



Incentives for Scope 3 supply chain decarbonization: accelerating implementation

In association with



① Introduction | 3

② Building your approach | 5

2.1 How to get your business ready | 6

2.2 Assess the available decarbonization levers | 7

2.3 How they add value | 8

2.4 Embed decarbonization levers into procurement | 9

③ Making it happen | 11

3.1 Choosing the right levers for you | 12

3.2 Roadmap for implementation | 16

3.3 Driving change internally | 19

3.4 Enabling wider net zero transformation | 21

④ Diving deeper | 22

4.1 A closer look at specific levers | 23

1 Introduction



1 Introduction

The challenges created by climate change present a significant and immediate risk of environmental degradation, socioeconomic instability and disruption to value chains and the world at large. According to the UN Global Compact, Scope 3 emissions account for more than 70%¹ of an organization's carbon footprint, meaning there is increasing pressure to embed sustainability and drive decarbonization across supply chains in order to reach net zero.

Given the importance of value chain transformation, WBCSD launched a working group on Incentivizing Supply Chain Decarbonization to deepen the practical guidance shared and drive action on Scope 3 emissions.

By collectively identifying and addressing barriers to lower-carbon supply chains, the group helps companies to match their climate ambition with the strategy, tools and skills needed to undertake net zero systems transformation. The project leverages members' diverse expertise, experience and resources to develop accessible insights and resources for businesses across industries.

In 2021, WBCSD in collaboration with PwC, released the flagship report: ["Reaching net zero: incentives for supply chain decarbonization"](#). The working group has grown rapidly, reflecting the urgency and support needed to decarbonize supply chains. It now consists of over fifty member companies across fourteen sectors, including heavy industry.

As organizations transform towards net zero, many functions play a key role, such as procurement which we dive into deeper in this report. The success of transformation is reliant on the integration of wider functions across an organization.

As an introduction for procurement and sustainability practitioners across all sectors, this paper summarizes a framework of supplier decarbonization levers that companies can use to take action on decarbonizing their supply chains to reduce Scope 3 upstream emissions.

This report answers key questions such as how to implement each lever, when to implement them, what is the relative ease versus impact, who is responsible, and what existing procurement processes are leverageable.

This should help readers to identify both the quick wins and where to focus effort to ensure the greatest impact in supporting longer-term decarbonization.

To conclude, this paper outlines the decarbonization levers presented in 2021, and explores the importance of assessing all available levers to create implementation roadmaps that set the foundation for practical plans to reach net zero.



② Building your approach



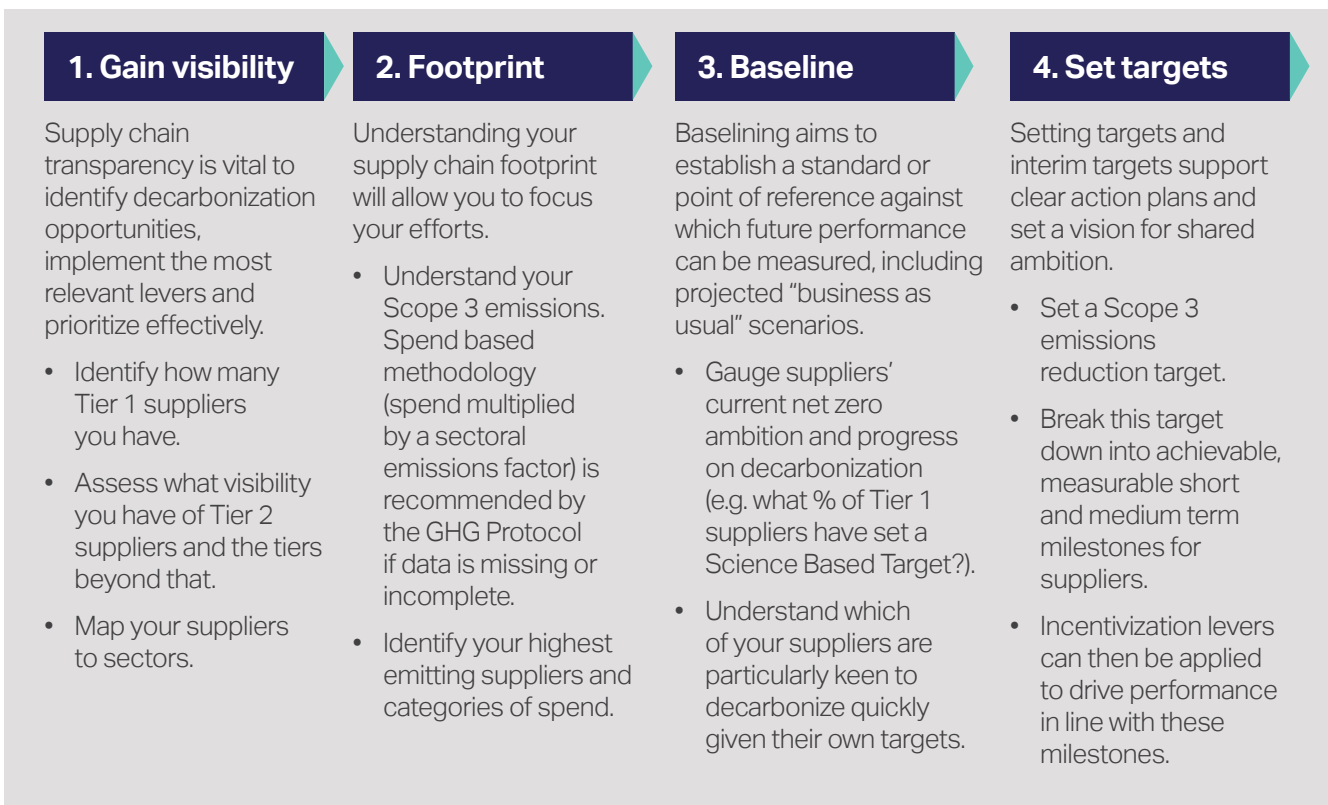
2 Building your approach

2.1 HOW TO GET YOUR BUSINESS READY

Understanding your supply chain

Before considering specific levers to incentivize supply chain decarbonization, it is necessary to understand your supply chain. Applying the levers in this report will be most effective if you have already taken initial steps to; 1) gain visibility over spend and suppliers for all direct and indirect goods and services, 2) estimate your Scope 3 emissions footprint, 3) establish an emissions baseline to measure performance against, and 4) set emissions reduction targets.

Figure 1: Steps to understand your supply chain in preparation for incentivizing decarbonization



With these initial steps in place, you can think about;

- Supplier grouping - this might be by sector, spend, emissions or strategic suppliers such as those with market influence or a market monopoly.
- Key suppliers - identify who they might be from a decarbonization perspective, based on your grouping.

Companies can then begin to assess which incentivization levers will be most effective in order to develop a decarbonization implementation roadmap that will drive net zero delivery in line with commitments.



TIP: Early collaboration with Procurement on Scope 3

Companies can accelerate implementation by ensuring early partnership between sustainability and procurement departments. Procurement teams have some of this data already and are used to implementing procurement levers albeit in a cost-reduction, rather than carbon-reduction context. Sustainability teams should connect with procurement teams early on to understand how their procurement team works, which existing procurement processes could be adapted for decarbonization as well as how and when these levers are applied, in order to further identify decarbonization opportunities in the supply chain.

2.2 ASSESS THE AVAILABLE DECARBONIZATION LEVERS

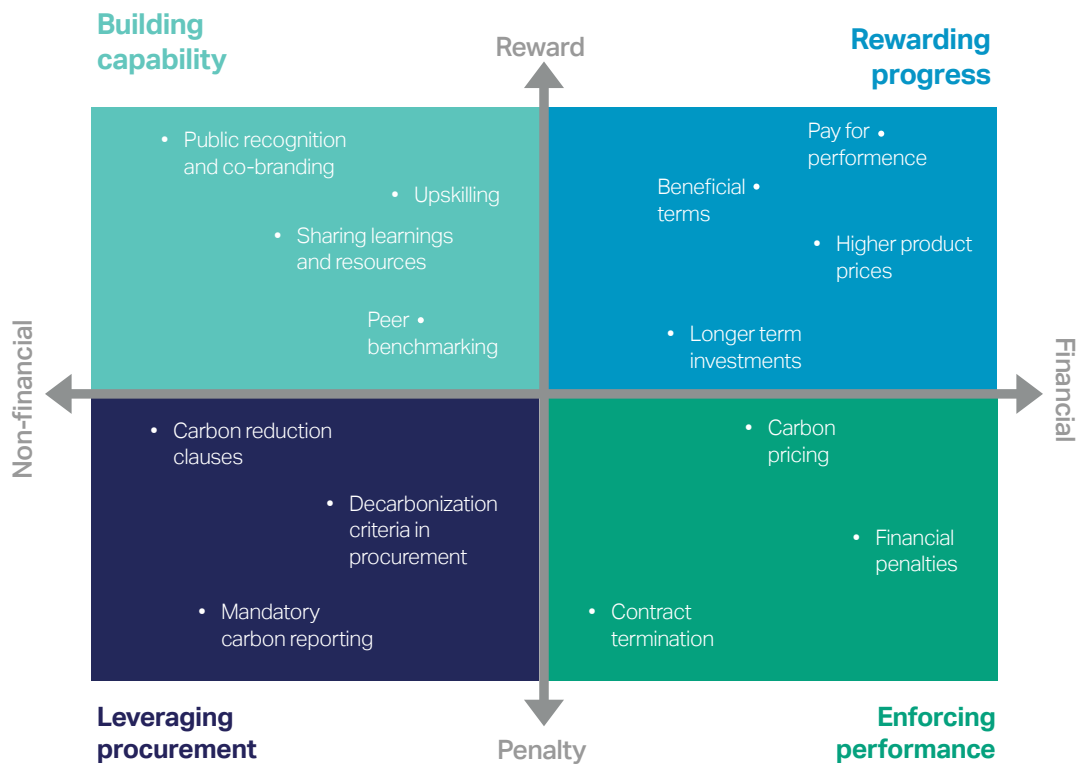
Incentivizing decarbonization levers

Having understood the carbon footprint of your supply chain you can begin to assess the most appropriate carbon reduction levers to be applied to it. This framework was developed in consultation with the WBCSD Incentivizing Supply Chain Decarbonization members to categorize incentivization levers that can be used to motivate action amongst suppliers.

The framework outlines four broad strategic approaches, in which levers range from reward- to penalty-based, as well as financial to non-financial. As a result levers fall into four groups for incentivizing supply chain decarbonization: (1) Building capability; (2) Rewarding progress; (3) Leveraging procurement; and (4) Enforcing performance.

The framework below does not represent a comprehensive list of all possible levers that may be available to an organization. However, it aims to highlight the key levers that are likely to be implementation options for most companies. Further consideration should be given to the full range of possible options available to your organization which is likely to vary by company, sector and location.

Figure 2: Supply chain decarbonization incentivization framework



Building capability:

Decarbonization levers within this category are non-financial and reward-based. They initiate a move away from isolated interactions with suppliers, towards a more continuous learning and engagement approach.

Rewarding progress:

Decarbonization levers within this category are financial and reward-based. Through exerting 'soft' power, these levers financially recognize supplier progress towards

decarbonization goals.

Leveraging procurement:

Decarbonization levers within this category are non-financial and penalty-based. These levers focus on embedding decarbonization commitments and expectations into procurement processes, moving from rewards towards a more regulatory approach. It is important to note that the effective implementation of such levers will rely on the provision of timely, accurate carbon data.

Enforcing performance:

Decarbonization levers within this category are financial and penalty based. An exertion of hard power, these levers impose monetary payments as a result of inaction or underperformance. It is important to note, however, that these levers can be more difficult to enforce in law, when compared to 'softer' approaches.

2.3 HOW THEY ADD VALUE

Table 1: How the levers in Figure 2 can be put into practice and incentivize decarbonization

Building Capability	How	Why
Public recognition & co-branding	Rewards, press releases or co-branded products.	Encourages suppliers to meet certain emission reduction targets in order to gain public recognition and greater credibility.
Upskilling	Educational activities, dedicated training modules, upskilling of key staff members, focused workshops.	Raises the awareness and understanding of stakeholders involved to aid faster buy-in to the program objectives and capabilities to execute.
Sharing learning & resources	Forums or workshops to share carbon reduction learnings with and amongst suppliers.	Helps to identify decarbonization opportunities and address value chain industry-wide challenges, as well as build capabilities.
Peer benchmarking	A ranking or scoring system that collects and compares information across the supply chain.	Shows suppliers how they perform in relation to their peers and encourages them to more rapidly decarbonize in order to remain competitive.
Rewarding Progress		
Pay for performance	Financial reward for achieving jointly established emissions reduction targets.	Encourages more rapid decarbonization by providing a financial incentive.
Beneficial terms	Preferential payment terms or financing rates based on carbon reduction targets, disclosure and progress.	Encourages suppliers to accelerate the rates of decarbonization and creates a culture of awareness and continuous improvement.
Higher product prices	Premium paid for alternative products and services that offer lower carbon emissions when compared to competitors or existing offerings.	Helps offset the anticipated costs suppliers would face.
Longer term investments	Preferential payment terms, low-cost capital and early payments, lower interest rates, supply chain finance, direct investment in suppliers, joint ventures that share risk/reward.	Provides financial support and reassurance, and helps build trusted buyer-supplier relationships, given extended longevity.
Leveraging Procurement		
Carbon reduction clauses	Formal assessment of suppliers on specific performance management criteria.	Incentivizes decarbonization through the increased risk of contract termination if agreed targets are not met and are unable to be remedied.
Decarbonization criteria in procurement	Introduce selection criteria at the pre-tender phase to assess suppliers against their carbon reduction commitments.	Incentivizes decarbonization by weighting supplier selection towards those with clear action plans or lower emissions (making them more likely to win work).
Mandatory carbon reporting	Mandatory carbon reporting even in the absence of performance based contractual consequences.	Enhances awareness and transparency around carbon emissions within the supply chain allowing for greater comparability.
Enforcing Performance		
Carbon pricing	Apply a cost to carbon emissions.	Shifts the accountability for emissions towards the suppliers, providing a direct financial incentive to decarbonize.
Financial penalties	Penalties with financial consequences if agreed targets or milestones are not met.	Incentivizes suppliers to meet decarbonization targets or risk direct costs.
Contract termination	Terminate agreements with suppliers if they fail to meet contractual decarbonization requirements.	Incentivizes suppliers to meet decarbonization targets or risk losing contracts.

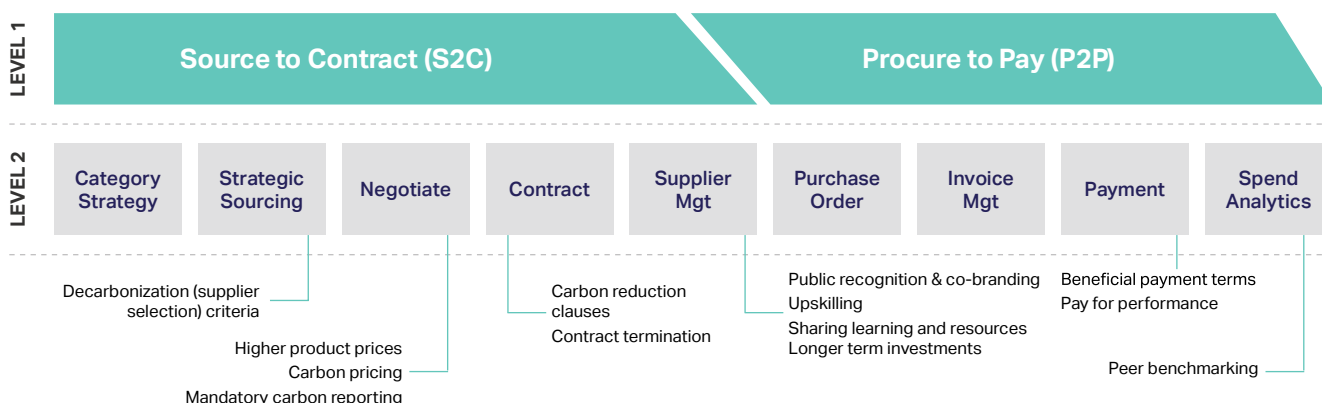
2.4 EMBED DECARBONIZATION LEVERS INTO PROCUREMENT

Having identified which levers to apply, organizations can leverage existing procurement practices and infrastructure to accelerate implementation.

To do this, Sustainability and Procurement teams should work together to embed decarbonization levers into the business as usual (BAU) procurement process, and to establish how to apply them in practice.

This is a high impact and cost-effective way to kick start supply chain decarbonization.

Figure 3: Source to pay procurement process and where to embed decarbonization levers



For example, in the tender phase of strategic sourcing, organizations can introduce carbon requirements into supplier selection and increase the weighting of such criteria in supplier scoring. Contract renewal points can also be utilized to strengthen existing sustainability requirements or to introduce new criteria in order to achieve net zero.

How to apply decarbonization criteria to each category of spend

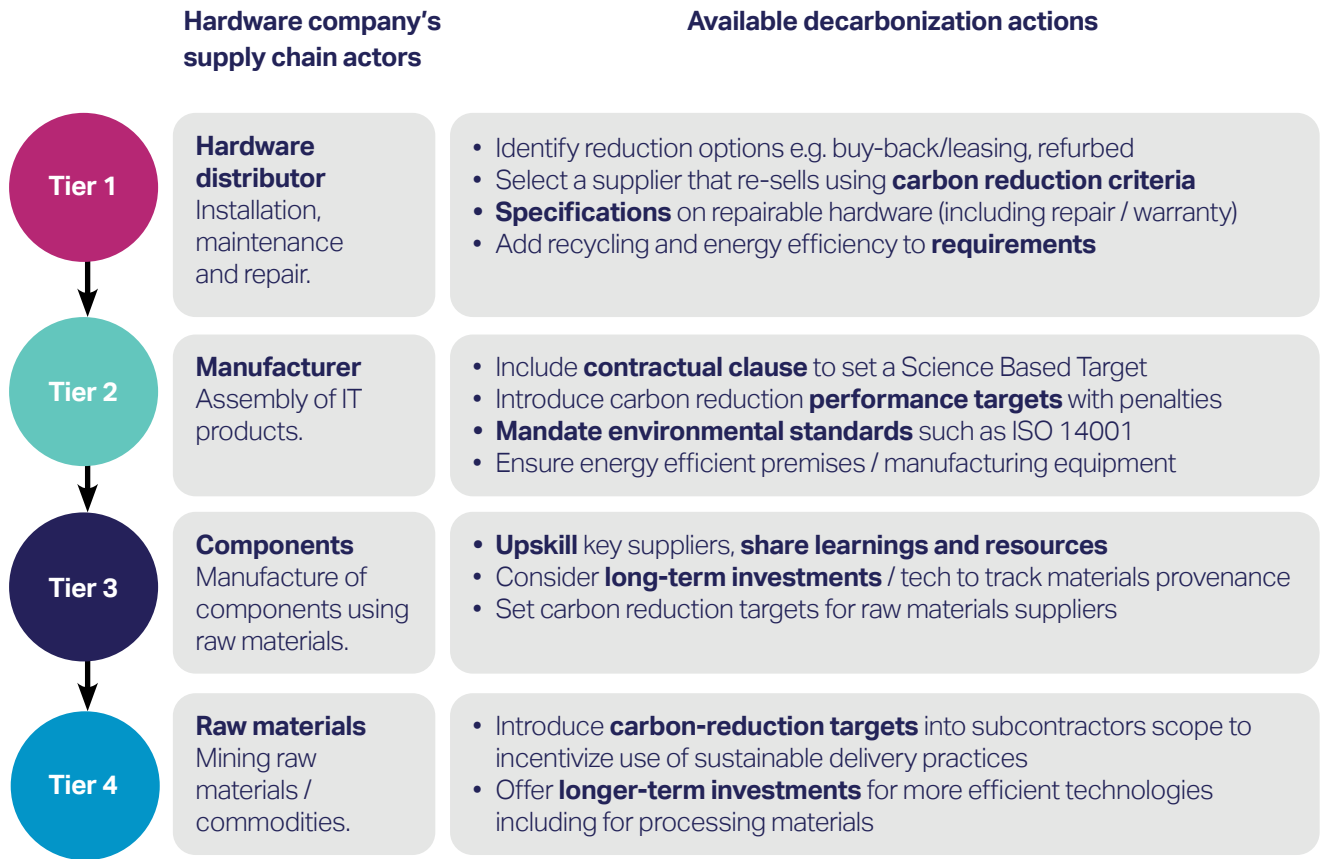
Once you have mapped your decarbonization levers and embedded them in the procurement source to pay process, you need to consider applying them to each different category of spend, and ensure that you apply the most relevant levers to each tier of the supply chain.

What to consider

- **Cost types:** Supplier costs are generally categorized into indirect costs (e.g. Technology, Travel, Professional Services) which are sector agnostic, and direct costs (e.g. Raw Materials) which tend to be sector specific.
- **Footprint:** Each spend category has a different spend profile by business and GHG emissions footprint by geography.
- **Levers:** Carbon reduction levers vary in effectiveness across categories of spend.
- **Tiers:** The tier at which you contract with a supplier (Tier 1) for each category of spend, is not always the maximum point of influence for emissions reductions; the greatest opportunities to drive decarbonization may lie beyond Tier 1. The strength of your Tier 1 relationship will impact the effectiveness of Tier 2 decarbonization.

Figure 4: Applying decarbonization levers to different supply chain tiers and spend categories

This example, which considers a technology hardware company’s multi-tier supply chain, shows how various levers might be used for each tier of the supply chain.



Working with Procurement on supplier management

Collaboration between sustainability and procurement teams early on is key. Together, the teams should consider:

- **Supplier commitments:** What suppliers have committed to under your Code of Conduct? (e.g. what are the environmental criteria and metrics).
- **Contract renewal:** What is the contract renewal cycle for each supplier? (It is helpful to know when contract renewal dates are coming up as points of re-negotiation).
- **Relationships:** Who holds the day to day relationship vs the contractual relationship (if different) - these are your internal actors who can help to leverage suppliers, communicate shared decarbonization targets and apply pressure.

3 Making it happen



3 Making it happen

3.1 CHOOSING THE RIGHT LEVERS FOR YOU

One of the greatest challenges for companies in the transformation to net zero is knowing what levers to implement and when. Before designing an implementation roadmap it is important to assess the ease of implementing each lever as well as its impact in order to determine the right levers for you. This will vary by company, sector and location.

Member insights



The implementation of levers depends on many factors but in general, collaboration with suppliers and information-sharing levers are key and could be initiated simultaneously in an early stage.



When companies start tackling their supply chain emissions, it is essential that engagement is not limited to just suppliers and business partners with advanced data capabilities. Instead, active engagement must occur at scale to gain insight into how to address the bulk of these emissions.



Case study

SIEMENS

Supporting suppliers with target setting and carbon reporting to achieve emissions reductions

Siemens AG intends to achieve a 20% reduction in its supply chain emissions by 2030 so decarbonization is a key element of the future partnership between Siemens and its suppliers.

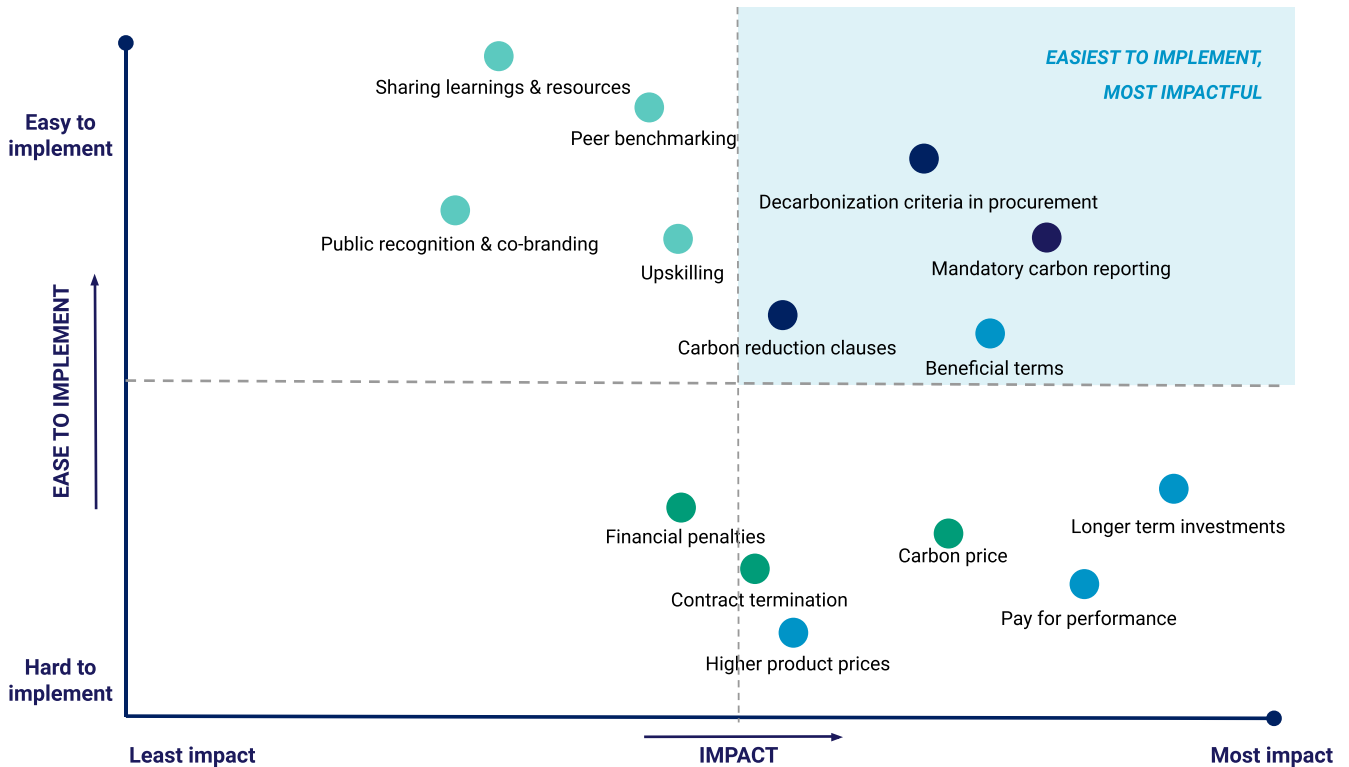
Siemens uses a "[Carbon reduction @ suppliers approach](#)" to support suppliers in their target setting and action plans to reduce carbon emissions. As part of the approach, they developed the "Carbon Web Assessment", a tool which allows suppliers to learn about their carbon emissions, assess their current carbon footprints and understand which targets would prove most efficient in reducing their carbon output.

Since its launch in 2020, Siemens has invited thousands of its suppliers to provide primary data which feeds into the tool to track impact of individual CO₂ reduction activities, which will eventually feed into Siemens' sourcing decisions.

The approach is intended to create a win-win situation for both Siemens and the supplier. The tool is free of charge for the Siemens' suppliers and gives them the opportunity to develop their specific "road to net zero" by defining actions on carbon reduction over the years. In early 2023, Siemens together with its external partner "ctrl+s" intends to make this tool publicly available on a neutral platform.

This graph shows the responses from twenty member companies of the Incentivizing Supply Chain Decarbonization working group when asked how easy and impactful it would be to implement each lever for their organization. 'Ease' takes account of factors including resource required, time and cost, whilst 'impact' is defined as the emissions reduction potential of each lever on a company's Scope 3 emissions. The positioning of levers is indicative and will vary by organization.

Figure 5: Assessing ease and impact of decarbonization levers



LEVER CATEGORIES

- Building Capability
- Leveraging Procurement
- Rewarding Progress
- Enforcing Performance

With new regulations in place, companies are experiencing difficulty in navigating the different requirements (both in terms of volume and complexity). There is concern that there is too much focus on process related work (e.g. reporting and data accuracy) while the deeper transformational challenges are not given enough attention.

Companies are looking to focus on easier to implement levers that simultaneously have a higher impact, seen as the 'quick wins'.

These levers mostly fall under the leveraging procurement category

(carbon reduction clauses, mandatory carbon reporting and using decarbonization criteria in procurement), with some in rewarding progress (beneficial terms).

Sharing and learning resources is also seen as an easy to implement lever that will speed up suppliers' decarbonization journeys. Moreover, this lever helps build collaboration and transparency with the supply chain so that organizations can have greater visibility of their Scope 3 emissions and are able to identify decarbonization opportunities across the value chain.

Most of the other capability building levers also fall into this easy to implement group, where impact varies and is markedly less than the procurement related levers.

Companies are currently paying less attention to the hard to implement levers, but should look ahead and start considering ways in which they can also implement levers at the bottom right of the graph since those too will have high impact in achieving net zero.

Sectoral differences

The **ease** and **impact** of levers will vary according to sector and company. Some of these differences were highlighted by member companies in the three broad areas outlined below.

Hard to abate*

(sectors such as Oil & Gas, Chemicals and Utilities)

Companies in these sectors responded that **carbon pricing** would be much harder to implement than other sectors, however it was also recognized that it would be significantly more impactful.

Members in these sectors understandably indicated that introducing carbon pricing would come later than in other sectors, although due to the potential impact it could have, it may become necessary to re-evaluate implementation timelines in regards to this lever in order to meet decarbonization targets.

Physical products

(sectors such as Automotive, Retail and Consumer)

Supplier upskilling alongside **shared learning & resources** was considered noticeably more impactful (e.g. for companies requiring product carbon data from suppliers).

Peer benchmarking was considered easier to implement due to this being more standard practice amongst companies in these sectors.

These sectors indicated that **longer term investments** and **paying for performance** will be slightly easier to implement than other sectors and be noticeably more impactful due to the importance of cash flow for many of their suppliers. This is closely tied to purchasing and holding stock, helping to overcome CapEx or OpEx related barriers to decarbonization.

Technology and Services

(sectors such as Tech and Financial Services)

One noticeable difference for this group was that **longer term investment** was seen as harder to implement and less impactful, probably due to shorter contract cycles related to the nature of these industries (e.g. one-off spend for a service or technology implementation).

All "**leveraging procurement**" measures were also seen as slightly harder to implement due to greater reliance on unique arrangements / critical suppliers and specific services.

Peer benchmarking stood out as more impactful as it can be key to differentiating service offerings in a highly competitive market.

* refers to economic sectors with relatively higher abatement costs than the rest of the economy. Due to the nature of their business model, companies in these sectors will likely find it more difficult to reach net zero targets. These include heavy industries (cement, steel, chemicals), heavy-duty transport (heavy-duty road transport, shipping, aviation), Oil & Gas and Utilities.

Member insights



The biggest challenge is measuring the impact of the incentivization efforts and their effectiveness without burdening suppliers with intense data collection.

Rebecca Bergkamp, Senior Manager - Global Supplier Sustainability



Longer-term investments may have more impact. For example, helping suppliers with electrification can have high impact if the energy source is low carbon.



Case studies



Building capability, recognizing and rewarding suppliers


AB InBev's [Eclipse](#) is a sustainability-dedicated collaboration platform that provides suppliers and partners with a number of tools to measure and track their decarbonization journey. The platform is focused on building capability across AB InBev's suppliers and connect with them in 5 areas that are essential for supply chain decarbonization: creating transparency, sharing best practices, co-investing, co-innovation and engagement. AB InBev encourages its suppliers to use the platform with their own suppliers as part of the company's ambition to achieve net zero across its value chain by 2040.

Eclipse's key areas of focus are:



- Self-Assessment: involves a maturity self-assessment where suppliers understand where they are in their decarbonization journey.
- E-Learning Hub: depending on where the suppliers are on their decarbonization journey, the platform offers different learning resources.
- Emissions Reporting and Roadmap Tool: the aim is to get granular data from emissions intensity for countries and develop a specific roadmap per supplier (Scopes 1 and 2).

Further, the platform has allowed for working groups and cross sectoral alignment (streamlining expectations), and through the Eclipse Awards, the program recognizes suppliers that perform better in the areas that are key for supply chain decarbonization.


Member insights



The most important lever to decarbonize our supply chain is actively building supplier capabilities in a maturity-based approach. Based on a supplier's current climate action maturity, we leverage best practices and expertise of partner organizations and ourselves. We are already seeing fast accelerating adoption of science-based targets.



Building climate expert capabilities internally (in procurement) and externally (suppliers), as well as moving from voluntary to mandatory climate action for suppliers, will be the game changers to accelerate the value chain decarbonization journey.



3.2 ROADMAP FOR IMPLEMENTATION

Once a company has conducted a thorough evaluation of the levers available to them, as well as assessed the ease and impact of each, it needs to map out when levers should be applied and how long they will take to implement.

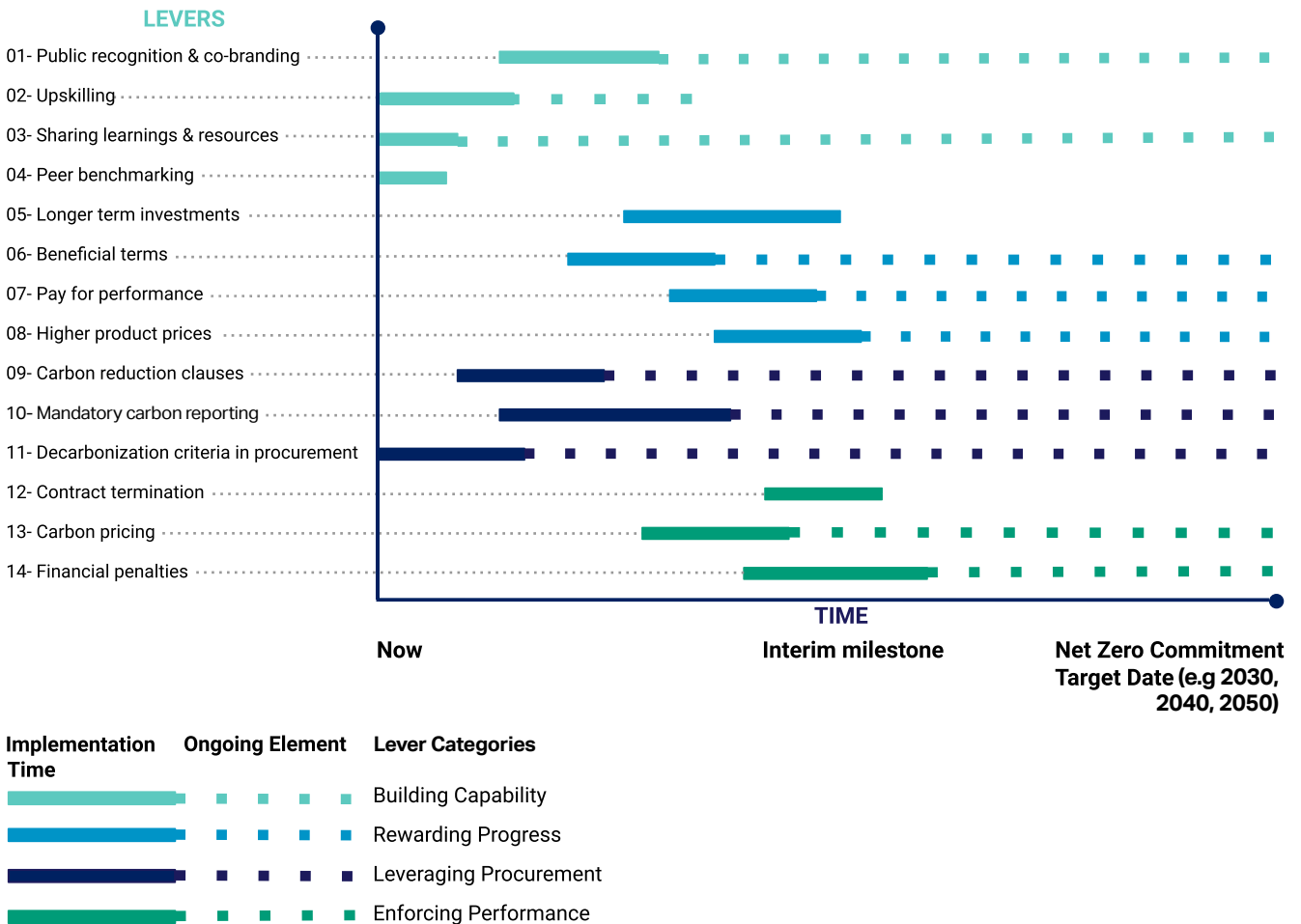
The scale of change required to decarbonize in line with Science Based Targets should not be

underestimated and implementation timelines are likely to develop over time, with greater emphasis and urgency on achieving net zero. Significant time and effort is required to organize lever implementation, including design, review and approval. This, combined with lead times for seeing impact, means an implementation roadmap needs to be started early.

Implementation roadmaps will vary by sector and company, with many levers requiring ongoing or iterative input. For most organizations there are a number of levers they should be looking to implement as soon as possible, if not already doing so (although this will depend on the net zero ambitions of any particular organization).

Figure 6: Implementation roadmap

This chart reflects the insights from twenty member companies of the Incentivizing Supply Chain Decarbonization working group. It indicates when each lever should be implemented, how long implementation is likely to take and whether ongoing input is required.



When to implement?

Quick Wins

It was recognized by a number of members that decarbonization criteria in procurement should be started early, if not already being implemented. Research into decarbonization criteria can be done easily internally and doesn't require external support and mostly requires minor tweaks to existing procurement processes to include decarbonization elements (e.g. tailoring procurement criteria to add a decarbonization clause, or adapting existing payment terms to include terms related to carbon reduction).

Peer benchmarking, as well as upskilling and resource sharing (with and between suppliers) were also identified as levers that could be implemented almost immediately. Other levers identified as "near term" were public recognition and co-branding, and carbon reduction clauses.

Critical Path Actions

Whilst it is often tempting to focus on implementing "quick wins" it is important to also make a start on many of the harder to implement and more transformational measures that will be critical to reaching net zero targets. Longer term investments are understandably tempting to delay, as technology advances and the costs start to drop. However, making longer term investments late will delay the benefits of such investments, and may cost more to implement, as well as risk missing net zero targets.

Many members acknowledged that the most important thing is to create pressure through economic incentives and there are a number of levers available for businesses to do this (beneficial terms, pay for performance, higher product prices, carbon pricing and financial penalties). The combination of

these levers, along with the order and speed at which they are introduced will be highly dependent on the unique sector, company and suppliers.

Last Resort

Financial penalties were generally considered to be a last resort and in extreme cases, where suppliers simply aren't moving fast enough, contract termination may be required. Whilst a positive, collaborative relationship with suppliers will accelerate decarbonization, companies recognize that this is not always feasible with suppliers who aren't fully engaged, or as companies are impacted by Scope 3 reporting requirements.

Sectoral differences

The **timing** at which different levers are implemented will vary according to sector, company and location. Some of these differences were highlighted by member companies.

Hard to abate

(sectors such as Oil & Gas, Chemicals and Utilities)

Companies indicated that mandatory carbon reporting will kick-in earlier relative to other levers for those in hard to abate sectors.

This is likely due to the relative ease of implementation for internal functions as well as increasing external pressure.

The regulatory landscape is changing rapidly and mandatory reporting is being adopted at a fast pace globally, driving the implementation of this lever across all sectors.

Physical products

(sectors such as Automotive, Retail and Consumer)

Supplier upskilling receives early attention due to the impact it can have for companies requiring product carbon data, and is sometimes linked to a need to upskill suppliers in life cycle assessment (LCA) and product carbon calculations.

Responses indicated public recognition & co-branding was less of a priority, and implemented later than other sectors, possibly due to the requirement for granular level product data to verify decarbonization claims in order to ensure recognition / co-branding is credible.

Technology and Services

(sectors such as Tech and Financial Services)

For some companies in these sectors, members indicated that enforcement measures were likely to be implemented earlier (e.g. financial penalties and contract termination). In particular, these sectors were most likely to consider contract termination compared to others.

Reasons for earlier implementation could be due to shorter contract timelines (linked to technology and service delivery periods), with more frequent contract renewal periods providing more flexibility to insert decarbonization clauses.

Case studies



Investing in financial initiatives to provide supplier financing by reducing payment time and linking interest rates to supplier performance

As part of IFC's solutions for sustainable supply chains, their Global Trade Supplier Finance Program (GTSF) provides short-term financing to suppliers selling to large domestic buyers or exporting to international buyers, by discounting invoices once they are approved by the buyer. The program provides cash to suppliers 2 days after participating buyer accepts invoice for payment. Since launch in 2012, the program has disbursed over US\$10.7 billion to over 2,500 suppliers, including US\$2.3 billion in FY22. GTSF's network of buyer and supplier relationships, and its capacity to assess jurisdictional risk, often too costly for private sector banks, help fill a critical void in emerging markets where local banks lack the ability to finance open account trade flows that are not secured by letters of credit or other form of collateral.

- Pricing is highly attractive to suppliers, especially smaller suppliers, because it is based on the superior credit risk of the buyer
- The interest rates can be linked to the supplier's environmental and/or social performance, effectively giving suppliers a financial incentive to improve
- Helps buyers improve social and environmental performance of suppliers through optional differentiated pricing and advisory programs



Investing in financial initiatives to provide suppliers with credit solutions

Holcim has ~ 20% of GHG emissions accounted for in Scope 3, from which ~ 70% are concentrated in three categories: transportation, fuels & energy and purchased clinker & cement. As part of their SBTi-verified 2050 net zero targets, they have introduced multiple initiatives to support suppliers to decarbonize in the longer term.

One such initiative was built within their Latin American business, covering eight countries, aiming to help decarbonize transportation in the region. ~95% of Holcim transportation activities are conducted with third party transportation companies from Europe and China. While in mature markets governments are increasingly offering financial incentives to replace diesel trucks for lower emission technologies, it is not the same case in less mature markets. Transportation companies need to rely on banking financial services, which are not easily accessible for all businesses. The regional project connects all key actors in an ecosystem to mobilize decarbonization actions. In this ecosystem, Holcim connects transportation companies with truck producers and banks with presence in Latin America, enabling financing services to be accessible for all. By having access to affordable credit solutions, suppliers can increase their growth and have access to wider resources, with a focus on upgrading their fleet to meet decarbonization goals.

Holcim has committed to reduce the emissions of their transportation activities (CO₂ per ton transported) by 24% by 2030, a target validated by the SBTi. This initiative contributes to that goal by enabling fleet optimization and decarbonization. The multi-stakeholder collaboration and engagement is a key enabler for success for this initiative.

3.3 DRIVING CHANGE INTERNALLY

Having established an implementation roadmap, responsibility needs to be established to ensure accountability and efficient execution. This is particularly important given the complex landscape of actors involved in Scope 3 across all categories of spend. The table below provides a summary of which teams are likely to be responsible for each lever and the overarching role they are likely to play.

These can vary dependent on the sector and type of business, but the below framing can be used as a framework for internal stakeholders to provide an initial idea of who needs to be involved for each lever. Generally suppliers will be on the receiving end but there are some levers which require action from suppliers. It is assumed that all actors are informed, roles beyond that are specified according to Decision Maker, Executor and Consult.

Table 2: Roles and responsibilities for implementing decarbonization levers

	Sustainability	Procurement	Operations & Supply Chain	Finance & Legal	Sales & Marketing	Suppliers
Building Capability						
Public recognition & co-branding	C	C	C	C	D E	D C
Upskilling	D	D E	D E	C		E
Sharing learning & resources	D E	C	E	C	C	D E
Peer benchmarking	C	D E	C	C		C
Rewarding Progress						
Pay for performance	D	D	E	E	C	E
Beneficial terms	E	D E	C	C		D
Higher product prices	C	D E	C	C	C	D C
Longer term investments	C	D	D E	E		C
Leveraging Procurement						
Carbon reduction clauses	E	D E	C	C		D
Decarbonization criteria in procurement	C	D E	D E	C		C E
Mandatory carbon reporting	E	D E	C	C		E
Enforcing Performance						
Carbon pricing	C	D E	E	C		D C
Financial penalties	C	D E	C	E		C
Contract termination	C	D E	D E	C	C	C

D Decision-maker - the function(s) that will determine when and how a lever is implemented.

C Consult - the key function(s) that will need to be consulted before levers can be implemented.

E Executor - the function(s) that will do the day-to-day work to implement a lever.

3.3 DRIVING CHANGE INTERNALLY

Decarbonizing rapidly enough to stay below 1.5 degrees of warming is a huge challenge and will require sustainability to be embedded across all sectors of society and all functions of an organization. Sustainability will need to be integrated into processes and everyday decision making across all business functions.

The combination of teams involved and their role for any particular lever may vary from one organization to another. However a typical structure is laid out in Table 2 and described further below.

Companies should ensure that they map key sustainability decision making and executor responsibilities across their teams, to ensure the most effective use of time and resources.

Sustainability

A sustainability team's role is to proactively conceptualize, create and implement internal strategy to meet the firm's stakeholder expectations and external commitments. This includes decarbonization programs to achieve net zero targets.

Given the varying maturity levels of suppliers' sustainability agendas, most of the capacity and capability building levers sit with sustainability. At this early stage in the implementation roadmap this may result in bottlenecks to progress.

Sustainability teams should look to **collaborate with other functions** to support them to drive forward the net zero agenda and **help embed this across all functions of their business.**

Procurement

Sustainable procurement is achieved by combining cost-reduction, quality and volumetric drivers alongside carbon-reduction objectives. This may be encouraged by sharing ambition around decarbonization, or by top down incentivization such as performance KPIs.

Procurement teams are well placed to implement supply chain decarbonization given their role in creating and executing long term supplier strategies.

Existing processes and governance, such as supplier selection, **can be leveraged and adapted** to incorporate decarbonization criteria.

Procurement teams are **often heavily involved across many levers**, and must ensure that suppliers remain engaged with the decarbonization strategy.

Operations & Supply chain

Operations and supply chain teams play an important role in implementing sustainable supply chain management, driving collaboration and transparency across supplier tiers.

Operations and supply chain teams can help achieve higher visibility of carbon emissions across the value chain, **supporting the procurement and sustainability teams in identifying and implementing decarbonization levers** and measuring and monitoring performance.

Finance & Legal

Finance and legal teams play a vital role in many decarbonization levers, particularly around enabling commercial rewards, enforcing performance and ensuring compliance.

They **work closely with procurement and sustainability, so it is important there is excellent communication and integration** among the three teams to ensure efficient processes and decision making (particularly for long term investments and contractual levers such as beneficial financial terms).

Finance also has a key role in ensuring that funds are available for sustainable investments that support initiatives around net zero transformation, as well as ensuring the organization is making the most of any grants, credits and tax incentives that may be available.

Both teams will need to stay on top of, and anticipate, a rapidly changing regulatory environment to ensure they are well equipped to manage risks and opportunities associated with sustainability.

Sales & Marketing

Sales and marketing teams should focus on the promotion of responsible products, services, and practices. Verification of these is essential to remain credible.

Marketing are uniquely placed to influence customer behaviour and public perception around net zero which can help drive the wider transformation.

Sales and marketing teams **should look to start work early on public recognition & co-branding given their core role in implementing this lever.** It improves both external reputation and internal awareness among employees which can support talent attraction and retention.

Suppliers

According to the UN Global Compact, Scope 3 emissions usually account for more than 70% of an organization's carbon footprint. **An initial focus on critical suppliers is key** to ensure the most efficient decarbonization process.

It is vital to ensure that suppliers are engaged with the decarbonization strategy in order to ensure buy-in and support.

3.4 ENABLING WIDER NET ZERO TRANSFORMATION

Additional Roles

Executive Teams

Executive teams must set the right tone from the top and ensure that net zero transformation is prioritised.

A company's decarbonization strategy should be clearly laid out and cascaded by leadership teams using open and transparent communication.

They are responsible for ensuring company structure, operational processes, capital planning and internal policies support the transition to net zero without overburdening functions and suppliers in a way that could slow down action in regards to implementation.

It is vital that all stakeholders understand why decarbonization is important, and that clear roles and targets are defined; this will improve engagement and likelihood for success.

Leadership must ensure the organization has the right mix of skills and experience to deliver on net zero plans and that change management principles are being applied, as well as consider how the organization can best engage with local and regional government to support a more transformational policy environment.

The decarbonization roadmap should be a standing item for every Sustainability Committee and Executive Committee.

Product Development

The product development team has a vital role in decarbonization by designing products that can be made from sustainable materials and processes whilst still ensuring quality and affordability.

Increasingly product development teams will have to integrate circularity into product design so that old products can be reused in the production of new ones as far as possible.

Careful consideration will need to be given to the supply chain impacts of a more circular model and organizations will need to work closely with critical suppliers to set out and work towards a shared vision.

Human Resources & Payroll

Executive teams will need to work with HR and payroll to ensure that internal reward structures support net zero alignment (e.g. pay, bonus and promotional incentives).

HR also have an important role in ensuring that employees are presented with opportunities and encouraged to upskill in sustainability, as well as helping integrate net zero into workforce culture.

Engineering

Operations engineering can include designing, testing, maintaining and repairing equipment used in production, alongside upholding the safety and internal regulations of the work environment.

Operations engineers can work with sustainability teams to **design systems that use energy and resources more sustainably**. These learnings, in many cases, can then be shared with suppliers.

IT, Data & Technology

IT, computer science, data and software engineering teams need to ensure that IT processes and systems allow for adequate data collection to support business decisions and monitor decarbonization progress across all functions of the business.

Systems should be set up to be agile where possible and ideally would integrate or ensure compatibility with supplier systems to allow for more effective collaboration.

Technology teams will likely be heavily involved in decisions around research and development, as well as how to best leverage existing technologies, and will need to consider how this can best support the transition to net zero.



Only through joint work and partnership between all stakeholders (procurement, sustainability, suppliers, etc.), in a true spirit of community by sharing, innovating, and mutually supporting each other, is it possible to be successful. The definition of a transparent roadmap, with a clear identification of the objectives, is essential so that all those involved in Scope 3 are committed to this common challenge.

4 Diving deeper



4 Diving deeper

4.1 A CLOSER LOOK AT SPECIFIC LEVERS

During a survey of WBCSD Incentivizing Supply Chain Decarbonization members carried out in early 2021, the following levers were identified as the most valuable topics to focus on in our series of working sessions;

1. [Decarbonization criteria in procurement](#)
2. [Beneficial terms](#)
3. [Longer term investments](#)
4. [Mandatory carbon reporting](#)
5. [Public recognition & co-branding](#)
6. [Engagement beyond tier 1](#)

Over the year, we have unpicked why and how you would implement each and published summary reports that outline practical steps to put these into action.

These deep-dives focus on how organizations can embed decarbonization expectations into existing procurement processes, invest in initiatives that support supplier emission reduction plans, as well as offer non-financial incentives that increase visibility of suppliers.

“Engagement beyond tier 1” is a cross cutting theme, rather than a unique lever, as all levers could be applied to multiple tiers of the supply chain.

Follow the links for a deeper dive into each of these levers for supply chain decarbonization.

Figure 7: Publications from the WBCSD Incentivizing Supply Chain Decarbonization working sessions



[Incentivizing supply chain decarbonization using procurement criteria](#)



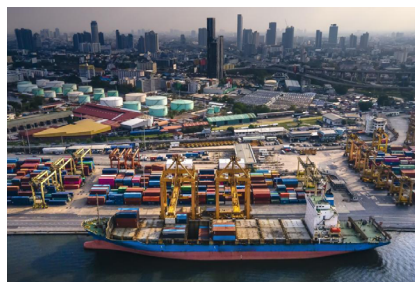
[Incentivizing supply chain decarbonization through longer-term investments](#)



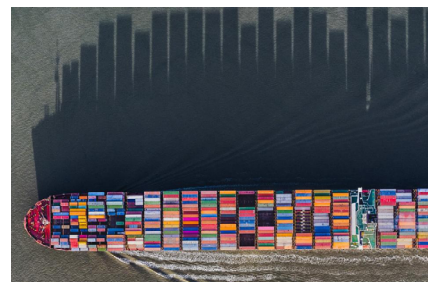
[Incentivizing supply chain decarbonization through public recognition and co-branding](#)



[Incentivizing supply chain decarbonization through beneficial financial terms](#)



[Incentivizing supply chain decarbonization by mandating carbon reporting](#)



[Incentivizing supply chain decarbonization by engaging with suppliers beyond tier 1](#)

Appendix

Table 3: Definitions of supply chain decarbonization levers

Building Capability	Lever Description
Public recognition & co-branding	Offering public exposure as a reward for suppliers that have met certain emissions reduction targets.
Upskilling	Organizations can invest in upskilling suppliers' capabilities for supply chain decarbonization.
Sharing learning & resources	Buyers can share carbon reduction learnings with suppliers, so that they can benefit from existing R&D. This is alongside suppliers sharing learnings and resources with other suppliers (where open collaboration can be encouraged).
Peer benchmarking	By collating carbon emissions-related information across the supply chain, organizations can show suppliers how they perform in relation to their peers.
Rewarding Progress	
Pay for performance	Organizations can work with suppliers to establish certain reduction thresholds, which would trigger financial rewards when reached.
Beneficial terms	Organizations can offer suppliers preferential payment terms or financing rates based on carbon reduction targets, disclosure and progress.
Higher product prices	Buyers can incentivize change through accepting a premium for alternative products and services that offer lower carbon emissions when compared to competitors or existing offerings.
Longer term investments	Investing in initiatives that support suppliers to decarbonize in the longer term provides financial support and reassurances, and helps build trusted buyer-supplier relationships, given extended longevity.
Leveraging Procurement	
Carbon reduction clauses	Organizations can include clauses that translate carbon reporting requirements and targets into specific performance management criteria, against which the supplier is formally assessed.
Decarbonization criteria in procurement	In the pre-tender phase, organizations can introduce core selection criteria that assess suppliers against their commitment to reducing carbon emissions.
Mandatory carbon reporting	Encouraging or mandating reporting on carbon emissions within the supply chain.
Enforcing Performance	
Carbon pricing	Carbon pricing directly applies a cost to carbon emissions. This shifts the accountability for emissions towards the suppliers.
Financial penalties	Related to the lever of carbon reduction clauses, organizations can include the prospect of financial penalties if these agreed targets or milestones are not met.
Contract termination	If suppliers do not meet the decarbonization requirements written into their contract, a buyer can reserve the right to terminate the agreement.

ACKNOWLEDGEMENTS

Lead Authors

- Rebecca Osmaston, Sustainability, PwC UK
- Annabel Kalmar, Sustainability, PwC UK
- Patrick Marter, Partner, Procurement, PwC UK
- Barry Middleton, Partner, Operations Transformation, PwC UK
- Dan Dowling, Partner, Sustainability, PwC UK
- Latifa Kapadia, Head of Corporate Sustainability, PwC UK
- Hannah Loake, Senior Manager, Climate Action, WBCSD

Contributors

PwC UK:

- Rowan Lipscombe
- Cassidy Roussel
- Felicity Lofthouse
- Oliver Strong
- Jocelyn Barker
- Ana Canto Mira

WBCSD:

- Inês Amorin

Member company contributors

- AB InBev
- Arcadis
- ArcelorMittal
- Bayer
- Chevron Corporation
- Colgate-Palmolive
- Dow
- DuPont
- Eaton
- EcoVadis
- EDP
- Hitachi Ltd
- IBM
- National Grid Plc
- Philips
- Procter & Gamble
- Siemens
- Takeda
- Unilever

Contributing Members of the WBCSD group on Incentivizing Supply Chain Decarbonization



DISCLAIMER

This paper is released by WBCSD, which is responsible for final conclusions and recommendations. Like other WBCSD-authored papers, it incorporates contributions from WBCSD staff and experts from member companies. PwC, the global management consulting firm, provided analytical insights and support to the efforts of the SOS 1.5 Incentivizing Supply Chain Decarbonization working group. 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Use of member company logos indicates participation and assistance in developing this guidance document and does not imply endorsement of all concepts presented or a commitment to apply the guidance.

ABOUT WBCSD

WBCSD is the premier global, CEO-led community of over 200 of the world's leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

We do this by engaging executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature and inequality sustainability challenge; by co-developing "how-to" CEO-guides from these insights; by providing science-based target guidance including standards and protocols; and by developing tools and platforms to help leading businesses in sustainability drive integrated actions to tackle climate, nature and inequality challenges across sectors and geographical regions.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD \$8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability, united by our vision of a world where 9+ billion people are living well, within planetary boundaries, by mid-century.

www.wbcd.org

Follow us on [Twitter](#) and [LinkedIn](#)

Copyright © WBCSD,

November 2022.

**World Business Council
for Sustainable Development**

Geneva, Amsterdam, Beijing, New Delhi, London, New
York City, Singapore

www.wbcsd.org

