

SUSTAINABLE PROCUREMENT: THE REQUISITE INTERNATIONAL BUSINESS STRATEGY

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Abstract This paper explores the foundation, concept, benefits and mechanisms for implementing sustainable procurement. To achieve the purpose of this research, the author reviewed the key findings of relevant studies and observed them in the context of the current turbulent global geopolitical, economic, social and environmental circumstances. The author claims that sustainable procurement influences the extent and benefits of sustainability implementation in the whole supply chain. Successfully encouraging suppliers to implement sustainability aspects into their production or service activities/processes accelerates a company's enforcement of sustainability into the whole supply chain, which triggers positive impacts on its value chain creation. Considering the higher stringency of international regulation on sustainability compliance, the positive impacts of sustainability implementation in procurement and supply chain contribute to a company's higher global competitiveness. Additionally, sustainable procurement shows a company's adherence to social responsibility for current global challenges. This research implies that sustainable procurement is a requisite international business strategy.

Keywords:
sustainability,
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1 Introduction

The extensive current international social, political and economic turbulence has caused severe disruptions in global supply chains. These disruptions have brought the rationality of the global character of contemporary supply chains into question. They have also shown that supply chains function as the veins of the economy and society (Ivanov, 2020). They can quickly transform from an accelerator of cost advantages to the factor of a company's survival. Therefore, companies from developed economies have been particularly forced to integrate innovations into various activities of their supply chains.

As one of the essential activities of a supply chain, procurement has been gradually transformed from a company's function for cost reduction to a process that has the leverage and responsibility to create value and influence the environmentally and socially responsible use of resources in companies. Recent procurement creates new business opportunities through cooperation and joint development with suppliers, networking and different, creative thinking about purchasing categories. It is increasingly recognised as a source of competitive advantage for innovative companies.

Since companies' business partners, including investors and customers, demand more scrutiny and transparency around sustainable products and practices, companies' supply chains and procurement processes are becoming key areas of their innovative efforts to drive sustainability. The adherence to sustainability pillars in numerous countries triggers significant changes in companies' international procurement practices. Hypothetically, sustainable procurement is becoming a requisite international business strategy.

The goals of this paper are, firstly, to introduce the foundation, concept and benefits of sustainable procurement. Secondly, to discuss the mechanisms and tools for implementing sustainability aspects into procurement and supply chains, and thirdly, to present the preferred incentives that could encourage suppliers to participate in their customers' sustainability initiatives. The key research question is to find out the urgency of sustainable procurement in international business.

2 Defining and arguing sustainable procurement

As the network of manufacturers, suppliers and logistics providers and the set of activities responsible for acquiring and delivering goods to customers, the supply chain is output-oriented and encompasses production and distribution. On the other hand, as one of the activities of the supply chain, procurement has an input focus, supports production and emphasises the building and managing of relationships with suppliers. As a preliminary procurement activity, sourcing is responsible for defining the need for purchase, screening and selecting suitable suppliers, as well as negotiating the most favourable contract terms (Arbuzova, n.d.). It takes a strategic approach, aims to minimise costs, creates vendor and supplier relations, builds supply channels, and makes the flow of supplies possible. Procurement is responsible for placing orders, making payments and managing contracts. Instead of who provides the supplies, which is the sourcing task, it focuses on what is supplied and how. It includes strategic and tactical components, manages relationships with suppliers, uses supply systems developed by sourcing, and emphasises streamlining of the flow of supplies.

Sustainable procurement refers to adopting and integrating corporate social responsibility principles into a company's procurement processes and decisions. It focuses on working with suppliers to develop environmentally and socially sustainable products. It ensures that the working conditions of its suppliers' employees are decent, that the products or services purchased are environmentally sustainable, and that socio-economic issues, such as human rights and fair operating practices, are addressed (Caldera, Mohamed & Feng, 2022; Weiss & Knopf, 2017). The United Nations (2022), for example, divides sustainable procurement indicators into twelve groups: prevention of pollution, sustainable use of resources, mitigation and adaptation to climate change, protection of the biodiversity, and restoration of natural habitats, human rights and labour issues, inclusion of persons with disabilities, gender issues, social health and well-being, total life cycle costs, SMEs in local communities, and promoting sustainability throughout the supply chain.

According to the Sustainable Procurement Barometer (SPB) 2021 (EcoVadis & Stanford Business University 2022, 12), the issue of labour and human rights will gain the highest significance among the sustainability areas that are relevant for shaping companies' procurement strategies over the next few years. It will be more critical or significantly more critical for 73% of respondents. The environmental

issue is in second place with higher or significantly higher importance for 67% of respondents. The social aspect (diversity, racism, non-discrimination, equity), however, is in third place, with higher or significantly higher significance for 61% of respondents, while business ethics (bribery, corruption, fair trade) is in fourth place with higher or significantly higher importance for 56% of respondents.

Companies expose the following possible benefits of sustainable procurement: higher revenues (new products, differentiation), lower costs (greater efficiency in resource use), risk management (compliance with laws and regulations and customer preferences) and building intangible assets (by building a socially and environmentally responsible brand or corporate image) (Wisner, Tan & Leong 2017, 110). It can also bring benefits in improving organisational standards, establishing long-term, collaborative and trust-based relationships with suppliers (Reilly, 2019), innovating technologies, raw materials and products, maintaining positive local community relations, and satisfying moral and ethical responsibilities (Sanders 2013, 382-383). In the Sustainable Procurement Barometer (SPB) 2021 (EcoVadis & Stanford Business University 2022, 45) 73% of respondents believe that their sustainable business practices have definitely (41%) or somewhat (32%) contributed to their resilience and ability to endure the COVID-19 crisis.

3 Achieving and measuring sustainable procurement

Sanders (2013, 388-390) lists three interrelated drivers of sustainability initiatives in general: 1) Legislation that companies in the industry have to comply with, 2) Industry-specific certifications that enable compliance with the aim of gaining trust and endorsements in the industry and among the public, 3) Innovation that supports the improvement of current practices in ways that contribute to sustainability. Kuik, Nagalingam and Amer (2011) discuss five essential elements for achieving sustainability goals in a company: 1) The level of commitment of the company's leadership, as well as the company's culture itself, 2) Management systems and methods for measuring sustainability aspects in a company, 3) The appropriate management of company resources, 4) Employee training, infrastructure development and a good working environment, and 5) Changes in technology (digitalisation, automation) for more straightforward implementation of sustainability strategies.

In terms of the supply chain, Hachtman (2019) lists six steps to achieve its sustainability: 1) Creation of a detailed sourcing plan, 2) Education and changes in organisational culture, 3) Encouragement and support throughout the supply chain, 4) Implementation of technological advancements, 5) Cooperation among competing organisations in the supply chain, and 6) Provision of clear objectives and definition of measurement criteria. Wisner, Tan, and Leong (2017, 113-114) list five steps on this path: 1) Establishing sustainable sourcing policies and guidelines, 2) Training employees and communicating its policies to suppliers and consumers, 3) Implementing its policies with relatively simple steps that quickly deliver benefits and results, attract customers and encourage the further realisation of a sustainable company vision, 4) Developing performance measurement system, and 5) Monitoring progress and looking for further improvements.

Parke (2019) outlines four steps to achieve sustainable procurement as a part of the supply chain: 1) Defining and communicating sustainability expectations or goals, 2) Supplier screening for sustainability standards, 3) Training of suppliers to meet the standards, and 4) Presenting the benefits of improving suppliers' processes. Additionally, to achieve sustainable procurement, a company should evaluate the sustainability performance of its suppliers (e.g. checking compliance with the suppliers' CSR code of conduct, regular assessment of suppliers' environmental or social practices (e.g. questionnaires, audits)), perform training on environmental and social issues for suppliers' employees in procurement departments and support suppliers in building their competencies about sustainability issues (e.g. corrective actions) (Weiss & Knopf, 2017).

Companies can use self-assessment in the process of evaluating suppliers. A self-assessment questionnaire can refer to specific inquiries on ecological and social aspects of the supply chain, the code of conduct and specific risks. Possible topics could be the following: responsibility for sustainability management and compliance with certificates and standards, certification in environmental topics (such as EMAS, ISO 14001), labour standards (e.g. SA 8000), adherence to non-certifiable standards (such as the principles of the UN Global Compact or ISO 26000), internal sustainability-relevant measures and management processes that prevent negative impacts on the environment and society, participation in multi-stakeholder and industry sustainability initiatives, results of the previous audits and the information on the type, extent and conductor of the audits, as well as sub-supplier commitments to sustainability (ibid., 44). The advantage of supplier self-assessment is that

companies can first implement it to understand the suppliers' strengths and weaknesses. In addition, self-evaluation raises awareness of sustainability requirements among existing and new suppliers. However, specific supplier commitments, as well as control and support measures, should follow.

The evaluation through an audit by one's own company or external third parties goes beyond the suppliers' self-assessment. This approach is recommended if there is an increased risk of violation. It is possible to differentiate between internal audits, supplier audits performed by their customers and third-party audits. Guidelines for auditing suppliers, for example, can be based on the code of conduct or the requirements of management system standards, such as EMAS. The SPB 2021 (EcoVadis & Stanford Business University 2022, 49) shows that customers are increasingly likely to continuously examine and evaluate their suppliers' sustainability practices rather than only at the initial stage of supplier selection.

The third mechanism to increase the sustainability of procurement (in addition to evaluating sustainability performance and training of employees) is to develop suppliers' capabilities by developing corrective action plans and through the long-term building of supplier competencies. Corrective action plans should define the content and timing of objectives, set indicators for review, and bind targets and rules. Short-term corrective measures should be accompanied by medium-to-long-term development of competencies among suppliers (e.g. training suppliers on relevant sustainability standards and requirements), technical support for process optimisation (e.g. for reducing emissions), implementation of supplier pilot projects (e.g. introducing environmental management systems), the performance of materiality analyses with suppliers that help to identify and prioritise the issues that matter most to a supplier's business and its stakeholders. The information from the materiality analysis and the self-assessment, in particular, should be used in selecting new suppliers and in confirming existing suppliers (*ibid.*, 45-46).

The SPB 2021 shows that companies are encouraged to implement sustainable procurement practices primarily by compliance through contract terms (57%), followed by sustainability performance targets (43%), collaboration with customers on sustainability improvement strategies (38%), on-site audits (30%) and education of employees around sustainable practices (18%) (EcoVadis & Stanford Business University 2021, 42). This global survey (*ibid.*, 11) also shows that in 2021, 23% of mid-size companies moderately increased their commitment to sustainable

procurement practices, and 21% increased this commitment significantly compared to 2019. These numbers were even higher for large companies (26% and 28% respectively) (ibid., 39).

The respondents of the SPB 2021 survey (ibid., 43) list the sequence of preferred options that could encourage suppliers to participate in their customers' sustainability initiatives: provision of incentives (e.g. preferred status, order volume) (24%), provision of case studies on sustainability best practices (e.g. projects to reduce energy, water, waste or packaging (18%)), integration of sustainability in requests for proposals (RFPs) (15%), creation of sustainability assessments to benchmark suppliers' practices (15%), the definition of metrics and goals for suppliers' sustainable performance (14%), training programmes in sustainability offered to suppliers (9%), provision of recognition for suppliers' sustainability performance (awards) (4%), and support in prioritising work plans for meeting suppliers' sustainability goals (2%) (ibid., 43).

In order to meet the increased demand for information on sustainability risks in the supply chain and achieve a higher level of sustainability, the company should measure the sustainability of its procurement activities (ibid., 51). To do this, it can use supplier-specific indicators, such as the share of (sub-)suppliers who have submitted a self-assessment, the proportion of certified (sub-)suppliers, the number of audits, the number of (sub-)suppliers going through a corrective action plan, the average duration of supplier relationships, and the proportion of (sub-)suppliers trained by the company's employees or third parties.

4 Discussion and conclusion

The trade war between USA and China, the COVID-19 pandemic, and the recent military attack on a sovereign European state have revealed the unpreparedness of the developed world for the negative consequences of global interdependence. Developed economies have suddenly started to experience the direct social and economic impacts of health crises and wars. Despite the enviable development level, they have shown vulnerability. European Union member states in particular have learned that it is not wise to develop too high economic dependence on geopolitical opponents. Such development orientation, argued primarily with cost advantages and based on short-sighted and reckless strategies that allow extortions, has proved to be a failure. Developed countries have shown their incapability to restrain

themselves from being endangered in their basic needs – health and safety – and to resiliently respond to economic consequences, particularly in relation to energy supply and the solidity of supply chains. These painful findings call for a geographic reconfiguration and innovativeness of their supply chains to further development, particularly when also considering the pressures of the climate change.

As a response, developed countries are currently faced with an ongoing debate on deglobalisation of their supply chains. Attempts to achieve their renewed viability are moving towards their regionalisation and diversification, notwithstanding the higher costs and their negative macroeconomic consequences. On the other hand, substituting lower price competitiveness with non-price competitive aspects demands innovations of products and higher investment in development of local and regional supply sources.

The global survey on sustainable procurement (SPB, 2021) revealed that firms increasingly recognised their innovative sustainability practices as contributors to the resilience of their value chains during the COVID-19 crisis. This research has shown that procurement, including sourcing, plays a strategic role in contributing to the sustainability of supply chains, as important parts of companies' value chains. Its activities of selection and management of suppliers represent a starting point for sustainability of the supply chain, innovation, co-creation and a foundation for progress over the whole value chain. In the paper we have described the key benefits, as well as possible activities, and mechanisms for implementing sustainable procurement initiatives that would encourage suppliers to participate in sustainability issues. Measuring procurement sustainability as a tool for achieving a higher level of sustainability has been also discussed, as well as lowering sustainability risks in a supply chain.

Particularly in developed countries, suppliers can count on tightening regulation in sustainability compliance and higher consciousness about sustainability among customers in the future. In the turbulent political, economic, social and environmental circumstances, human and environmental aspects have increased importance in value creation compared to economic aspects. Developed countries have achieved innovative leadership in this field. Their international sustainable procurement practices, resulting in socially and environmentally pristine products, are a medium for broadening the new sustainable development paradigm around the world. On the other hand, they bring competitive advantages and increase

companies' resilience in global crises. Herewith, the author of this paper can confirm the hypothesis on sustainable procurement as a requisite international business strategy.

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