



Corporate Social Responsibility (CSR) and the European Green Deal: Sustainability in procurement

# Take A Closer Look At Suppliers

Sustainable profitability starts in procurement. If you want to remain competitive in the future, you need to take a closer look at prospective suppliers regarding sustainability and social issues. Digital tools can help.

By Ferhat Eryurt, Apolut, and Moritz Lehmkuhl, ClimatePartner

No company can avoid the topic of sustainability any longer. With new legislations mounting, companies are under growing pressure to take environmental, social, and employee concerns into account, to respect human rights and to support the fight against corruption. Examples include the EU's CSR (Corporate Social Responsibility) Directive, which requires large publicly traded companies to regularly submit sustainability reports, and the European Green Deal, which commits companies in the EU to climate-neutral operations by 2050.

In addition, a commitment to sustainability pays off in cash for the companies themselves. Numerous studies have shown that a focus on sustainability can increase innovative strength as well as productivity and generate competitive advantages. Consumers are now more conscious of sustainability as well. The main argument for buying a product has

long since ceased to be cheap prices. This is similarly evident in the B2B world, specifically in business relationships between companies. Sustainability is now a fixed indicator in the evaluation of financial markets.

With numerous interfaces to internal and external partners, procurement is a central component to the sustainable design of a company's supply chain. In order to fulfill this role, procurement must require its suppliers to comply with defined standards for environmental protection, business ethics, working conditions, and human rights. Back in 2014, fourteen of the world's largest automotive groups recognized this need and committed their suppliers to a charter for greater sustainability. Increasing global warming and mounting economic scandals have since brought the issue to a head. Nevertheless, many companies have still failed to integrate a clearly de-

defined sustainability strategy into their business network and their sourcing and supplier management.

## Procurement as central element

This is mainly due to the fact that the topic is extremely complex and still generates a lot of uncertainty among procurers. Therefore, top management should take the initiative without delay and provide clear orientation: The task is to develop an overarching CSR strategy that accounts for a company's individual sustainability risks. This also provides procurement with a basis for formulating binding ecological and social requirements for suppliers and backing them up with available industry standards and regulations. Particularly in the area of strategic products and suppliers, the defined requirement criteria should be used as a selection yardstick for every purchasing decision.

## Tools combing the internet

But how can companies ensure that suppliers are actually operating as sustainably as their CSR requirements dictate? Platforms that enable 24/7 monitoring of suppliers in real time offer an innovative approach to solving this problem. These tools draw from millions of information sources worldwide every day, evaluating billions of data sets accessible on the internet about a supplier: from social media and influencer blogs to news magazines and pronouncements from international authorities, NGOs, experts, and the company's own employees. If any irregularities or reputational risks come to light, companies are automatically informed and can look directly for alternative suppliers: Integrated AI functions help in the search for alternatives.

In order to provide buyers with even more transparency, many platform providers additionally use questionnaires for suppliers' self-disclosure. Furthermore, their sustainability certificates are collected in a database. Other providers create ratings with key figures on suppliers' CSR performance, which help identify and implement potential for improvement.

## Keep your carbon footprint in check

„We are helping companies of all sizes and across all industries identify the carbon footprint of their operations and their supply chains down to the individual product level by integrating the relevant capabilities into our core enterprise software systems,“ explained SAP CEO Christian Klein in late April of 2021. „As part of our collaboration with the World Business Council for Sustainable Development and other thought leaders, we will work together to find new ways for companies to capture data on the environmental footprint of their products and make the information available to their customers and consumers. This will enable them to benefit from real competitive advantages while contributing to global decarbonization.“ One of the providers helping this mission is ClimatePartner, who offers a solution for corporate climate protection.

ClimatePartner focuses on the climate-relevant aspects of CO<sub>2</sub> emissions and supports organizations in selecting climate-neutral suppliers and products. To this end, the consultancy works directly with supplier companies and helps them to calculate and reduce their CO<sub>2</sub> emissions as part of a labeling program, for example by recycling, using less material, or using

green electricity. Unavoidable emissions are offset by contributing to recognized climate protection projects. After successful completion of the program, suppliers receive the ClimatePartner label „Climate neutral product“ and a unique ID for tracking.

This labeling system offers companies the advantage that they can include climate-neutral products in their procurement catalog and make them available to operational purchasing on a daily basis. They do not need to conduct their own research and yet have complete transparency on the CO<sub>2</sub> emissions of the goods purchased. In addition, buyers can select climate protection projects to support and ask their suppliers to price climate neutrality into the products. This makes it possible to purchase climate-neutral goods from suppliers.

Companies with the goal of conserving resources by avoiding waste can examine their business processes with regard to ecological aspects. For example, an indicator can be set for CO<sub>2</sub> emissions, which can then be used as a benchmark on the way to becoming a more environmentally conscious company. „The world is changing,“ says Stefan Luckert, Head of Services Sustainability Solutions at SAP. „We want to offer holistic solutions that support companies at all stages toward sustainable business management.“

## Integration in SAP-based procurement

With this focus on carbon footprints, ClimatePartner is an ideal partner for Apsolut, a specialist in SAP-based procurement and a certified SAP and Ariba partner. In recent years, for example, Apsolut's consulting teams have been increasingly called upon to support SAP-based purchasing organizations in implementing green or sustainable procurement. Since this task cannot currently be solved with the conventional SAP and Ariba procurement systems, Apsolut gradually expanded its existing partner ecosystem to include specialized CSR solution providers. This means that the SAP system world can be expanded to include numerous innovative tools such as those described above to monitor, review, and improve suppliers' sustainability efforts. One example is catalog management with SAP Ariba. If information attributes, such as product carbon footprint or climate neutrality, are stored in the system when product catalogs are created, procurement gains clarity about a supplier's environmental commitment.

Apsolut combines many years of SAP and Ariba know-how with in-depth process and industry expertise. In every customer

project, this combination of competencies ensures that tools that can be used to individually meet the sustainability requirements of an organization are integrated into the SAP system environment. Customers, in turn, benefit from a one-stop solution package that is easy to use and secure.

## Sustainability is a management topic

Although the use of monitoring and rating tools is an important step toward sustainable procurement, companies must also define a more comprehensive strategy. Supplier management, for example, should be made a top priority and mapped in a separate department that reports directly to the C-level. This is because only by distinguishing it from the traditional procurement department can companies ensure that the topic of sustainability is not thwarted by the usual cost arguments. Where environmental protection, work ethics, and human rights are concerned, price can no longer be the only decisive factor in a purchasing decision.

In addition, a separately established supplier management system can more effectively bundle and deploy the resources required to select and support sustainable suppliers. This includes supply chain managers regularly obtaining on-site information about the sustainability commitment of a supplier: What are the working conditions like in production? Are environmental protection regulations being observed? If real visits are not possible, the right to virtual plant tours should definitely be included in supplier contracts.



*Ferhat Eryurt,  
Partner at Apsolut*



*Moritz Lehmkuhl,  
Managing Director at  
ClimatePartner*

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