

Shifting gears: procurement refocuses on risk and sustainability

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Acknowledgements

This report sheds light on risk and sustainability as emerging areas of focus for supply chains in the current global environment. This report is a compilation of changing procurement trends based on a survey of 430 C-level executives conducted between January and February 2022. Economist Impact conducted the accompanying research and interview programme of practitioners and subject-matter experts.

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- *Chris Shanahan*, chief procurement officer (CPO), Thermo Fisher Scientific (America)
- *Sarah Thuo*, chief operating officer (COO), IBM Consulting Global Sustainability Practice

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Risk is a key area of focus for organisations

Procurement teams have seen their importance grow as the impacts of unforeseen disruptions continue to ripple across organisations. In early 2020, procurement teams found themselves grappling with a supply crunch caused by covid-related lockdowns and social distancing policies, only to be beset by the wide-ranging implications of the Ukraine-Russia war and intensifying climate-related disasters.

These dire issues are unlikely to abate as the global economy edges towards a likely recession. At the same time, central banks are hiking interest rates in an attempt to rein in inflation, slowing the post-covid rebound.¹ Yet business leaders remain vigilant and are shifting gears in pursuit of more resilient, adaptable and collaborative supply chains by enshrining risk reduction as a key pillar of procurement.

A global survey of 430 C-suite level executives by Economist Impact found that 37.9% of respondents believed that risk reduction was the second most important area to focus on to deliver increased value in procurement.² This observation comes at a time of constant upheaval. Current challenges for companies include macroeconomic uncertainty, geopolitical tensions, sustainability-related issues, supply-side

Exhibit 1: Risk management is a key priority for executives

What are the top areas you will focus on to deliver increased value in procurement? Please select up to three.



Source: Economist Impact

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¹ World Bank Group, September 15, 2022. "Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes". [https://www.worldbank.org/en/news/press-release/2022/09/15/risk-of-global-recession-in-2023-rises-amid-simultaneous-rate-hikes] Accessed October 19, 2022.
² Economist Impact, June 12, 2022. "Chain reactions: building value in procurement through digitalisation". [https://impact.economist.com/perspectives/technology-innovation/chain-reactions-building-value-procurement-through-digitalisation] Accessed October 19, 2022.

risks and the need to secure greater supply chain visibility. In response, companies are exploring opportunities to reduce risk in a number of ways, from outsourcing work to leveraging powerful digital tools and intelligence that enhance collaboration with partners across the value chain.

It is unsurprising that cost savings remain organisations' number one priority, says Phil Ideson, the founder of the Art of Procurement, due to its importance to budgeting or planning activities or environmental, social, and governance (ESG) considerations for reduced consumption of resources. Procurement is also generally considered a part of finance, leading teams to consider cost savings to be their primary responsibility, says Mr Ideson.

That is not to say that risk management is entirely absent from procurement teams' purview.

Typically, procurement teams tend to take a more reactive approach to risk management, tackling whatever crisis is raging on the horizon as and when it impacts their function. When disasters like the 2011 earthquake and tsunami in Japan or the 2010

Eyjafjallajökull volcanic eruption in Iceland disrupted business as usual, procurement teams ramped up their risk management activities—only to ramp down or stop entirely once the worst had subsided. The same is true of other kinds of risks.

However, Mr Cummins questions the long-term viability of current practices that are rooted in “endless competitive bidding that is really a route to weak relationships and poor supplier performance because there is no trust or loyalty in the process.

“That inevitably affects supplier performance as we move towards services with longer periods of delivery. If there isn’t a strong relationship, performance will suffer.”

However, that reactive approach and a pure focus on costs have since proven insufficient amid a volatile business environment characterised by rapidly changing trends, market instability and growing regulation, says Tim Cummins, president at World Commerce & Contracting. This is transforming how risks are perceived and managed.

Balancing risks with costs, in comparison, could deliver more value by introducing stability and flexibility into the process. Continuous supplier engagement, for example, could help firms establish better and more reliable relationships that help ensure supply security even during periods of demand surge or supply crunch.³ Some companies, like American chipmaker Intel and the Taiwan Semiconductor Manufacturing Company, are attempting to circumvent logistical and geopolitical risks by adjusting their supply chains, establishing plants at home and abroad and working with trusted partners.⁴ Increasingly, companies are building up buffer stock, implementing dual-sourcing strategies, and regionalising their supply networks.⁵

In many instances, such shifts in strategy may not be feasible given the lack of availability of the relevant raw materials, production inefficiencies or technical expertise in other locations.

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³ Money Control. March 22, 2022. “The world is moving from just-in-time manufacturing to just-in-case management”. [https://www.moneycontrol.com/news/opinion/the-world-is-moving-from-just-in-time-manufacturing-to-just-in-case-management-8261661.html] Accessed October 3, 2022.
⁴ Harvard Business Review. March 21, 2022. “Are the Risks of Global Supply Chains Starting to Outweigh the Rewards?”. [https://hbr.org/2022/03/are-the-risks-of-global-supply-chains-starting-to-outweigh-the-rewards?ab=at_art_art_1x4_s01] Accessed October 3, 2022.
⁵ McKinsey and Company. August 26, 2022. “Taking the pulse of shifting supply chains”. [https://www.mckinsey.com/capabilities/operations/our-insights/taking-the-pulse-of-shifting-supply-chains] Accessed October 3, 2022.

Differences across functions and regions

While 40% of chief supply chain officers (CSCOs) and 39.5% of chief finance officers (CFOs) rate risk reduction as their top area of focus, nearly half (45.1%) of chief procurement officers (CPOs) say cost savings are more important.⁶ This finding isn't surprising, as it leans into procurement's traditional role as a function that keeps costs low and the continued importance of CPOs' typical responsibilities.

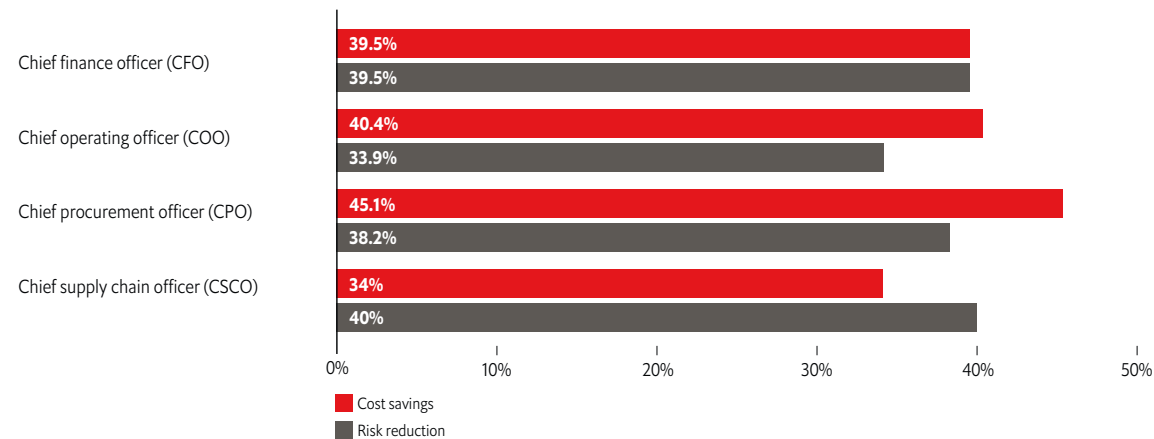
These priorities could change with time—especially in light of the finding that most respondents, regardless of function (34.4%), view supply chain risks as a top procurement risk over the next 12-18 months.⁷

However, Mr Cummins questions the long-term viability of current practices that are rooted in “endless competitive bidding that is really a route to weak relationships and poor supplier performance because there is no trust or loyalty in the process.

“That inevitably affects supplier performance as we move towards services with longer periods of delivery. If there isn't a strong relationship, performance will suffer.”

Exhibit 1a: The cost versus risk question for executives

What are the top areas you will focus on to deliver increased value in procurement? Please select up to three.



Source: Economist Impact

Another issue at play could be that procurement functions are suffering from the results of decades of being siloed from other parts of the organisation. Mr Ideson suggests that procurement can often be found out of lockstep with overarching business goals due to a lack of inter-function communication and engagement.

“Procurement has to shift from solely measuring inputs and work more closely with the business to take shared responsibility for outcomes,” says Mr Cummins. “[It has to] move away from procurement as a function towards procurement as a business service.” This is evident in the changing remits of category managers, who must now

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⁶ Economist Impact. February 2022. “Economist Impact survey of C-suite executives on procurement 2022”. Accessed August 16, 2022.

⁷ Ibid.

measure areas beyond spend, such as resilience, supplier diversification, risk reduction, and ESG issues.⁸

There is also a divergence in opinion across regions. Respondents in the Americas (45.4%) and Europe, the Middle East and Africa (EMEA) (45.3%) are likelier to prioritise risk reduction compared with their counterparts in Asia-Pacific (24%).⁹ This can be explained by Asia-Pacific's

role as a major manufacturing hub and strong intra-regional trade, which has reached its highest level in 30 years.¹⁰

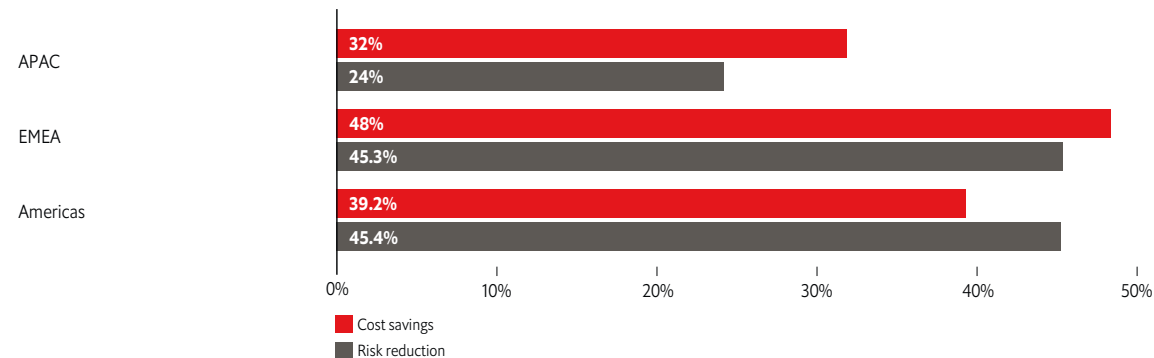
“Right now, companies in the US and Europe are sourcing so many things out of Asia,” says Mr Ideson, “but in Asia itself, supply chains are more regional—there’s less travel, everyone is in the same time zones, and there’s probably better communication and dialogue.”

Mr Cummins, on the other hand, points to a lack of maturity in Asia-Pacific’s attitude towards risk, especially in countries where procurement cultures remain nascent and established relationships form the bedrock of business dealings. Moreover, there is a view that procurement teams in Asia-Pacific tend to focus on the short term, and not as much on key procurement aspects such as category management.^{11,12}



Exhibit 1b: Cost versus risk across regions

What are the top areas you will focus on to deliver increased value in procurement? Please select up to three.



Source: Economist Impact

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8 Economist Impact. September 22, 2022. “Changing with the times: category management at a crossroads”. [https://impact.economist.com/perspectives/technology-innovation/changing-times-category-management-crossroads] Accessed October 4, 2022.
 9 Economist Impact. February 2022. “Economist Impact survey of C-suite executives on procurement 2022”. Accessed August 16, 2022.
 10 Asian Development Bank. February 9, 2022. “Trade Integration Deepens in Asia and the Pacific Amid Pandemic”. [https://www.adb.org/news/trade-integration-deepens-asia-and-pacific-amid-pandemic] Accessed October 6, 2022.
 11 Bain and Company. December 11, 2013. “Winning with Procurement in Asia”. [https://www.bain.com/insights/winning-with-procurement-in-asia/] Accessed October 3, 2022.
 12 Economist Impact. September 22, 2022. “Changing with the times: category management at a crossroads”. [https://impact.economist.com/perspectives/technology-innovation/changing-times-category-management-crossroads] Accessed October 19, 2022.

The cascading effects of supply chain disruptions

The global shutdowns triggered by the covid-19 pandemic in 2020 set in motion a chain of supply and demand shocks, cracking open the entire system’s vulnerabilities. Global supply chains were hit as lockdowns resulted in manufacturing shutdowns and difficulty transporting goods (where production was possible). Consumer and industrial demand for most goods also nosedived. These problems have been magnified by geopolitical tensions and growing inflationary pressures causing the prices of goods and services to rise sharply for both businesses and end-consumers.¹³

“Businesses love cost certainty because what they pay for today is what will play out next year,” says Mr Ideson. “But when you have all this volatility, you can see as much as [a] 10-30% increase in prices because supply chain risks are driven by inflationary risks.”

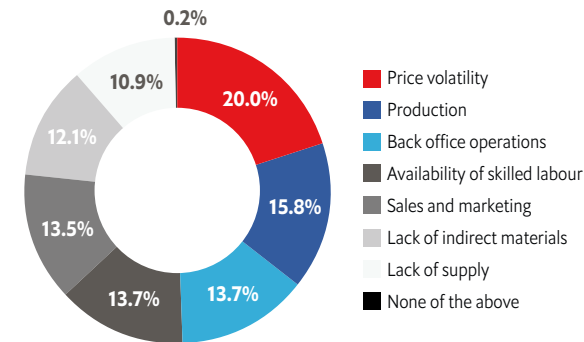
According to our survey, the main overall impacts of supply chain shocks are increased price volatility (20%), disrupted production (15.8%) and back-office operations¹⁴ (13.7%) and limited availability of skilled labour (13.7%).¹⁵

However, each function views these priorities very differently. While COOs (25.7%) and CFOs (19.3%) were mainly concerned with how supply chain disruptions influenced prices, CSCOs (25%) were focused on production and CPOs (18.6%) looked to sales and marketing.¹⁶

Despite these differing viewpoints, it’s difficult to consider these impacts independent of each other, points out Sarah Thuo, COO at IBM Consulting’s global sustainability practice. Price volatility, for example, can exert significant impacts on a business’s ability to access key resources, leading to delays in production and lowered sales. Automakers bore the brunt of this, with major firms like Toyota and Volkswagen lowering their financial forecasts due to limited access to parts.^{17,18}

Exhibit 2: Supply chain shocks have impacted businesses in multiple ways

What are the main impacts of supply disruption that your organisation is facing? Please select one.



Source: Economist Impact

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¹³ New York Times. May 3, 2022. “The Era of Cheap and Plenty May Be Ending”. [https://www.nytimes.com/2022/05/03/business/economy/pandemic-supply-chains-inflation.html] Accessed October 3, 2022.

¹⁴ Back-office operations refer to everything that isn’t a customer-facing function, from network planning and inventory management to sourcing and procurement (as opposed to sales and marketing, for example).

¹⁵ Economist Impact. February 2022. “Economist Impact survey of C-suite executives on procurement 2022”. Accessed August 16, 2022.

¹⁶ Ibid.

¹⁷ Nikkei Asia. May 27, 2022. “Toyota cuts June production target further by 50,000 vehicles”. [https://asia.nikkei.com/Spotlight/Supply-Chain/Toyota-cuts-June-production-target-further-by-50-000-vehicles] Accessed October 3, 2022.

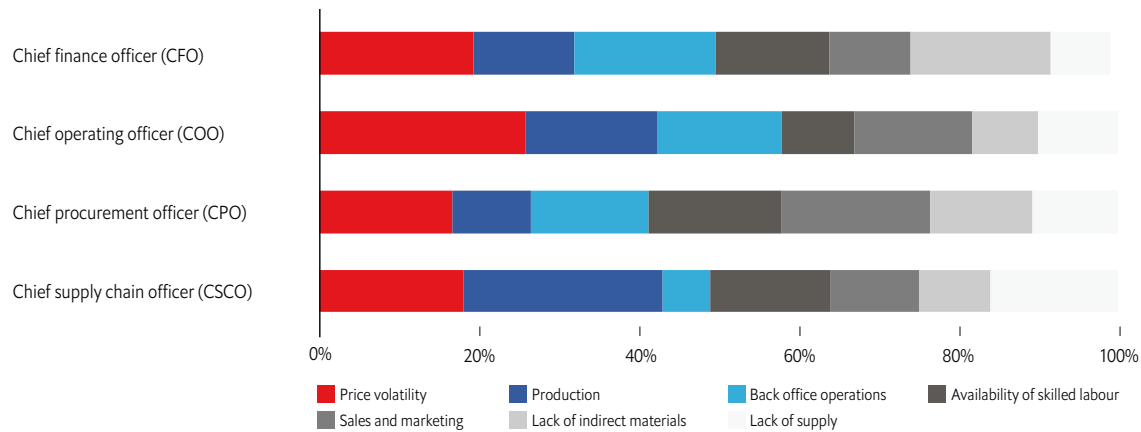
¹⁸ CNBC. October 28, 2021. “The global chip shortage is continuing to wreak havoc for the car giants”. [https://www.cnbc.com/2021/10/28/chip-shortage-continues-to-wreak-havoc-on-vw-and-stellantis.html] Accessed October 3, 2022.

Fast-moving consumer goods (FMCG) companies such as P&G and Colgate, on the other hand, have resorted to raising the prices of everyday consumables, which could impact sales.¹⁹ Mr Ideson notes that brands built on the

premise of being affordable are especially at risk of having their reputations damaged by these price hikes, an issue that could explain why CPOs pick the impacts on sales and marketing (18.6%) as their top concern.

Exhibit 2a: COOs worried about price volatility, CSCOs concerned about production

What are the main impacts of supply disruption that your organisation is facing? Please select one.



Source: Economist Impact



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¹⁹ Financial Express, March 5, 2022. "War impact: FMCG companies hike prices in Feb as raw material prices pinch". [https://www.financialexpress.com/industry/war-impact-fmcg-companies-hike-prices-in-feb-as-raw-material-prices-pinch/2451428/] Accessed October 3, 2022.

What is critical for risk management? Depends on whom you ask

As procurement teams reassess their strategies for a post-pandemic recovery, a number of different priorities are vying for attention. Globally, executives prioritise supply chain risks (34.4%), operating model changes (31.2%) and labour shortages (25.6%) as the top strategies to mitigate organisational risk in the next 12-18 months.

Interestingly, broader issues that have preoccupied procurement leaders for some time now, such as geopolitical tensions (17%), supply chain visibility (16%), and nearshoring/reshoring activities (7.9%), did not emerge as strongly as other issues.

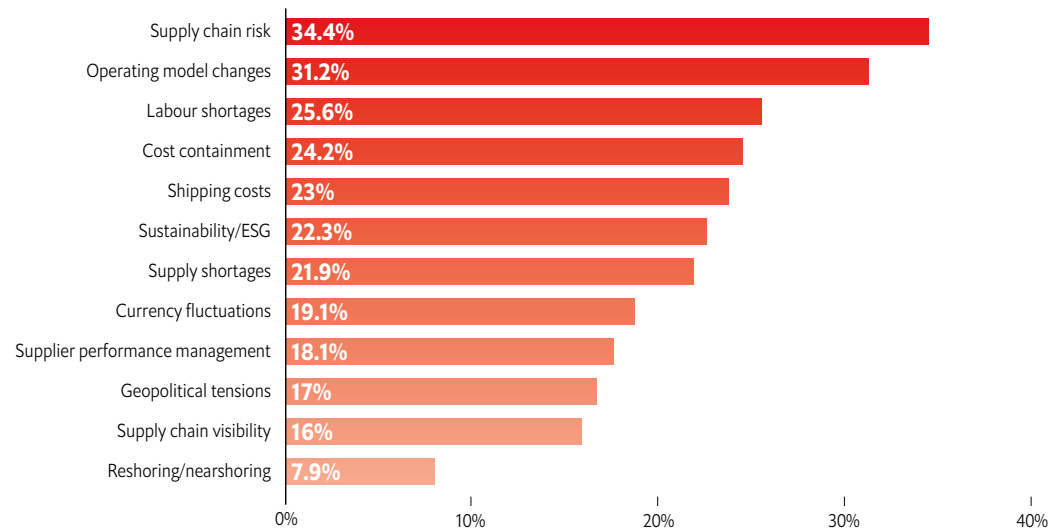
This suggests that procurement teams' concerns are orienting towards strategies with a longer-term view and that they are starting to come to terms with these issues.²⁰

Are supply chain risks stabilising?

Although supply chain risks were, unsurprisingly, a major concern for 44% of CSCOs, they were rated as being of lower importance for CPOs (37.3%), COOs (29.4%) and CFOs (28.6%). Some reports suggest that this could be due to the slow—but fragile—recovery of global supply chains.

Exhibit 3: Not many are thinking about reshoring or nearshoring

What are the top priorities for organisational risk that you will be focusing on within procurement over the next 12-18 months? Please select up to three.



Source: Economist Impact

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19 Financial Express. March 5, 2022. "War impact: FMCG companies hike prices in Feb as raw material prices pinch". [https://www.financialexpress.com/industry/war-impact-fmcg-companies-hike-prices-in-feb-as-raw-material-prices-pinch/2451428/] Accessed October 3, 2022.
20 Economist Impact. May 2022. "Trade in Transition 2022". [https://www.dpworld.com/-/media/project/dpwg/dpwg-tenant/corporate/global/media-files/trade-in-transition/ecoo6idp-world-impact-report_final.pdf] Accessed October 15, 2022.

This, in turn, is causing the worst pains of the recent disruptions to fade for those not directly affected by them.²¹ True stability may remain far off and could be complicated by developing crises. However, some semblance of a “new normal” appears to be in sight given changes to supply chains that could be long term or even permanent.²²

These findings could also be attributed to a persistent lack of transparent communication of both functional and overarching business goals between functions. This is bolstered by the fact that the procurement priorities that occupy CPOs and CSCOs in relation to organisational risk often contradict those of CFOs and COOs. While CSCOs and CPOs rate supply shortages and supply chain visibility as key risk management areas, only a small fraction of CFOs and COOs—whose purviews tend to be focused on the overall organisation’s health—say the same.

Mr Ideson characterises this as a kind of mutual lack of understanding between procurement and supply chain teams and the rest of the organisation.

“The business at large doesn’t feel that procurement knows what it needs, and procurement isn’t seen as a strategic partner, just as someone who manages a transaction,” he says. “That drives a disconnect between procurement and business stakeholders.”

This belief is pervasive even within the function itself, with many procurement professionals demonstrating a “traditional” understanding of their role as being limited to contract negotiations, cost savings and sourcing.²³

That notwithstanding, supply chain-related risks are being addressed by some of the world’s biggest companies, many of which are exploring different strategies aimed at strengthening their production chains and supplier relationships. Unilever, a multinational FMCG, for one, leaned heavily on data to identify key, high-demand

products and services to focus its resources on them.²⁴ Walmart, the American mega-retailer, has heavily invested in advanced technologies to leverage its extensive vendor networks.

Mr Ideson advises businesses to take a programmatic approach to risk management within both procurement and the wider organisation in order to seed a deeper understanding of their supply chains.

“Once you understand suppliers’ inherent risks, then you can ask yourself what strategies you can put in place to minimise the risk event further down the line, or prepare you to respond quickly when something does happen,” he explains.

Changing operating models are a growing risk

Nearly a third (31.2%) of respondents select operating model changes as the second most important organisational risk in the short term. Among CFOs (39.5%) and COOs (34.9%), however, this was the top concern, reflecting their roles as organisational custodians.

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21 New York Times. October 19, 2021. “Global economic growth will stabilise next year, but supply chain shock remains a risk, a report says”. [https://www.nytimes.com/2021/10/19/business/global-economic-growth-pandemic-oecd.html] Accessed October 3, 2022.

22 https://www.axios.com/2022/08/08/supply-chain-inflation-prices-economy

23 Efficio. September 2022. “Bridging the gap: Procurement’s vital role in making ESG strategy a reality”. [https://www.efficioconsulting.com/en-gb/procurement-role-making-esg-strategy-reality/] Accessed October 16, 2022.

24 S&P Global. July 23, 2020. “Unilever adapts product mix, supply chain to deliver surprise H1’20 results”. [https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/unilever-adapts-product-mix-supply-chain-to-deliver-surprise-h1-20-results-59553042] Accessed October 3, 2022.

25 Auto Recruiter. “Automotive Industry Pivoting In Times of Crisis”. [https://www.autorecruiter.com.au/news/automotive-industry-pivoting-in-times-of-crisis/49879/] Accessed October 3, 2022.

26 Economist Impact. June 26, 2022. “Looking out: the rise of the external workforce and its impact on internal functions”. [https://impact.economist.com/perspectives/strategy-leadership/looking-out-rise-external-workforce-and-its-impact-internal-functions] Accessed October 21, 2022.

In the immediate and intermediate wake of the pandemic, there were myriad accounts of companies temporarily pivoting their operating models to accommodate surging demand for medical equipment. Auto parts manufacturer Bosch Australia, for example, retooled its assembly lines to meet the demand for ventilators, while others focused on specific products or services.²⁵

However, more profound changes are afoot as companies make deeper changes to the basics of how their organisations are shaped and run. One way this is happening is the gradual decentralisation of supply chains into localised nodes, which enables faster and more adaptable decision-making. Mr Ideson notes that digitalisation and changing attitudes towards internal and external workforces are also forcing a reassessment of companies' priorities and monitoring metrics.²⁶



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21 New York Times. October 19, 2021. "Global economic growth will stabilise next year, but supply chain shock remains a risk, a report says". [https://www.nytimes.com/2021/10/19/business/global-economic-growth-pandemic-oecd.html] Accessed October 3, 2022.
 22 https://www.axios.com/2022/08/08/supply-chain-inflation-prices-economy
 23 Efficio. September 2022. "Bridging the gap: Procurement's vital role in making ESG strategy a reality". [https://www.efficioconsulting.com/en-gb/procurement-role-making-esg-strategy-reality/] Accessed October 16, 2022.
 24 S&P Global. July 23, 2020. "Unilever adapts product mix, supply chain to deliver surprise H1'20 results". [https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/unilever-adapts-product-mix-supply-chain-to-deliver-surprise-h1-20-results-59553042] Accessed October 3, 2022.
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 26 Economist Impact. June 26, 2022. "Looking out: the rise of the external workforce and its impact on internal functions". [https://impact.economist.com/perspectives/strategy-leadership/looking-out-rise-external-workforce-and-its-impact-internal-functions] Accessed October 21, 2022.

A strong focus on sustainability

Given the urgency of climate change issues and growing consumer concern regarding ethical sourcing, it's no surprise that sustainability and the ESG agenda have emerged as one of the top priorities for organisational risk for nearly a quarter of all executives (22.3%).

When asked which were key areas of focus, procurement leaders were primarily drawn to climate- and environment-related issues such as reducing waste (32.1%), reducing energy consumption (25.6%) and pollution management (23%).

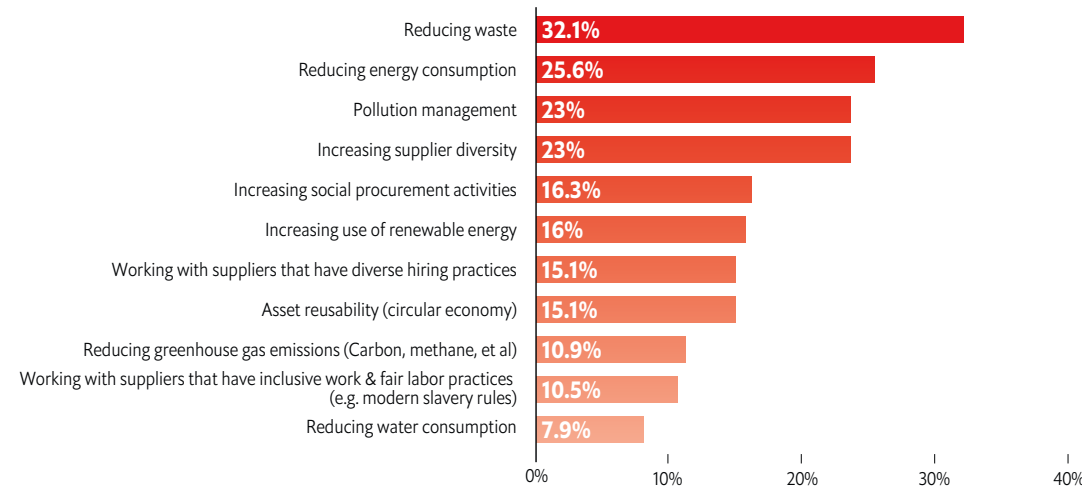
As the impacts of climate change become all too apparent, companies are demonstrating awareness about the risks related to ESG and the benefits of incorporating these principles into their procurement strategies.

"Sustainability is fundamental not just to organisational wellbeing but also risk management strategies," says Ms Thuu, explaining how climate change had lowered the water levels of the main vessel routes throughout Europe, sharply driving up shipping costs.

"The effects of inaction are becoming more apparent, and we're also seeing the entry of a new generation of workers who are more focused on impact and sustainability values."

Exhibit 4: The ESG agenda comprises several aspects

What will be the top priorities related to sustainability and environmental social governance (ESG) that will drive your approach to procurement strategy? Please select up to two.



Source: Economist Impact

Aligning with the ESG agenda can also help companies lower costs, by reducing waste, energy consumption and water consumption or reusing assets, for instance.

Other ESG aspects, such as increasing supplier diversity and greater renewable energy use, can specifically help companies lower procurement and operational costs in the

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long term by creating contingencies. Disruption resulting from geopolitical or environmental issues can also be minimised. Separately, a focus on sustainability can provide companies with a competitive edge in the market if they can sell products that are sustainable.²⁷

Climate and environment aside, for some firms ESG and sustainability issues are also about better governance and labour standards. These can also directly influence companies' reputations, as people are "more cautious about the companies and suppliers and workers," says Chris Shanahan, CPO at Thermo Fisher Scientific.

But more can be done in this respect, particularly when it comes to second- and third-level suppliers and beyond. Often, large companies put in place standards that apply to their first-level suppliers, but that is not sufficient, as poor sustainability practices at lower levels of the supply chain can expose them to financial and reputational risk. This challenge can be addressed with more direct engagement and collaboration with those in the procurement functions at their primary suppliers, and by encouraging them to monitor their suppliers' sustainability performance.²⁸

It's not just about reputational risk. Mr Ideson notes that, given the rising interest in sustainability and ESG, companies could be vulnerable to other risks in terms of government regulation that could impact their strategy over the medium to long term. Take, for example, the EU's strict regulations on palm oil sourcing, which have prompted companies like Unilever to leverage blockchain technology to introduce supply chain transparency.²⁹ Others, like major food manufacturer Nestlé, are imposing tougher standards on their suppliers as part of their commitment to responsible sourcing.³⁰



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27 Manufacturing Net. February 25, 2013. "Sustainability And The Supply Chain: How To Reduce Cost And Save The Environment". [https://www.manufacturing.net/operations/article/13057048/sustainability-and-the-supply-chain-how-to-reduce-cost-and-save-the-environment] Accessed October 3, 2022.
 28 Tech Target, March 30, 2022. "Unilever pursues supply chain sustainability with blockchain". [https://www.techtarget.com/searchsap/news/252515342/Unilever-pursues-supply-chain-sustainability-with-blockchain] Accessed October 3, 2022.
 29 Nestle. "Responsible sourcing: Our work with suppliers and farmers | Nestlé". [https://www.nestle-cwa.com/en/aboutus/suppliers] Accessed October 3, 2022.

Although there are significant incentives for companies to go all-in on sustainability, Ms Thuo notes poor alignment overall between those at the executive level and the rest of the organisation due to the lack of well-defined visibility into relevant measures. Procurement teams cannot afford to remain complacent about integrating more sustainability into their practice, especially as new climate regulations come into play.

“The procurement team will be part of helping companies figure out how to get on track with net-zero targets,” she says. “How do you offset emissions? How do you buy and price carbon credits? Do you understand what the green premium is? These policies will completely revolutionise the way sourcing and procurement are done.”



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The future of risk management: building resilience

The economic landscape is riddled with challenges, ranging from political risks to the effects of climate change. There is also the question of how to balance the competing interests of efficiency and adaptability: how do companies manage the costs of just-in-case inventory while still meeting the demands of their bottom line?

As the interests of procurement increasingly align with those of the overall organisation, a robust approach to risk management will be a crucial ingredient to ensuring businesses are capable of building the resilience and flexibility needed to achieve long-term, sustainable growth.³¹

Digitalisation will play a critical supporting role, first by enabling firms to rethink how procurement operates. The ease, convenience and collaboration made possible by technology could allow companies to take advantage of automation and data-driven insights for more intelligent decision-making. One example of this is Samsung's use



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³¹ Kearney, "Powering through a crisis economy: 2022 Assessment of Excellence in Procurement study". [<https://www.kearney.com/procurement/article/-/insights/2022-assessment-of-excellence-in-procurement-study>] Accessed October 15, 2022.

³² Supply Chain, May 18, 2020. "Samsung smartens up its supply chain with Kinaxis". [<https://supplychaindigital.com/digital-supply-chain/samsung-smartens-its-supply-chain-kinaxis>] Accessed October 3, 2022.

³³ The Economist Impact covered the impact of external workforces on procurement teams post-covid-19 in a previous briefing paper in this series. To access that paper, visit [<https://www.ariba.com/resources/library/>].

of cloud-based technology to more efficiently manage its global supplier network.³²

“Procurement has to engage more in analytics to become the source of business intelligence, and claim more responsibility over the quality of the acquisition process,” says Mr Cummins. “Artificial intelligence, in particular, will be able to support better monitoring and improve contract lifecycle management.”

Ms Thuo adds that digital supply chains make sustainability and risk more visible, and therefore more accountable, by empowering companies with the data they need to accurately set measures. In the long term, this could result in more equitable outcomes.

Moreover, strengthening supplier relationships through sustained engagement will not only lead to increased trust and reliability but also ensure security of supplies, a key aspect for organisations to retain confidence and better navigate the everchanging risk environment.

“A lack of supply assurance is not just driving up prices—it’s also making it difficult for companies to plan because they don’t know what resources they’re able to get,” says Ms Thuo. “That’s making it really hard to do an effective job.”

Companies will also have to address the risks posed by labour shortages, which more than half (53%) of respondents say has driven firms to ramp up the use of external workforces on either a temporary or contract basis.³³ Increased digitalisation could also have a strong impact on labour shortage risks, a particular concern for a third of CPOs (35.3%) and CSCOs (30%). Digitalisation enables more work to be outsourced, as tools like remote and video collaboration platforms help firms access sought-after skills and knowledge without the added costs of adding to internal headcounts.

The shift taking place in procurement is prompting a concurrent change in the kinds of talent needed by teams to address existing risks and manage new ones. According to the survey, almost a third (31.2%) say risk management is one of the two leading skills gaps facing companies today, underlining the need for diverse talents, including but not limited to experience in legal, engineering and data analytics.³⁴

External workforces provide an avenue for companies to easily access those skills and experiences while introducing a degree of flexibility.

“When you have a variable model for people, you can build an operating model that can bring talent onboard as and when you need it,” says Mr Ideson. However, outsourcing skills may also come at a higher cost without necessarily making substantive changes within the organisation. This could be because of the need to train people more frequently, for example.

At the centre of how companies are building resilience in order to respond to the changing nature of risk is the emerging importance of sustainability as a driver of more responsible procurement. According to Mr Ideson, sustainability and ESG aren’t necessarily just about businesses doing good for the sake of it or responding to regulatory requirements, though those are important drivers.

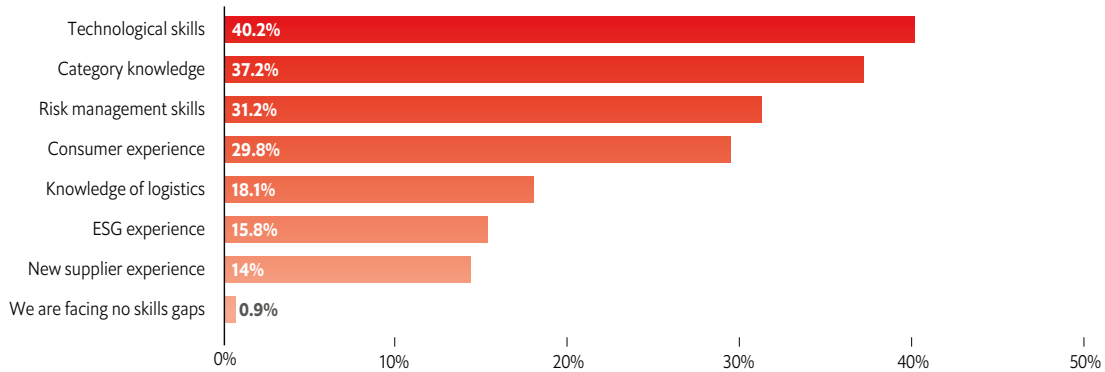
Given the current state of socio-political uncertainties and the climate crisis, ESG reporting requirements can help support companies by providing tangible and granular information to identify risks to support better decision-making. Additionally, an increased emphasis on sustainability can drive operational resilience by imposing higher standards on suppliers.

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Exhibit 5: The paucity of risk management skills is a challenge

What are the main skills gaps that you are facing in recruitment of procurement staff? Please select up to two.



Source: Economist Impact

Risk management is a critical piece of the jigsaw and procurement teams are increasingly playing more important roles in helping their organisations mitigate supply chain-related and other organisational risks, and as they look to create business value that considers the holistic value of its value chain.

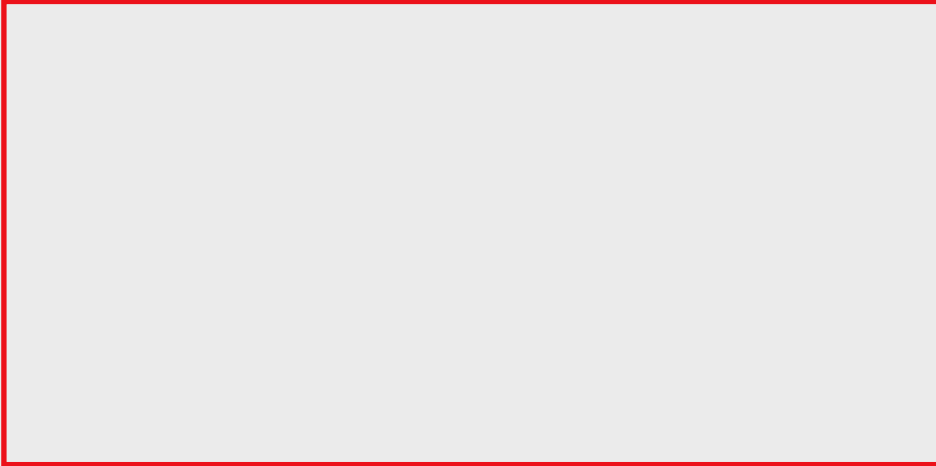
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