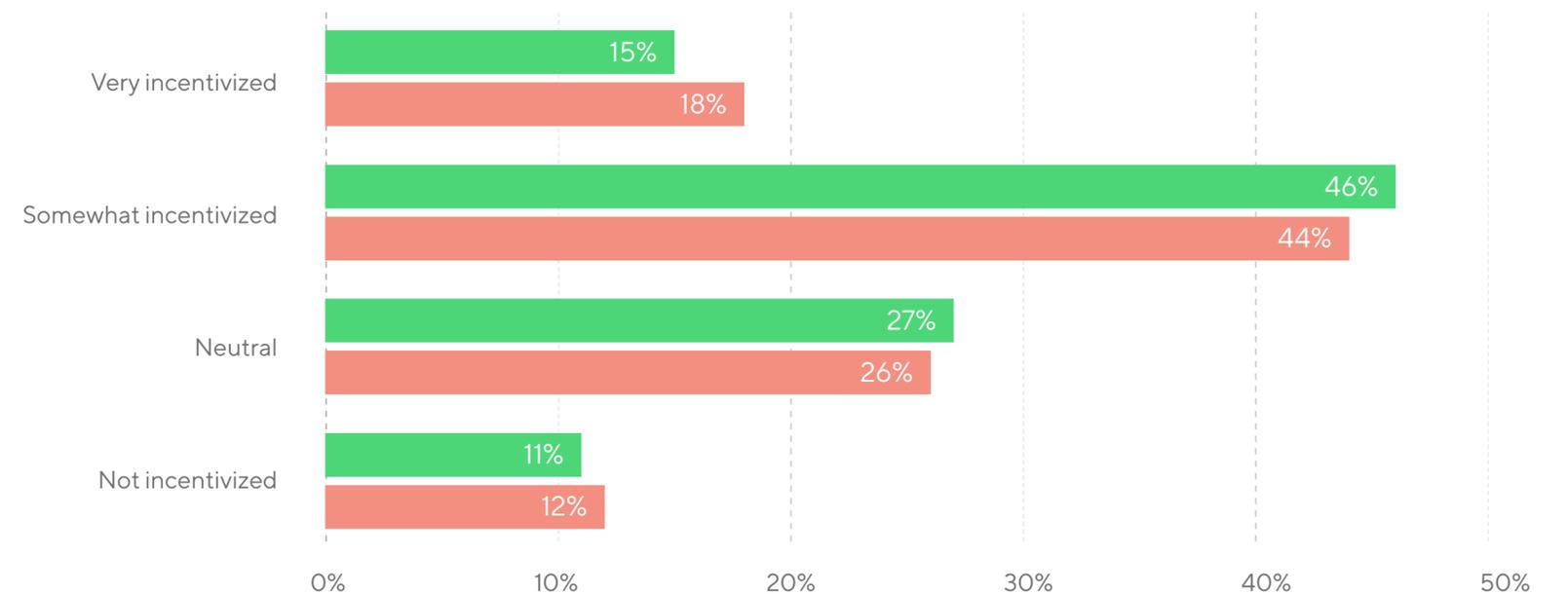
engaging in sustainability is their corporate mission rather than external market pressure.

Regulatory compliance, meanwhile, continues to be the least important reason for suppliers to engage in sustainability. In fact, only 7% of respondents selected this option compared with 16% two years ago. This may be a result of the greater regulatory pressure, particularly in Europe, on large or listed companies to report on sustainability performance, while many suppliers are smaller companies that fall below this threshold.

What is your primary motivation for engaging in sustainability?



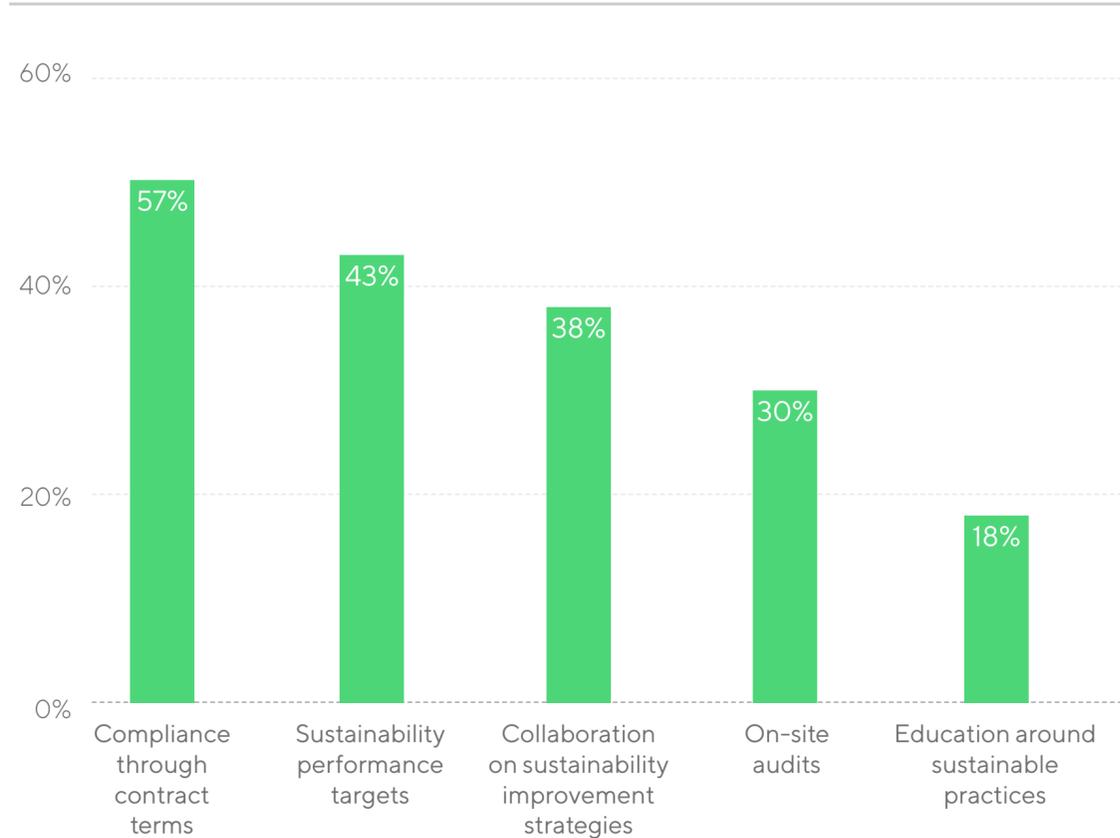
Beyond complying with existing supplier codes of conduct (or similar policies), how incentivized are you by your buyers to be sustainable and socially responsible?



Key Motivators for Supplier Participation in Sustainability Initiatives

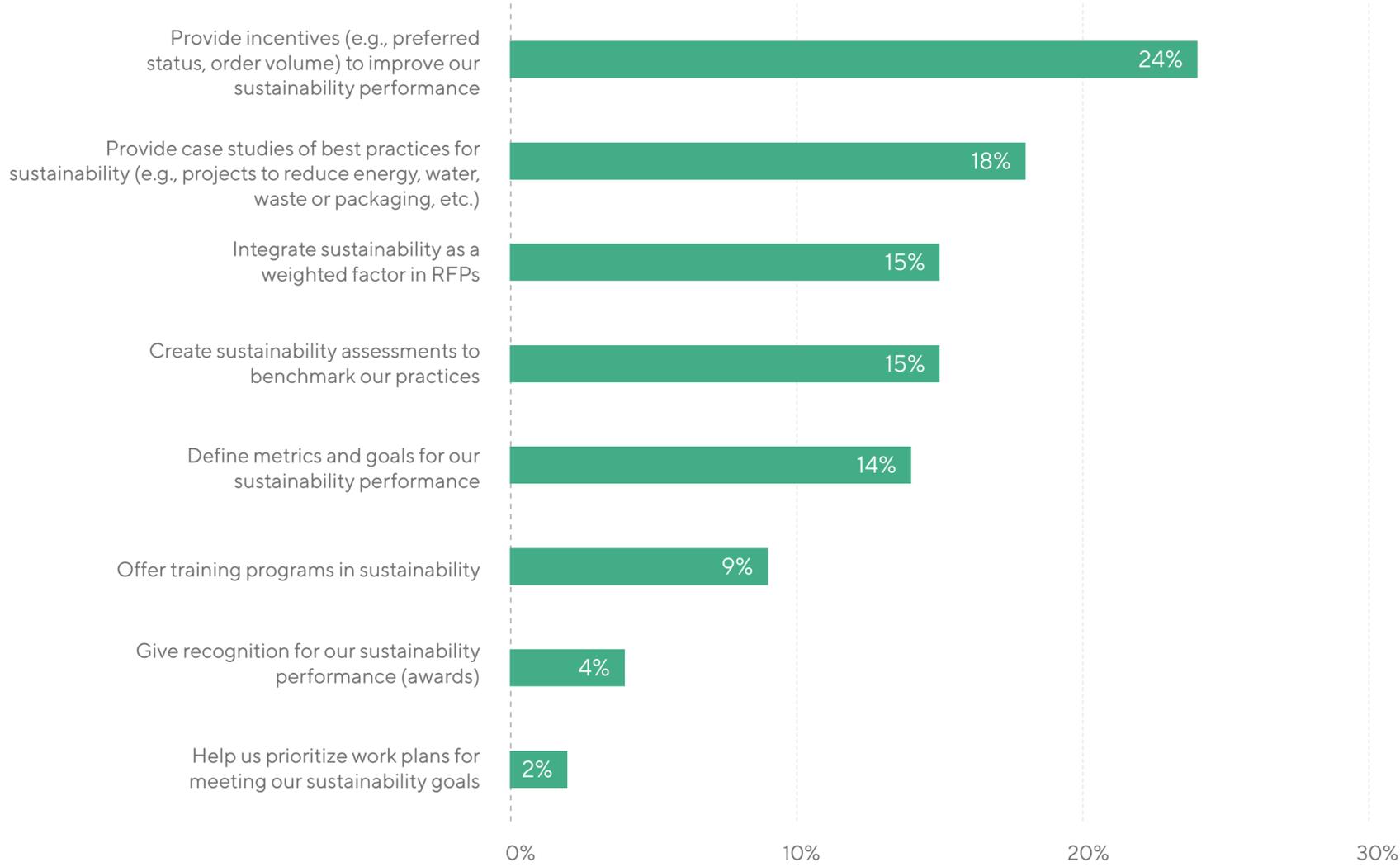
Most of the suppliers' customers use contract terms and set specific sustainability performance targets to encourage their suppliers to implement sustainability practices.

In what way do your clients encourage you to implement sustainability practices?



While suppliers appreciate specific metrics and goals for sustainability performance, they view positive incentives as the best motivator for encouraging their participation in sustainability initiatives. Such incentives may include a preferred status or higher order volume, as well as the integration of sustainability into RFPs. Suppliers also value the ability to learn how they can potentially improve their sustainability practices, for example through case studies of best practices or through assessments that allow them to benchmark their practices. As only a small percentage of suppliers (18%) reported that their customers currently provide education around sustainable practices, buying organizations are encouraged to, when possible, share best practices and other relevant information with their suppliers to help them improve their sustainability programs.

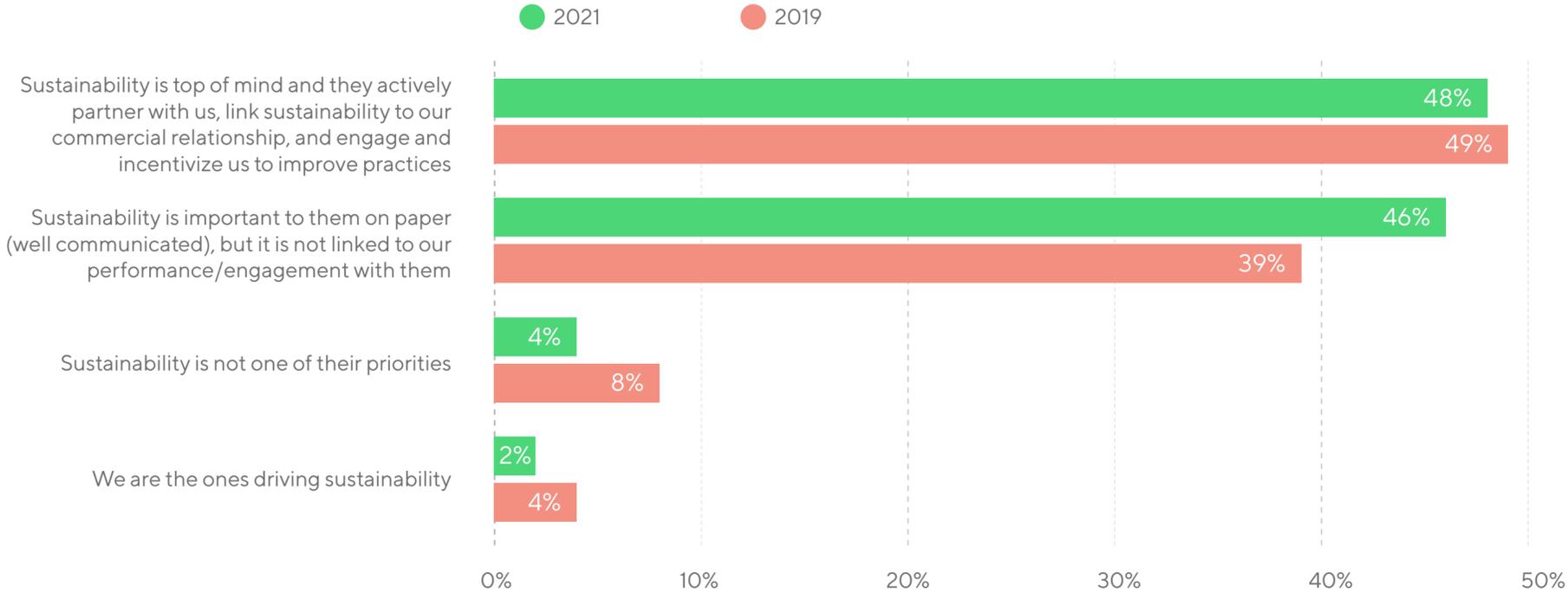
What are the top three strategies that your clients could implement that would encourage your participation in their sustainability initiatives?



Supplier Perception of Large Companies' Commitment to Sustainability

When it comes to suppliers' perception of their customers' commitment to building sustainable supply chains, about half of the respondents (48%) believe their largest customers are truly engaged in sustainability and actively partner with them to foster sustainability practices in their commercial relationships. At the same time, nearly as many respondents (46%) say sustainability is important to their customers on paper but is not reflected in any practical way in the way they work together. Only a fraction of suppliers believe that sustainability is not important to their customers.

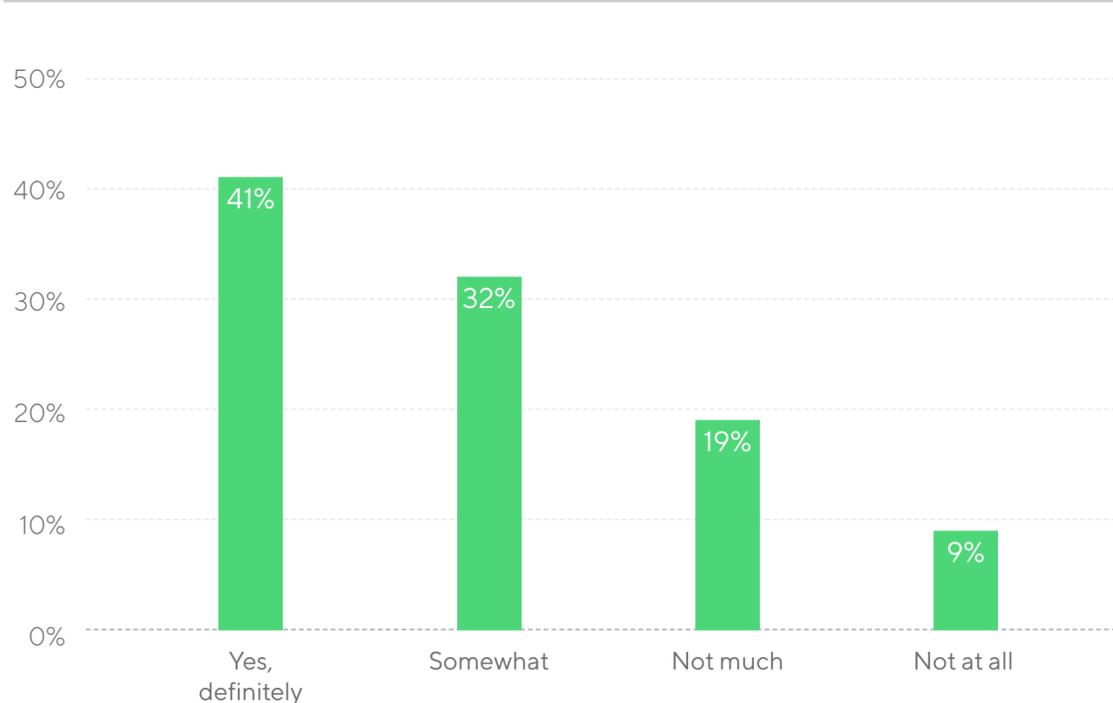
Consider your largest customers (for example, organizations you supply that generate at least \$1 billion in revenue), on average, how would you categorize their commitment to building a sustainable supply chain?



Supplier Resilience During the COVID-19 Crisis

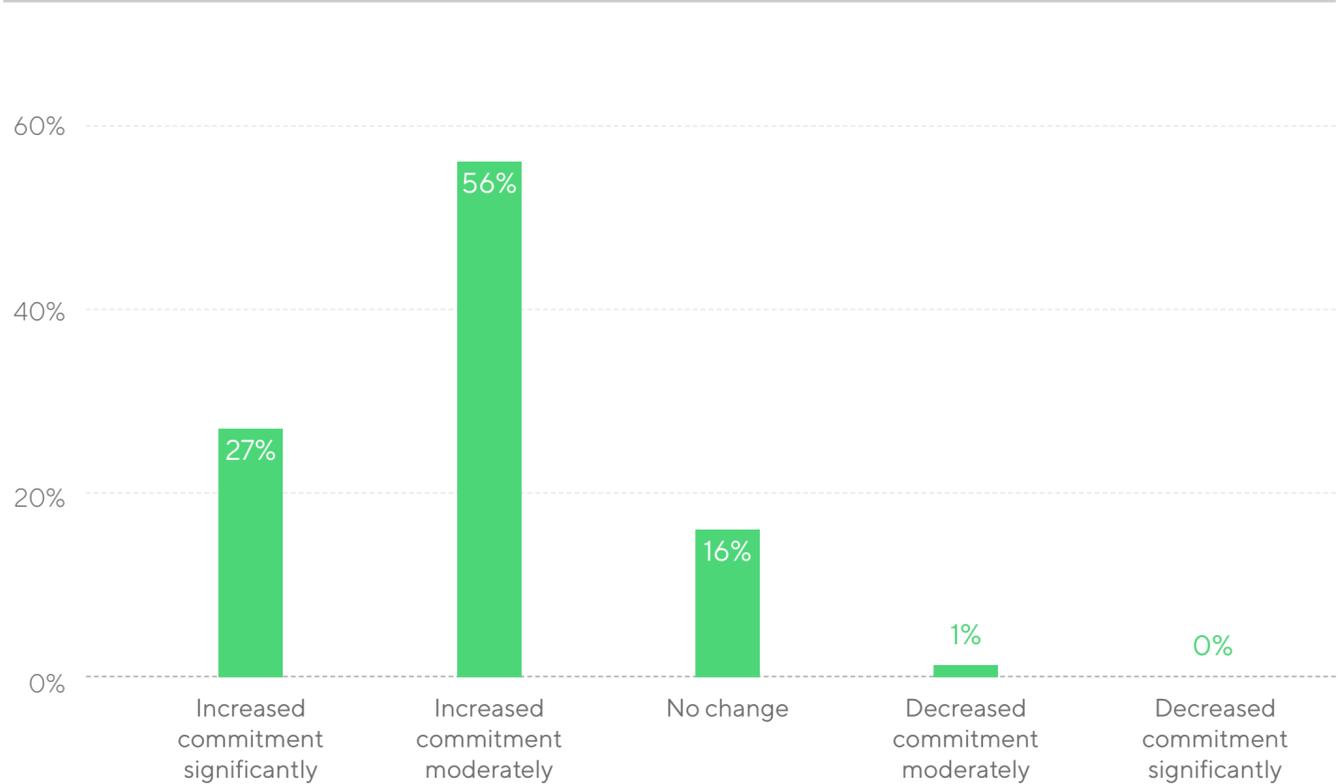
Sustainable practices played an important role in helping suppliers endure the COVID-19 crisis, with 73% of them indicating that these practices contributed to their resilience during the pandemic at least to a certain degree.

Do you believe that your sustainable business practices/sustainable offerings have contributed to your resilience and ability to endure the COVID-19 crisis?



Moreover, 83% of suppliers indicated that their clients' sustainability-related requirements increased in the past year, further illustrating the observation made earlier in the report that the pandemic hasn't deterred the majority of buying organizations from continuing to invest in sustainability.

On average, how have your clients' sustainability-related requirements changed in the past year?



Conclusion



Introduction

Sustainable
Procurement Vision

Sustainable Procurement
Implementation

Obstacles and Challenges

Sustainable Procurement
Results and Benefits

Focus on Mid-Size
Companies

Supplier Perception and
Engagement

Conclusion

Methodology and Survey
Participation

As a relatively recent addition to the executive agenda, sustainable procurement has grown exponentially in strategic importance. Across regions and industries, leaders have increasingly come to recognize that the adoption of sustainable procurement practices yields a tangible competitive advantage, enabling organizations to more effectively mitigate risk and build resilient supply chains.

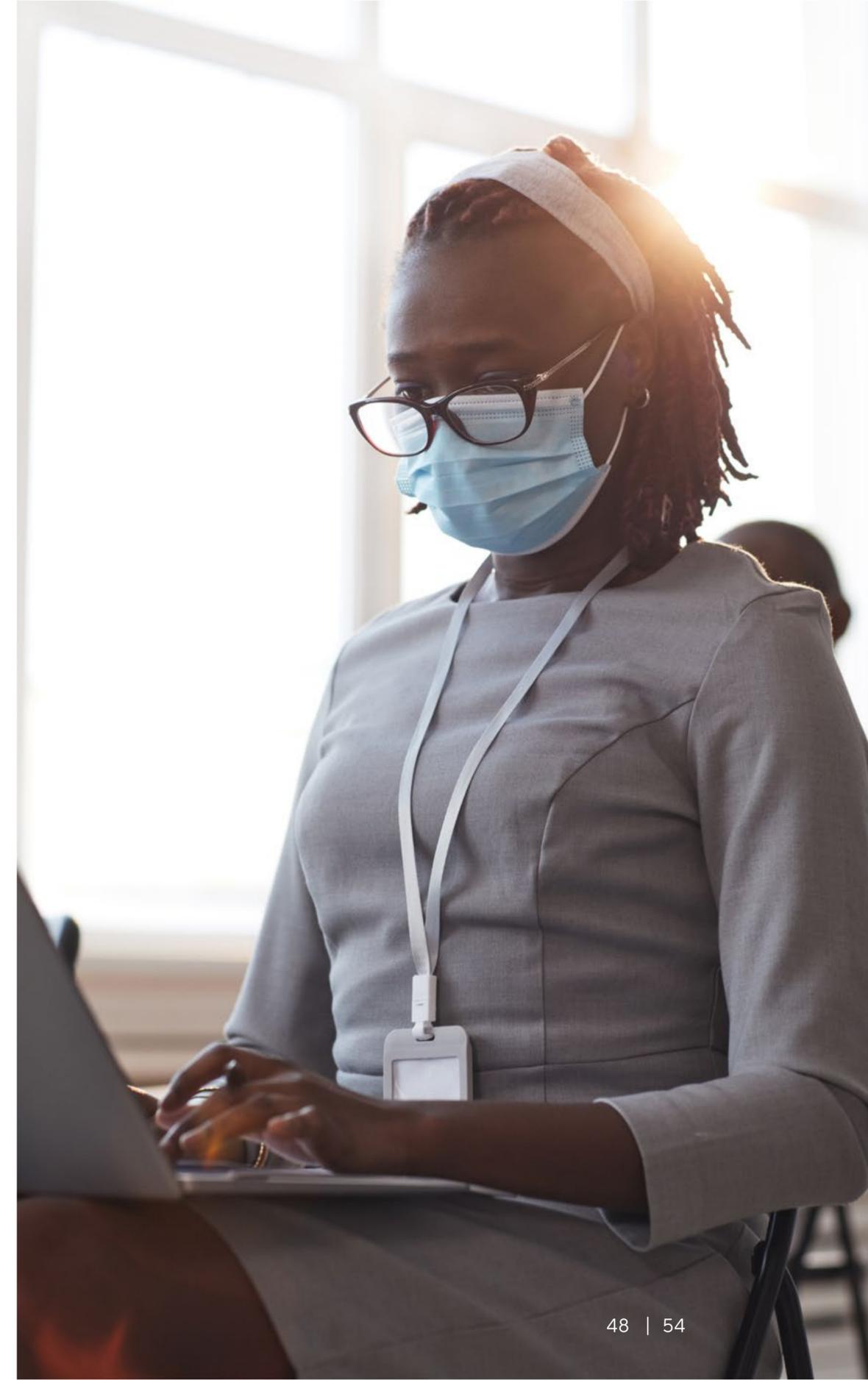
Significantly, and despite widespread expectation to the contrary, the disruptions caused by the COVID-19 pandemic have not undermined the prior expansion of corporate sustainability goals. Sustainability remains top of mind and, in many cases, its importance has increased as a consequence of the pandemic.

In addition to reflecting an increasingly broadly shared ethical consensus regarding the importance of sustainability, this circumstance reflects the fact that the majority of companies surveyed, including buyers and suppliers, found that sustainability practices benefited their management of the crisis.

Furthermore, the wave of international protests witnessed last year around issues connected with social and racial injustice has deepened many companies' commitment to increasing diversity and inclusion throughout their organizations. Again, this reflects the growing ethical and procedural salience of another key sustainability performance indicator in contemporary corporate practice. Sustainability, in other words, has come increasingly to be recognized as intrinsic to building resilience throughout organizations and supply chains.

Crucially, the same trend can be observed with respect to mid-size companies, a sector that is increasingly attracting the attention of regulators (such as the proposed EU supply chain due diligence directive) and investors (including private equity firms who invest in non-listed companies) concerned to promote sustainable business practices. While the economic impact of COVID-19 has inevitably constrained investment in sustainability among organizations with fewer

resources, feedback from buyers and suppliers makes clear that the mid-size sector broadly shares with large enterprises an increasing commitment to sustainability and a recognition of the benefits such practices can accrue. Plus, many companies of this size are Tier 1 suppliers of multinational giants and, therefore, are uniquely positioned to drive sustainable procurement practices further down the supply chain. It seems clear, therefore, that the mid-size sector represents the next frontier of progress in the expansion of sustainable procurement practices.



So what developments are we hoping to see in the future?

Survey and interview data indicates that buyers are increasingly likely to examine and evaluate sustainability practices throughout their engagement with suppliers, rather than focusing such scrutiny only at the initial supplier selection stage. We encourage more companies to adopt such practices, as the continual monitoring of sustainability performance is likely to be regarded as essential to managing risk and ensuring compliance during a period when regulation is tightening internationally.

Furthermore, buying organizations are encouraged to introduce positive incentives to their suppliers as well as guidance and training programs, as ways to enhance suppliers’ sustainability performance. Not only are many of them the Sustainable Procurement Leaders adopting such an approach, but suppliers also identified them as key motivators to encourage their participation in sustainability initiatives. Such positive incentives may also make

it easier for buyers to gain visibility into their suppliers’ sustainability performance, an area that was identified as one of the key obstacles of such programs.

Ultimately, the expansion of sustainable procurement practices seems set to continue to integrate sustainability into procurement practices to mitigate risk and navigate crises. And, having endured the once-in-a-generation stress test of the COVID-19 crises, sustainable companies will be better prepared for the looming climate crisis. The data derived from the 2021 Sustainable Procurement Barometer makes it clear that, for Sustainable Procurement Leaders across the world, sustainability and resilience are now recognized as two sides of the same coin.



Methodology and Survey Participation



Introduction

Sustainable Procurement Vision

Sustainable Procurement Implementation

Obstacles and Challenges

Sustainable Procurement Results and Benefits

Focus on Mid-Size Companies

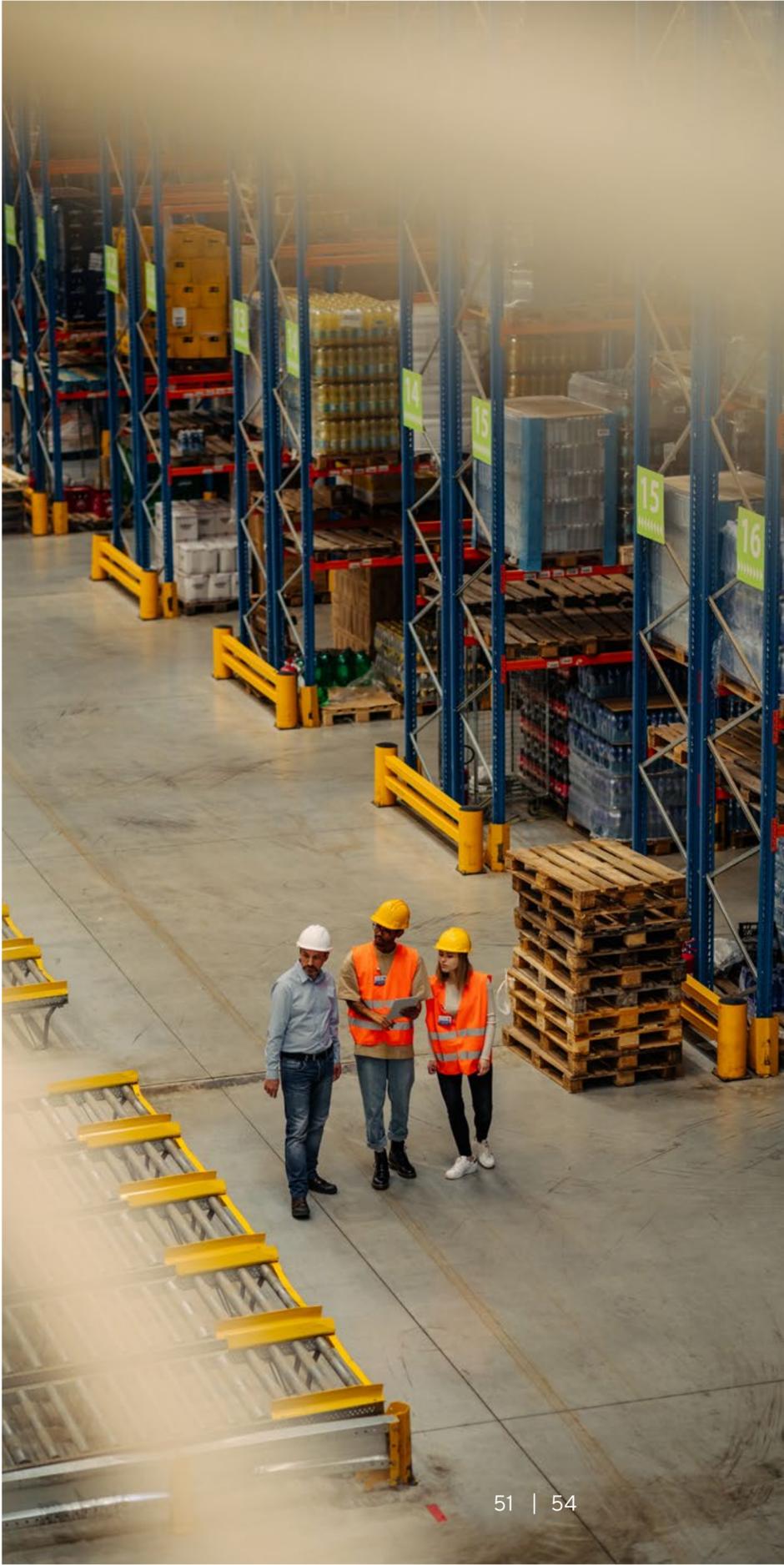
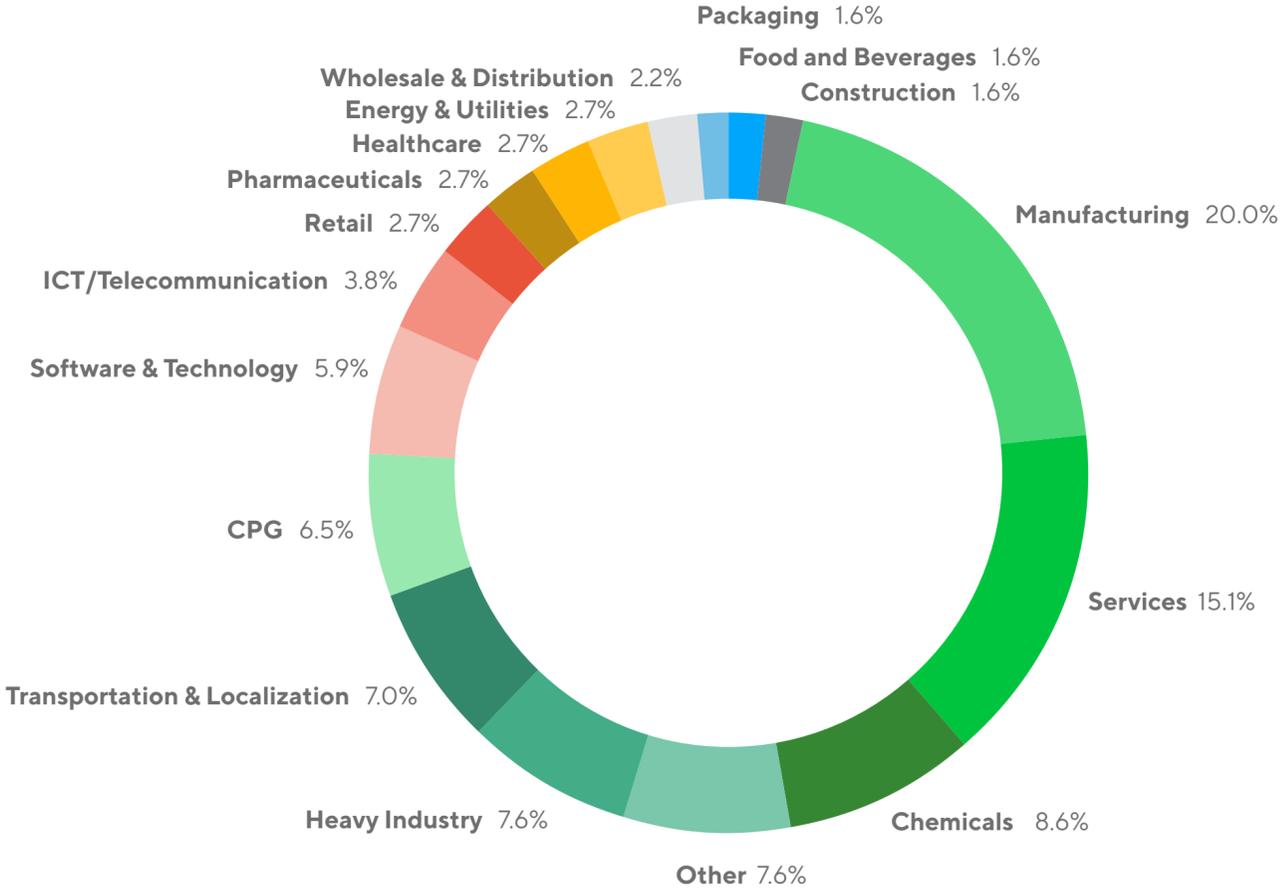
Supplier Perception and Engagement

Conclusion

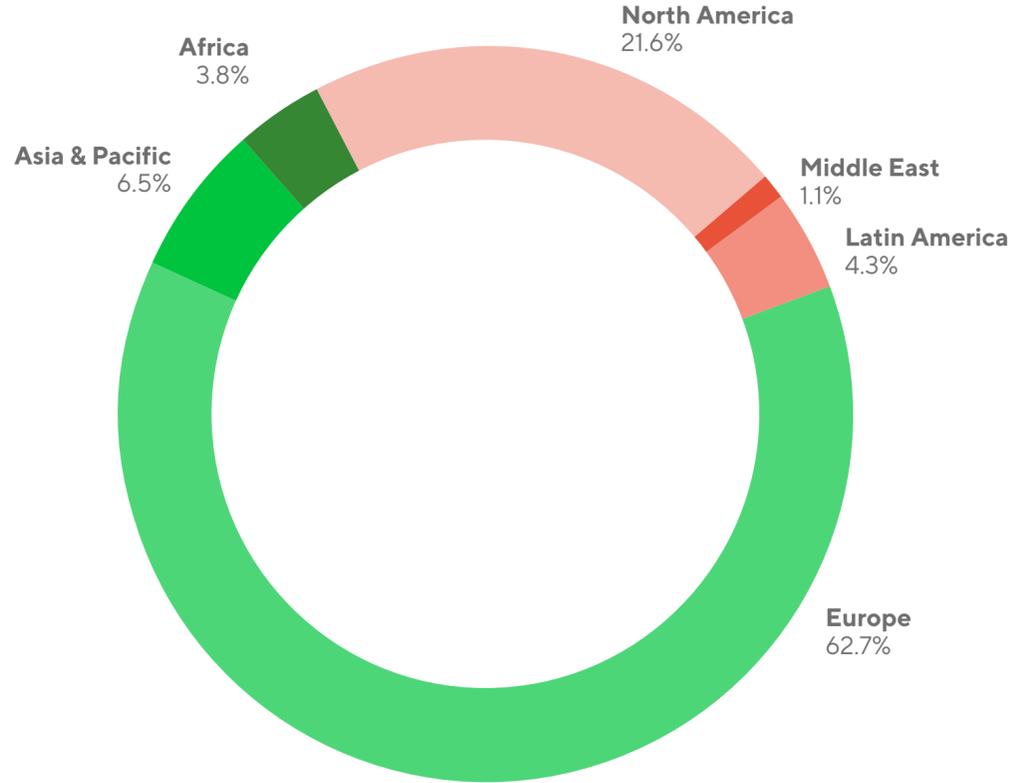
Methodology and Survey Participation

The Sustainable Procurement Barometer 2021 study is based on two surveys – one for buyers and one for suppliers – conducted as online questionnaires followed by in-depth interviews with the selected participants. The buyer survey saw 159 responses from companies across the world and a range of industry sectors.

Buyer survey respondents by industry



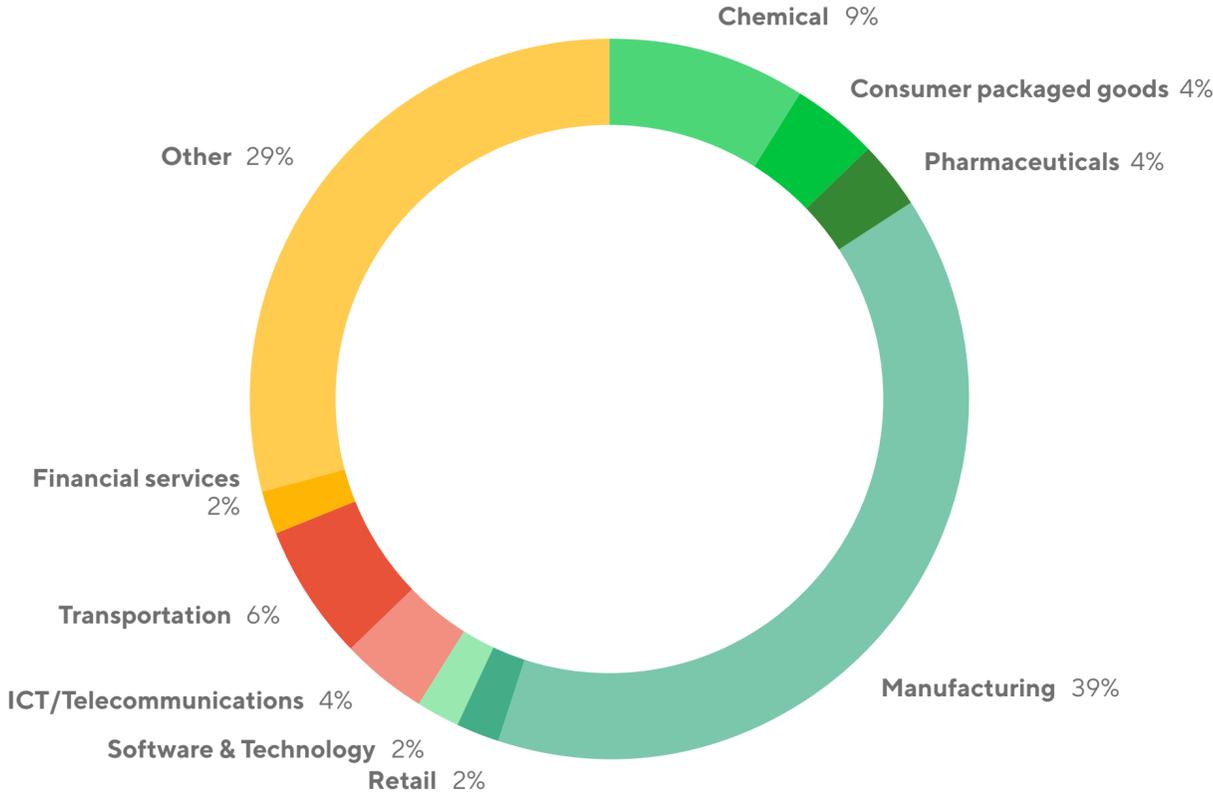
Buyer survey respondents by region



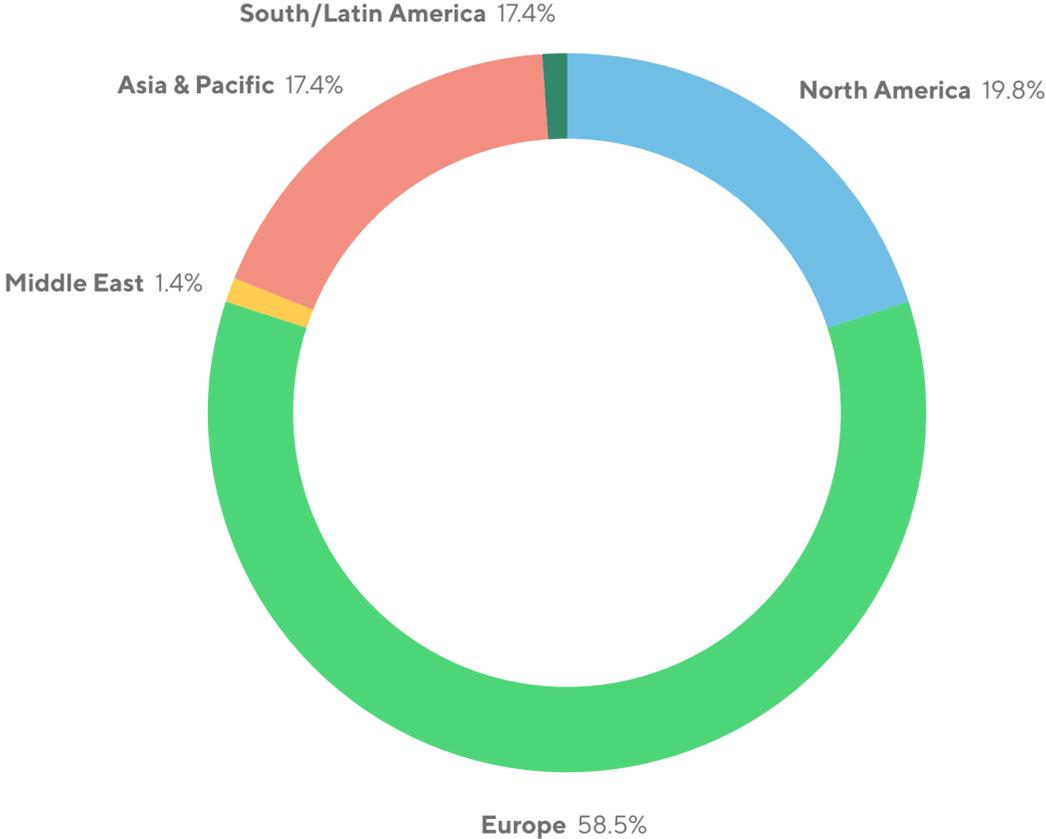
The supplier sample consisted of 207 companies. The vast majority are based in Europe, with notable large representation from France, the United Kingdom and Germany. There was also considerable representation from the US.



Supplier survey respondents by industry



Supplier survey respondents by region



In addition, follow-up interviews were conducted with 12 respondents who agreed to be contacted in the initial survey.



About EcoVadis

EcoVadis is the world's most trusted provider of business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains.

Backed by a powerful technology platform and a global team of domain experts, EcoVadis' easy-to-use and actionable sustainability scorecards provide detailed insight into environmental, social and ethical risks across 200 purchasing categories and 160 countries. Industry leaders such as Johnson & Johnson, Verizon, L'Oréal, Subway, Nestlé, Salesforce, Michelin and BASF are among the more than 75,000 businesses on the EcoVadis network, all working with a single methodology to evaluate, collaborate and improve sustainability performance in order to protect their brands, foster transparency and innovation, and accelerate growth. Learn more on ecovadis.com, [Twitter](#) or [LinkedIn](#).

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About the Value Chain Innovation Initiative

The Value Chain Innovation Initiative brings together academics, industry leaders and practitioners to advance the theory and practice of global value chain innovation through research and knowledge dissemination.

Housed within the Graduate School of Business at Stanford University, we seek to understand the economic and social impacts of the global dynamics and technologies that are reshaping businesses, industries and ecosystems across the value chain.

Our research and professional workshops focus on addressing problems that are highly relevant to the greater global business community, and cover a broad range of topics including global supply chain design in complex trade environments, responsible supply chains, technological innovations and their impact on value chains, and more.

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