

White Paper

# **PROGRAMS, GOALS & RESOURCES: THE RECIPE FOR SUSTAINABILITY**



Presented by



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## About Institute for Supply Management® (ISM®)

Institute for Supply Management® (ISM®) is the first and leading not-for-profit professional supply management organization worldwide. Its 50,000 members in more than 90 countries around the world manage about US\$1 trillion in corporate and government supply chain procurement annually. Founded in 1915 by practitioners, ISM is committed to advancing the practice of supply management to drive value and competitive advantage for its members, contributing to a prosperous and sustainable world. ISM empowers and leads the profession through the ISM® *Report On Business*®, its highly regarded certification and training programs, corporate services, events and the ISM Supply Chain Capability Model. The Manufacturing and Services ISM® *Report On Business*® are two of the most reliable economic indicators available, providing guidance to supply management professionals, economists, analysts, and government and business leaders.

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## How the Survey Was Conducted

The Institute for Supply Management® (ISM®) 2022 survey on sustainability was conducted December 15, 2021 through January 30, 2022. The sampling frame was made up of ISM members and customers, as well as supply management professionals unaffiliated with ISM. The final dataset includes 436 usable responses.

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# Programs, Goals & Resources: The Recipe for Sustainability

Sustainability is a broad concept that can be difficult to define. In general, sustainability is the ability to meet the needs of current generations without compromising the ability of future generations to meet their needs. Sustainability has become an essential issue for organizations, especially in light of increased emphasis on environment, social and governance (ESG) standards. Businesses have been under pressure to adopt more sustainable practices and minimize their environmental impact. The coronavirus pandemic has put more pressure on organizations to find ways to operate sustainably.

The supply chain is primarily responsible for conducting sustainability efforts with the sustainability vision cast by company executives. Supply disruptions, e-commerce growth, and labor challenges have forced many organizations to reassess their supply chains while keeping sustainability at the forefront.

Institute of Supply Management® (ISM®) recognizes sustainability as a significant issue in supply chain management and conducted a survey to gauge the profession's levels of interest and concern. The data set was built from the responses of 436 participants who provided information between December 15, 2021 and January 30, 2022.

## Industry Demographics

- Manufacturing: 56 percent
- Non-Manufacturing: 44 percent
- Revenues under US\$500 million: 42 percent
- Revenues exceeding \$500 million: 58 percent

## Supplier Demographics

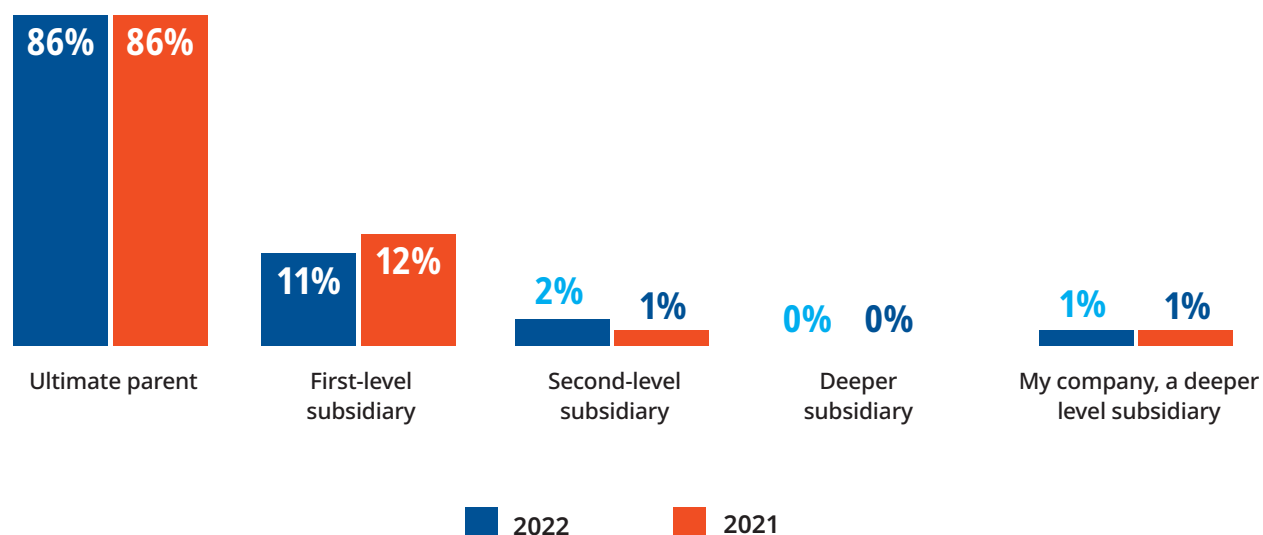
- 250 suppliers or less: 31 percent
- 251 to 2,500 suppliers: 27 percent
- 2501 to 10,000 suppliers: 20 percent
- Greater than 10,000: 15 percent
- Don't know: 7 percent

The survey consists of three main areas: sustainability ownership, organizational sustainability programs and sustainability programs performance. Additionally, the survey aims to understand the role of sustainability within an organization and how organizations are approaching supplier engagement on sustainability.

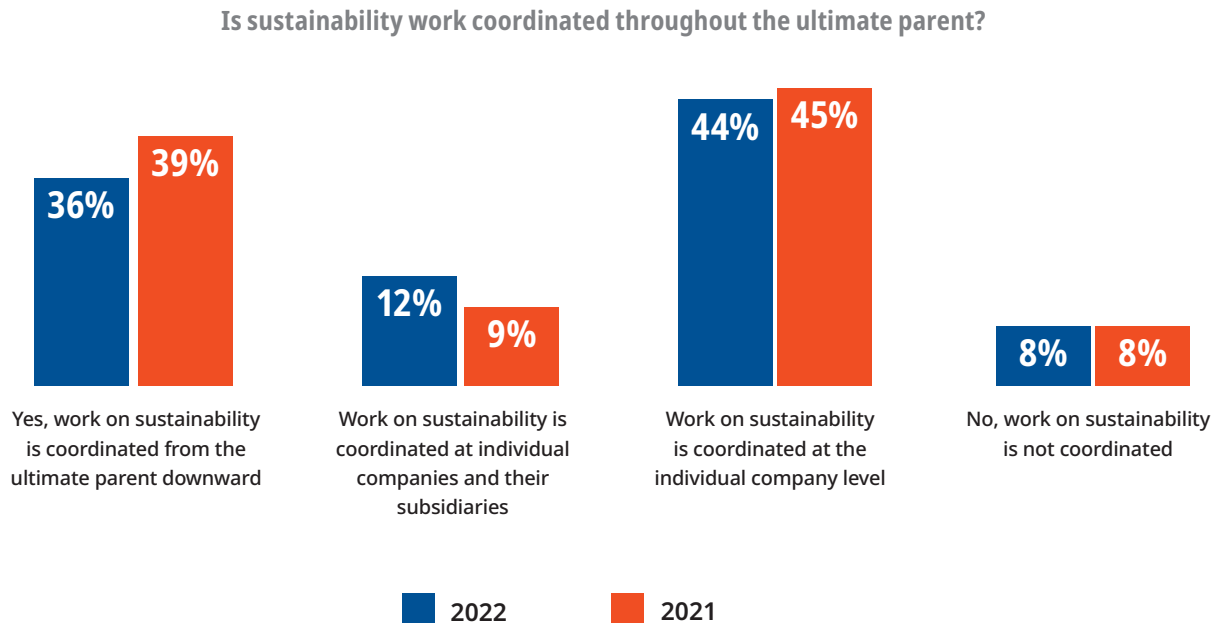
## Sustainability Ownership

Ownership of sustainability rests with various functions and departments within the organization, each contributing to the success or failure of the company's sustainability goals. Setting top-down sustainability goals is critical to success. Consistent with previous surveys, a vast majority (86 percent) of respondents felt the ultimate parent drove sustainability efforts. (Figure 1)

**Figure 1: Our sustainability efforts are driven by the ...**



**Figure 2: Nearly one-half report that sustainability is coordinated by business units with the Board of Directors and CEO as prime stakeholders**

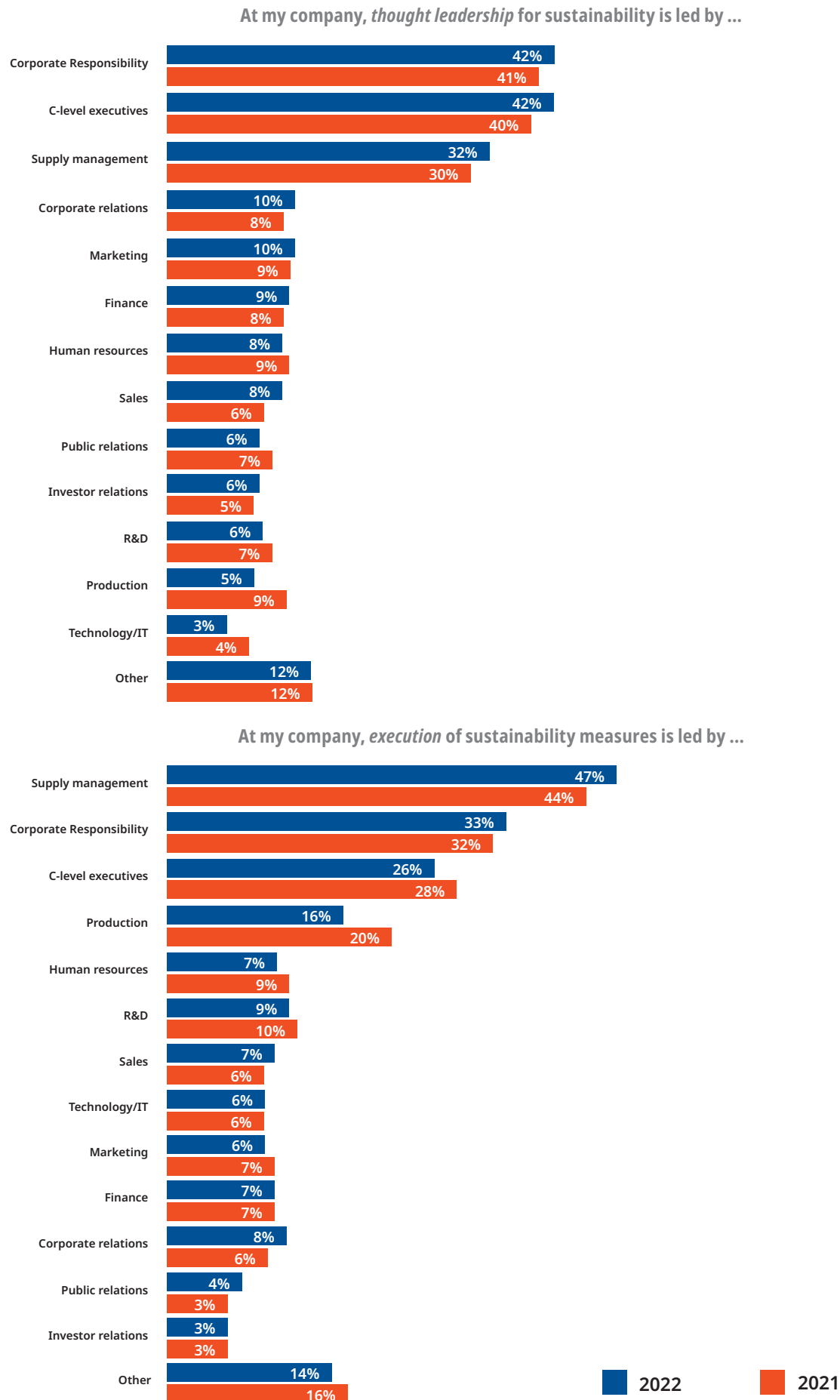


The majority of work on sustainability is coordinated at the company level (44 percent), followed by the ultimate parent (36 percent), and then by individual companies and their subsidiaries (12 percent). The highest-ranking stakeholders of sustainability efforts at organizations surveyed were the board of directors/owners (32 percent), CEO (28 percent), or another C-suite executive (16 percent). (Figure 2)

A strong majority (61 percent) of respondents reported that responsibility for sustainability initiatives was a part-time endeavor that was either part of a broader portfolio of duties (31 percent) or tackled on a “time available” basis (30 percent). Only thirty-nine percent of respondents reported that either a dedicated team (24 percent) or dedicated individual (15 percent) had primary responsibility for the sustainability program.

Thought leadership for sustainability initiatives was most often led (or in many cases, co-led) by a corporate responsibility department (42 percent), C-suite executives (42 percent), and/or the supply management (32 percent). Corporate relations, marketing, and other groups were much less likely to have the role of corporate thought leader. In terms of execution, supply management was identified most often (47 percent) as the key department followed by corporate responsibility (33 percent), and C-suite executives (26 percent). The incidence of supply management and corporate responsibility leading the execution of sustainability measures increased compared to last year’s survey. As sustainability in organizations matures through the establishment of programs, goals and dedicated resources, organizations can shift focus to execution instead of thought leadership. (Figure 3)

**Figure 3: Sustainability thought leadership sits with Corporate Responsibility (CR) and Executives and execution is led by Supply Management and CR**



Ajay Srivastava, senior director, global procurement performance and COE at United States Steel Corporation (U. S. Steel) describes how sustainability is integrated into U. S. Steel's business strategy. "Sustainability is a top priority at our organization as we execute our Best for All® strategy to create profitable and sustainable steel solutions, while embracing industry-leading low-carbon process technologies. We maintain robust corporate governance practices to ensure proper oversight at the board and committee level as our management moves forward our sustainability efforts."

Srivastava explains that at U. S. Steel, he sees a collaborative effort across the organization with executives, the sustainability team, and supply chain management. "At U. S. Steel, there is a very clear strategic direction on this important topic coming from the C-level executives. We have an Executive Sustainability Committee and several Task Forces, including one focusing on supply chain sustainability. This executive forum is led by our chief strategy and sustainability officer and composed of key members from departments across the organization. The group is responsible for setting and communicating sustainability metrics, goals and performance, and reports to our CEO."

Srivastava continues, "The sustainability team works directly with our supply chain management team to ensure that we are thinking about sustainability from

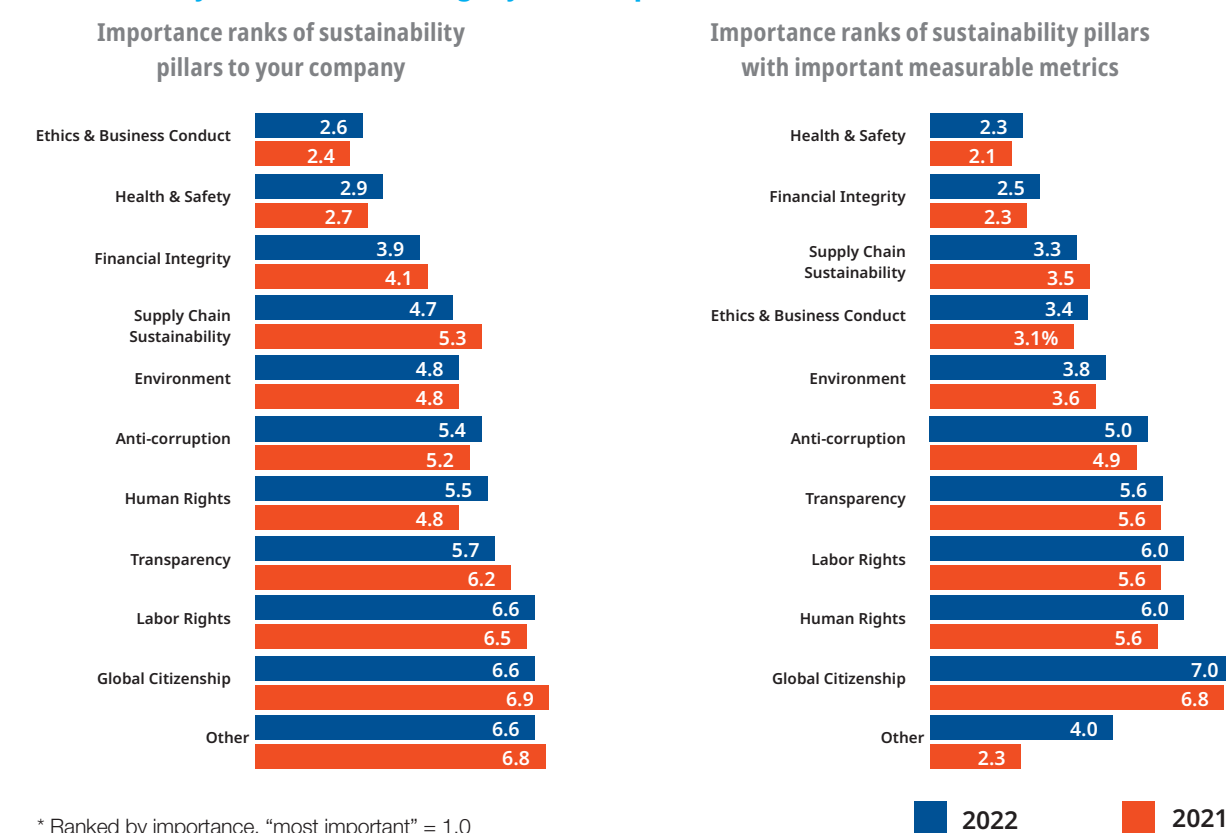
all lenses." To make his point, he commented that last year, U. S. Steel surveyed close to 35 suppliers by working with a consulting partner and the U. S. Steel sustainability team to collect key ESG information from these suppliers. Further interviews were conducted to learn best practices from key suppliers and the team explored potential opportunities to share best practices with other suppliers.

### Sustainability Programs

Institute for Supply Management has identified that sustainability programs are most likely built upon 11 conceptual "pillars." To better investigate and determine the prevalence and importance of these "Sustainability Pillars," respondents were directed to first choose all pillars that were important to their organization and then rank each choice relative to the others. This two-step method forces participants to be more thoughtful in their responses as compared to simply asking them to "choose all that apply."

Ethics & business conduct and health & safety were the top two most important sustainability pillars. The top five were rounded out by financial integrity, supply chain sustainability, and the environment. With regard to which pillars had the most important measurable metrics, health & safety and financial integrity dominated with supply chain sustainability, ethics & business conduct and the environment rounding out the top five. (Figure 4)

**Figure 4: The most important pillars are Ethics & Business Conduct and Health & Safety; Health & Safety and Financial Integrity have important metrics**



\* Ranked by importance, "most important" = 1.0

When it comes to important measurable metrics, Srivastava says that as a whole, “We are finding more challenges associated with measurements, especially with sustainability maturity level of suppliers. Larger suppliers have more resources and tools to measure and track sustainability KPIs, while it is not as common practice for smaller suppliers.”

He elaborates that in his experience, companies need to develop their suppliers’ capabilities to measure sustainability and report back. It is increasingly important for companies to establish sustainability objectives around the supply chains. This cannot be done overnight and the awareness and focus on ESG practices need to be developed.

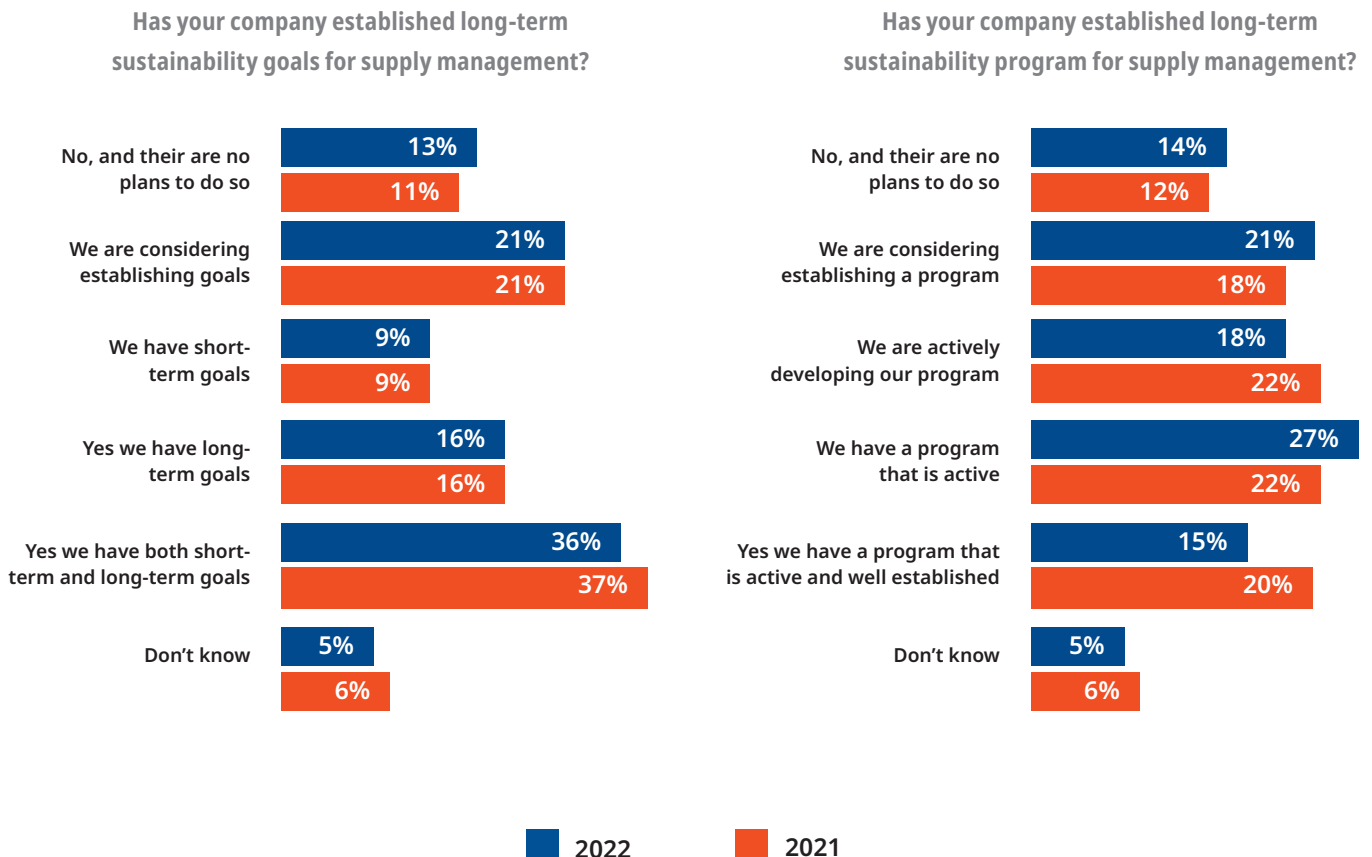
Additionally, U.S. Steel has robust corporate governance practices including a Supplier Code of Conduct and Sustainable Procurement Policy. He also agreed that Health & Safety metrics are very important to U. S. Steel, “Safety is our number one

priority - ‘Safety First’ has been our commitment for over a century, and I believe safety is at the top of the list for many organizations as well.”

Greater than one-half (52 percent) of respondents reported their companies have long-term sustainability goals for supply management, with another 9 percent indicating they have short-term goals. Twenty-one percent are considering establishing sustainability goals for supply management, 13 percent have no plans, and the remaining 5 percent don’t know.

Asked if the company has established a sustainability program for supply management, only 42 percent reported having an active program. 39 percent are either considering developing a program (21 percent) or are actively developing one (18 percent). The remaining 19 percent either have no plans (14 percent) to establish a sustainability program for supply management or are unsure (5 percent). (Figure 5)

**Figure 5: One half of respondents report their organization has long-term goals and 42% report an active formal sustainability program**





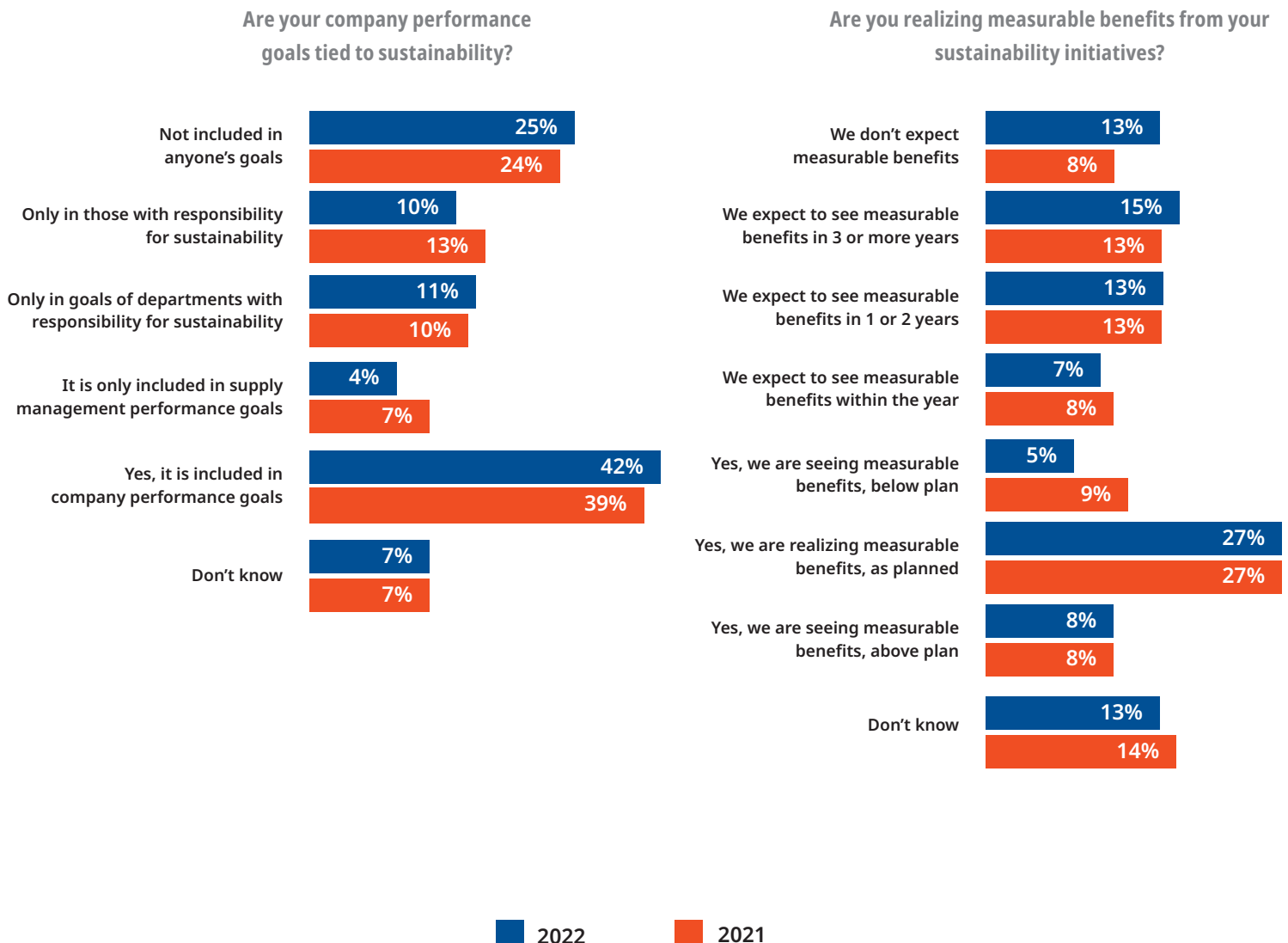
More than two-thirds (68 percent) reported sustainability being tied to performance goals:

- Overall company performance goals (42 percent)
- Goals of departments with responsibility for sustainability (11 percent)
- Only those with responsibility for sustainability (10 percent)
- Only included in supply management performance goals (4 percent)

The remaining 32 percent either do not have performance goals tied to sustainability (25 percent) or don't know if sustainability is included in anyone's goals (7 percent). (Figure 6)

The outlook on measurable benefits remains positive, as 40 percent are either realizing benefits above plan (8 percent), according to plan (27 percent), or below plan (5 percent), but benefits nonetheless. Another 35 percent expect to see measurable benefits within the next three years. The remaining 25 percent either don't expect measurable benefits (13 percent) or don't know if they are realizing measurable benefits from their organizations' sustainability initiatives (12 percent). (Figure 6)

**Figure 6: Nearly 60% report sustainability goals at the department level or above and 40% report realizing at least some measurable benefits**



## Sustainability Performance

Earlier, we discussed that 42 percent of respondents reported having an established sustainability program for supply management, and 40 percent realized measurable results. This indicates that setting sustainability goals and establishing programs can lead to quantifiable results.

In April 2021, U. S. Steel announced an ambitious goal to achieve net-zero GHG emissions (Scope 1 and Scope 2) by 2050. This builds upon its previously announced goal to reduce GHG emissions intensity by 20 percent (Scope 1 and Scope 2) by 2030, compared to a 2018 baseline.

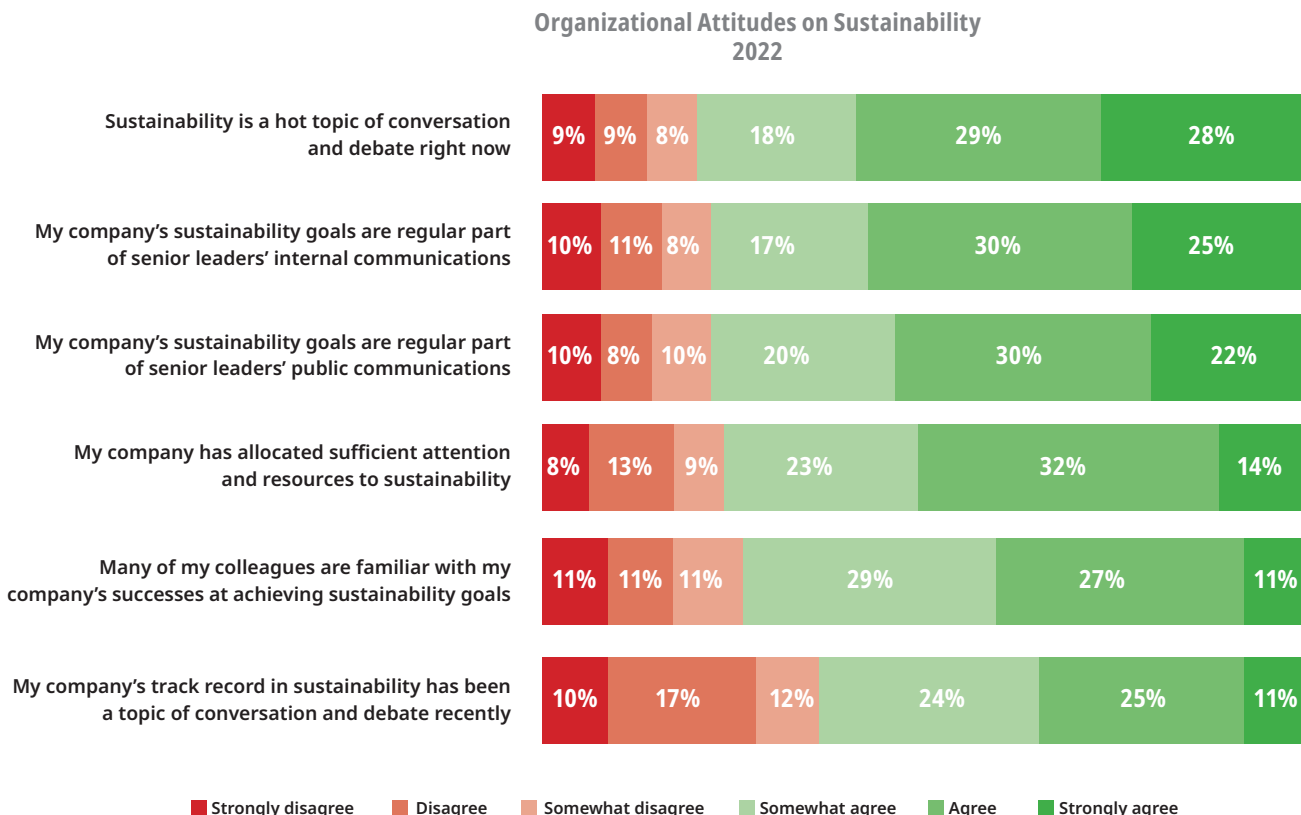
"Our Best for All vision is a true transformation that goes beyond the steels we make or the manufacturing processes we have used in the past, to deliver what's best for our people, our customers, our communities and our planet," said Srivastava. "We are moving towards a lower

carbon footprint, utilizing process innovations and technological advancements in the field and improving our product capability at all operating sites. Our verdeXTM steel can reduce CO2 emissions by up to 70 to 80 percent as compared to integrated steels. Steel is 100 percent infinitely recyclable without quality degradation and contains up to 90 percent recycled steel content."

## Organizational Attitudes on Sustainability

The overall attitude towards sustainability remains positive. Most respondents felt sustainability is an important topic that is a regular part of senior leaders' internal (55 percent "agree" or "strongly agree") and external (52 percent "agree" or "strongly agree") communications. In addition, respondents felt generally optimistic about the attention and resources sustainability receives (69 percent "somewhat agree," "agree," or "strongly agree").

**Figure 7: Organizational attitudes towards sustainability topics have diminished somewhat since last year**

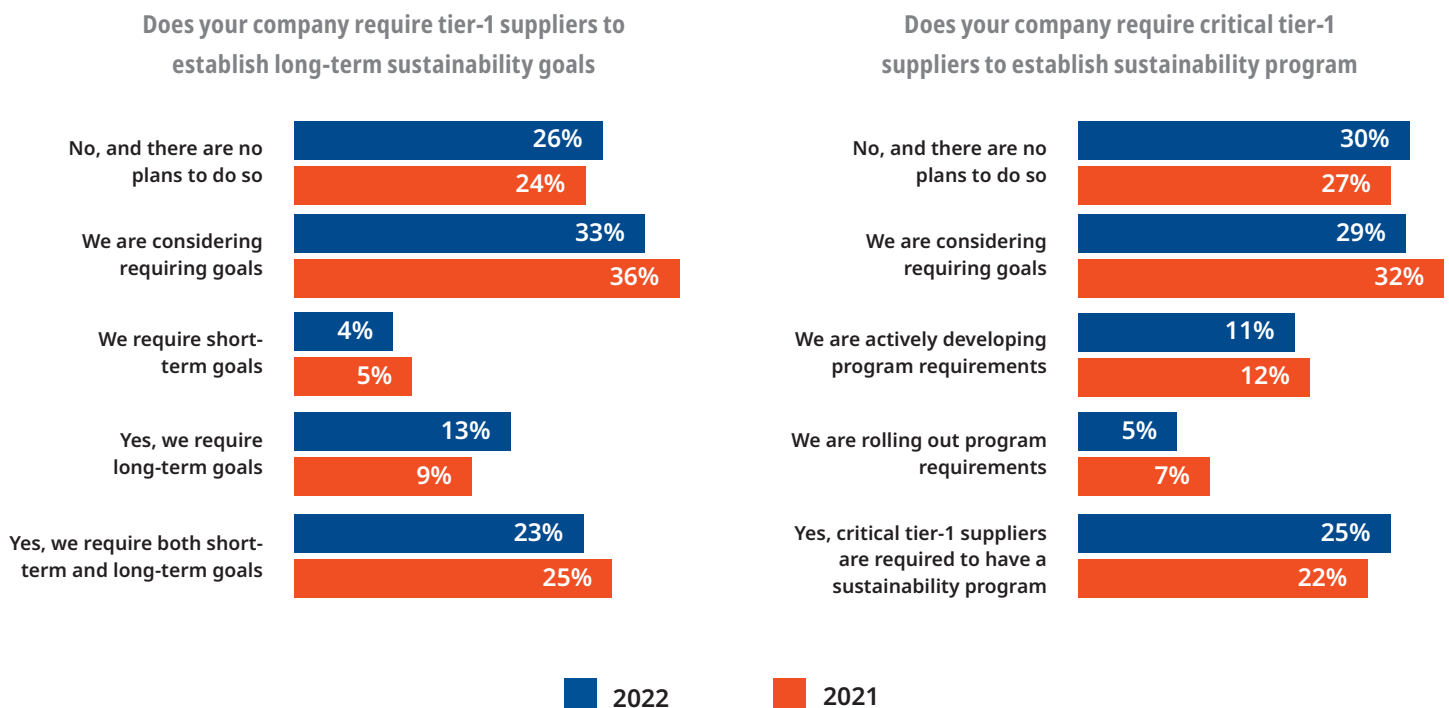


## Supplier Sustainability

The importance of supplier sustainability has been amplified in recent years due to a number of high-profile disruptions. COVID-19 has shed light on the vulnerabilities of global supply chains and the need for greater resilience. At the same time, companies are under increased pressure to address human rights violations and environmental impacts throughout their supply chains.

When asked about requiring critical Tier-1 suppliers to establish long-term sustainability goals, 40 percent reported they require either both short- and long-term goals (23 percent), long-term goals only (13 percent), or only short-term goals (4 percent). Thirty-three percent are considering adding sustainability goals and 26 percent reported they have no plans to add long-term sustainability goals for Tier-1 suppliers. (Figure 8)

**Figure 8: 40% report their organization requires critical tier-1 suppliers to have goals, but only 25% require those suppliers to have targeted programs**



Only 25 percent of companies require critical Tier-1 suppliers to have a sustainability program. While 30 percent report their organizations have no plans to require their critical suppliers to establish a sustainability program, 45 percent reported at least some degree of movement in this direction (29 percent considering requiring a program, 11 percent are actively developing program requirements, and 5 percent are actively rolling out program requirements). (Figure 8)

While the proportion of organizations requiring critical Tier-1 to field sustainability programs has slightly increased (+3 percentage points), the proportion of organizations with such a requirement “in the pipeline” decreased with a smaller percentage either rolling out, developing

or considering such a move (a drop of 6 percentage points overall).

Organizations must weigh the risk of not including critical lower-tier suppliers in their sustainability strategy. At this time, only 15 percent of respondents say their company includes critical lower-tier suppliers in their sustainability strategy. The good news is that nearly a one-half (48 percent) of respondents say they are rolling out these requirements to critical lower-tier suppliers (6 percent), actively developing this strategy (12 percent), or considering including lower-tier suppliers (30 percent). The remaining 37 percent have no plans to include lower-tier suppliers in their sustainability strategy. (Figure 9)

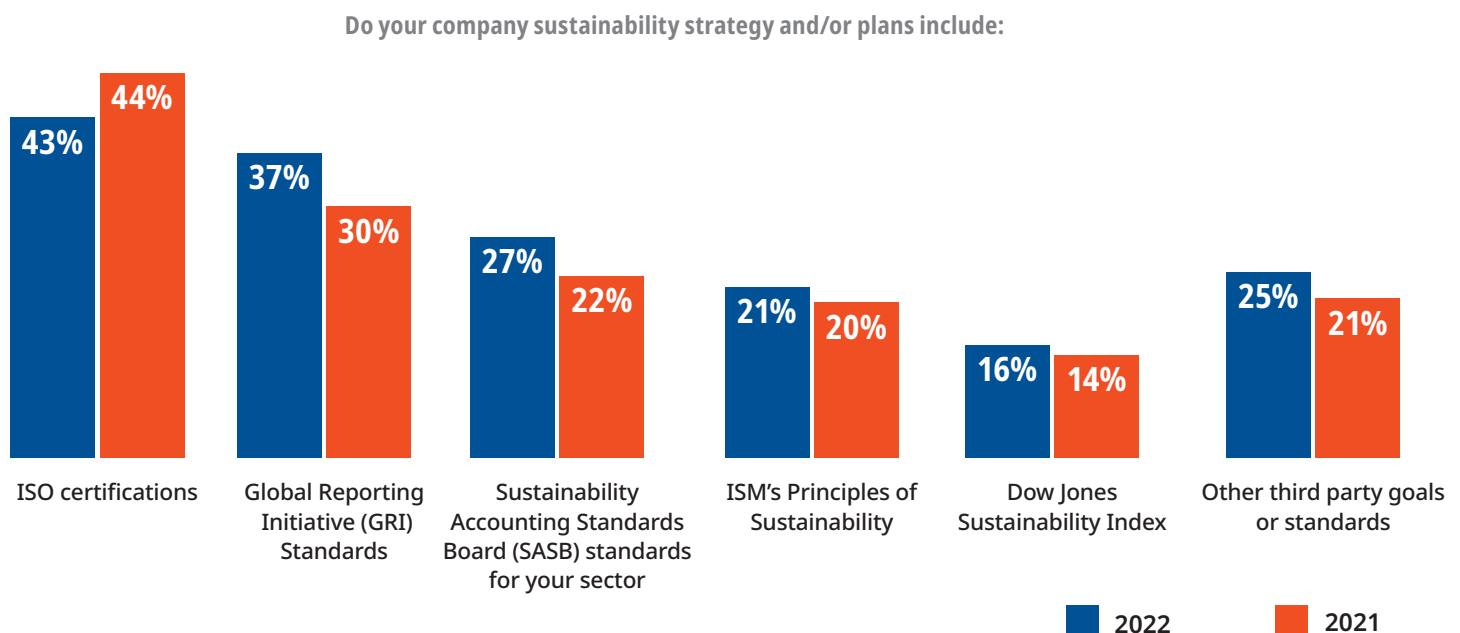
**Figure 9: Only 15% report including critical lower-tier suppliers in their sustainability strategy with more than double saying they don't plan to**



### Measuring Sustainability

Most organizations plan to utilize ISO certifications (43 percent) or Global Reporting Initiative (GRI) Standards (37 percent) in their company's sustainability strategy. The remaining organizations expect to use Sustainability Accounting Standards Board (SASB) standards (27 percent), United Nations Sustainable Development Goals (25 percent), ISM's *Principles of Sustainability and Social Responsibility* (21 percent), the Dow Jones Sustainability Index (16 percent), or other third-party goals or standards (25 percent).

**Figure 10: 80% report including ISO certifications (43%) and Global Reporting Initiatives (GRI) Standards (37%) in their sustainability strategy**



## Conclusion

Sustainability remains an essential topic that senior leaders regularly discuss. Sustainability is not a fad, and those who understand this will create a long-term competitive advantage for their company. Organizations leading the way are focusing on all aspects of sustainability, including human rights and environmental impacts, with a positive attitude towards change. There is a clear trend toward “being better” with an increased focus on supplier sustainability and overall sustainable operations.

Achieving sustainability goals is not an easy feat. Supply management plays a significant

role in executing an company's sustainability initiatives. Three things to consider when creating a sustainable supply chain are (1) a clear understanding of your company's goals, (2) dedicated resources and (3) programs to support sustainability goals.

Creating a culture of sustainability starts with leadership commitment. Understanding these survey results can help business leaders make more informed decisions about operating sustainably. Sustainability is a journey, not a destination, so it's essential to set realistic goals, communicate openly and often and celebrate successes along the way.