



## Connected Progression: Purpose-driven supply chain

We are at a major turning point in terms of how supply chains are expected to operate across the world. Whilst Sustainability Supply Chain legislation differs across jurisdictions there is a major trend across Europe and the US towards regulating supply chain reporting, risk management and practices. The German Supply Chain Due Diligence Act (LkSG), the revision of the EU (NFRD) to EU Corporate Sustainability Reporting Directive (CSRD) and the SEC Climate Risk Disclosures in the US, all point to this. Beyond legislative expectations, things are changing as customers are demanding greater levels of information and progress on environmental and social impact from their supply chain. This as they seek to meet the voluntary commitments as part of ESG or sustainability strategies, such as Scope 3 emissions reduction or supplier engagement targets with the [Science-Based Targets Initiative \(SBTi\)](#) or [CDP Supply Chain reporting](#). With all this change, procurement functions are going to play a vital role in the drive to a more sustainable world.

For purpose-driven organisations, this is even more true. Supply chain functions exist to support the strategic objectives of an organisation and within purpose-driven organisations lie a more holistic set of strategic objectives, based not just on the commercial intent of the organisation, but the broader impact they want to achieve for the world. This means designing supply chain capabilities such as planning, risk management, procurement etc. differently. Purpose-driven supply chain capabilities are built on the following principles:



### Partnership

Moving to a model where the intention is to work together on shared objectives.



### Collaboration

Instead of working independently on progress towards impact, activity is shared between supply chain players to support shared objectives.



### Transparency

More information is shared about the current impact of individual players, and what they need to improve.



### System-focused

There is greater visibility of how different supply chain players collectively create both positive and negative impact.



Therefore, we recommend evolving 'Supply chain capabilities' to 'Purpose Partnership Capabilities', where the focus is on developing relationships with providers of products and services that will enable delivery of purpose. This will help with addressing the major barriers to change across supply chains, which are often compounded by difficult operating environment caused by COVID hangovers, Brexit and the cost-of-living crisis:

- **Lack of intent:** Many supply chain players who are smaller or based within different jurisdictions may not have the same regulatory or other stakeholder pressures to evolve.
- **Lack of capacity:** Many organisations, particularly those without the right level of intent are lacking the capacity among other priorities to make the changes required whilst keeping the lights on
- **Lack of knowledge:** (Also linked to a lack of capacity) is the lack of confidence and capability required to deliver initiatives within the organisation, and in tandem with others.
- **Lack of capital to make change:** an inability to make moves to improve environmental and social impact due to the lack of funding to make large infrastructure changes.

To address these challenges a purpose-driven partnership approach can adopt different practices that include:

- **Long-term contracts to enable security**

Long-term supply chain contracts can help to contribute to the overall environmental, social, and economic aspects of sustainability. Here are some key sustainability benefits associated with long-term supply chain contracts:

- **Stability and Planning:** Long-term contracts provide stability and predictability for both suppliers and buyers. This stability enables better planning and investment in sustainable practices, as companies can implement long-term strategies knowing they have a consistent and reliable partnership. This may include adopting environmentally-friendly technologies, improving resource efficiency, and implementing social responsibility measures within their operations.
- **Supply Chain Transparency:** Long-term contracts often involve deeper collaboration and trust between partners, fostering greater transparency. Transparency is crucial for sustainability as it allows for more accurate reporting, better understanding of challenges and needs and tailoring of support and intervention that can improve social and environmental practices.
- **Innovation and Continuous Improvement:** The stability, reduced investment risk and better trust and mutual understanding that long-term partnerships afford, provides a conducive environment for joint innovation and continuous improvement.

- **Enablement of collective progress and conversation**

Often supply chain relationships operate vertically on a one-to-one basis. In a purpose-driven world, we think and work in systems, which requires collaboration within and between networks of organisations. This means convening supply chain players together in order to:

- Share knowledge and experiences
- Plan collaborative solutions
- Pool resources to tackle shared challenges.

- **Moving away from offsetting to insetting**

"Insetting" refers to a sustainability strategy that involves offsetting a company's environmental impact by investing in projects that deliver positive environmental and social benefits directly related to the company's operations or supply chain. Many insetting initiatives are targeted at improving sustainability within a company's supply chain. This can involve working directly with suppliers to implement more sustainable practices, supporting local communities, or promoting biodiversity enhancement.

**We believe that working together to change our system is critical to building an economy that works for people and planet. Purpose-driven organisations need to take a lead on this and demonstrate the value and potential to create impact from collaborating with supply chain partners.**

## Further information

To find out more about our work in this area, send an email to:

[sustainability@clarasys.com](mailto:sustainability@clarasys.com)



© Clarasys Ltd 2023