How ESG can benefit supply chain: Making business and environmental sense

By Mark Wilson

12 May 2023

More and more manufacturers are starting to shift their focus to the sustainability of their supply chains. This is attributable to an increasingly prominent conversation around climate change, and to recent and growing legislation around supply chain sustainability, along with increasing demand from customers that their products be sustainably produced.

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Sustainable supply chain management can be a strong driver of value and success – for business as much as for society. But achieving a sustainable supply chain is more challenging than it first may appear, and requires manufacturers to think strategically about their ESG (Environmental, Social and Governance) targets. Currently, many manufacturers are falling short of these goals.

Sustainability is a business prerogative

According to the EPA Center for Corporate Climate Leadership, organisations' supply chains often account for more than 90% of their greenhouse gas emissions, when taking into account their overall climate impacts. That's a sobering statistic.

In a challenging and volatile economic environment, ESG may feel to some like a luxury. However, research from the IDC on key trends in sustainability and ESG found that in both revenue and profit, digitally mature manufacturers that emphasised sustainability outperformed their non-digital and non-sustainability-focused counterparts.

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ESG considerations are crucial in supply chain management, as they impact everything from the products consumers buy to investment in companies. Furthermore, many regulatory authorities are signalling that they may make reporting on ESG mandatory. Companies will therefore be obliged to publish sustainability information.

The increasing scrutiny of ESG factors means that procurement and supply chain management need to incorporate sustainability practices throughout, and not just regard it as an optional add-on. To achieve sustainability and ESG goals, manufacturers need to create a tangible plan that embeds key principles around sustainability and transparency across the business.

Sustainability runs throughout the entire supply chain

It's not enough for manufacturers to focus on their own process management, they must also look at their downstream suppliers to adhere to social and environmental standards. In an ideal world, manufacturers would require their first-tier suppliers to comply with their ESG standards and ask that those suppliers in turn seek compliance from their suppliers, and so on, creating a cascade of sustainable practices throughout the supply chain.

In practice, however, we know that this is extremely difficult to achieve, and many manufacturers have been caught short by undesirable practices from suppliers in their larger supply network.

Manufacturers with a clear ESG strategy need to engage with their suppliers to assess those ESG practices, understand their ESG practices and encourage them to adopt sustainable practices that align with the manufacturer's own. The best way to mitigate the risk of supplier non-compliance and ensure transparency and tracking across the supply chain is to adopt technology that provides such insights.

Business technology such as an ERP system provides a comprehensive view of a manufacturer's operations, providing an indispensable tool for tracking and reporting on ESG metrics. As a repository for data from across the business, this data can be used to measure and reduce waste and carbon emissions, optimise processes to be more efficient and measure machinery for energy waste.

You can't manage what you don't measure

There are many benefits to incorporating ESG goals throughout the supply chain. By managing and improving environmental, social and economic performance throughout the supply chain, manufacturers can conserve resources, optimise processes, save costs and increase productivity. However, first, you need a transparent view throughout the supply chain.

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Digital supply chains enable manufacturers to track and monitor their ESG performance in real time, providing greater transparency and accountability, which in turn can help managers identify ESG risks and opportunities. Digital tracking and evaluation tools also help manufacturers to easily communicate and collaborate with their suppliers, sharing ESG measurements and goals.

Having a wider view of data from suppliers can give manufacturers greater insights into streamlining sustainability operations. Asking suppliers for information on their own sustainability measures and actions should be framed as generating more value.

The right ERP system can be used to collect data from external partners, offering a wider view of data from suppliers that can offer greater insight into streamlining sustainability operations. An added benefit is that reporting and analysis of ESG metrics also provides data that is readily available for meeting compliance requirements for ESG reporting standards.

Adopting sustainability metrics in the supply chain is a necessity

The visibility that an ERP system enables can help manufacturers streamline their operations, reducing waste and emissions, and improving the overall sustainability of their operations through better data management, enabling data-led decision-making.

Fossil fuel energy prices are expected to remain high, so reducing energy consumption can reduce costs. New industrial processes that reduce emissions can also lower the cost of energy. On the other side, changing regulations may penalise unsustainable practices and companies may be forced to move away from non-sustainable activities.

By incorporating ESG into their operations, manufacturers can improve their performance, reduce risks, and build trust with customers and stakeholders. Companies that embrace it will be well-positioned for future success, while those who ignore it do so at their peril.

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