

The greening of corporate real estate: Integrating sustainability into procurement strategy



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Introduction

Recent years have seen corporate real estate occupiers make great strides towards integrating sustainability into their supply chains, particularly in the area of procurement.

This phenomenon is being driven by a range of factors including the adoption of corporate social responsibility practices and standards; growing stakeholder pressure; company image and reputation risk; and the increasing scarcity of natural resources.

The current evolution of supply chains from linear models to next-generation ecosystems is also resulting in the greater alignment of businesses goals with environmental and social objectives.¹

In addition, the increasing complexity of supply chains and growing pressure from global and regional geopolitical and environmental challenges demand that companies build closer relationships with their supplier base to mitigate sourcing risks.

This ViewPoint by CBRE tracks growth in sustainable sourcing and explains how corporate real estate occupiers can integrate sustainability into procurement processes and strategy.

¹ Next-Generation Supply Chains: Shaping a New Era of Industrial and Logistics Real Estate, CBRE Research, 2018

What is sustainable sourcing?

Procurement for corporate real estate occupiers involves sourcing a considerable volume and range of materials including basic office supplies, furniture, sanitation consumables, electronics and Fast Moving Consumer Goods (FMCG).

Sustainable sourcing involves the integration of corporate social responsibility standards into procurement processes and decisions, while ensuring support for business requirements. The four main areas of sustainable sourcing are financial, environmental, social and governance.

Financial

Auditing suppliers’ financial performance is an important component of procurement strategy as instability could negatively impact product quality and potentially disrupt supplies. Conducting a financial appraisal of a supplier normally involves auditing its financial statements, capital flows, cash positions, debts, equity, and related party transactions.

Environmental

Reducing Greenhouse Gas (GHG) emissions, water and waste is a key objective of sustainable sourcing. The GHG Protocol, a global organisation that sets measuring standards, defines direct GHG emissions as emissions from sources that are owned or controlled by the company, and indirect GHG emissions as emissions that are a consequence of the activities of the company but occur at the sources owned or controlled by another entity.² Indirect emissions are further categorised into two scopes: energy indirect and other indirect (Table 1).

Table 1: Overview of GHG protocol scopes and emissions across the supply chain

Scope 1: Direct	Scope 2: Energy Indirect	Scope 3: Other Indirect
GHG emissions from sources that are owned or controlled by the company.	GHG resulting from the generation of electricity, steam or heat purchased by the company.	GHG emissions from sources not owned or direct controlled by a company but related to the company’s activities.
<ul style="list-style-type: none"> • Company facilities • Company vehicles 	<ul style="list-style-type: none"> • Purchasing electricity, steam, heating & cooling for own use 	<ul style="list-style-type: none"> • Transport energy • Waste from operations • Business travel • Water • Sourcing (Purchasing office supplies, services and capital goods)

Source: GHG Protocol, 2011

² Greenhouse Gas Protocol, 2011

Most corporate real estate occupiers’ GHG emissions and related cost reduction opportunities relate to their supply chain partners. By measuring Scope 3 emissions, companies can assess where emission hotspots are in the supply chain; identify resource and energy risks in the supply chain; identify which suppliers are leaders or laggards in terms of sustainability performance; identify energy efficiency and cost reduction opportunities; and engage with suppliers and assist them to implement sustainability initiatives.

Social

Sustainable sourcing also relates to social issues such as human rights, equality and international labour standards. Examples include prohibiting the use of child and bonded labour and investing in community development programmes.

Governance

Corporate governance focuses on the rights and responsibilities of the company, covering its management, shareholders and various stakeholders. Companies need to ensure that anti-bribery and anti-corruption policies are in place among their suppliers and regulate the provision of gifts, or anything of value directly or indirectly, to government officials and private third parties.

Explaining the sustainable sourcing process

CBRE’s sustainable sourcing process model is divided into four main stages (Figure 1). Stages 1 and 4 are relatively straightforward but Stages 2 and 3 require additional explanation.

Figure 1: Sustainable sourcing process



Source: CBRE Research, March 2019

Stage 2: Online Portal

CBRE has developed a standalone Online Portal which requires vendors to provide three years of financial statements and enter financial data points to predict the likelihood of them entering bankruptcy within two years (utilising the Altman-Z Score) as a minimum. It can also consider scores from external financial assessment providers.

The Online Portal provides pre-qualification and screening of suppliers which can be provided by integrated technology to Procure to Pay or Finance applications or as a stand-alone platform. Third party service providers for screening (Refinitiv WorldCheck), HSE (Avetta, GRMS, Achilles, ISNetwork), sustainability (EcoVadis) and finance (Experian, D&B) can provide additional assessments.

The Online Portal requires vendors to answer several Yes/No questions relating to a short sustainable assessment covering areas such as labour, codes of conduct, bribery and corruption, and environment. Companies with higher scores are considered to have better internal processes and monitoring and therefore lower operational and reputational risk.³

Data from CBRE's sustainability assessment show that preferred and strategic vendors in Greater China and the Pacific rank the highest in Asia Pacific in terms of their sustainability practices. Over 80% of respondents in these two regions have already established codes of conduct that adhere to basic social, economic and environmental guidelines.

Areas for improvement include the measurement and reduction of GHG emissions. Less than 25% of vendors in Asia Pacific have programmes in place to evaluate corporate GHG emissions, which essentially prevents them from setting corresponding reduction targets.

Stage 3: Supplier Management & Assessments

Supplier management and assessments involves regular site visits and field assessments to ensure suppliers adhere to clients' codes of conduct and local laws.

Many large corporate real estate occupiers provide ongoing support to suppliers seeking to improve their sustainability performance. Measures may include advising senior management on corporate governance reviews; suggesting green equipment and devices; benchmarking green standards; and providing recommendations on compliance with labour and social standards.

³ The Impact of Corporate Sustainability on Organisational Processes and Performance, R.G. Eccles, I. Ioannou & G. Serafeim, 2014

Implementing sustainability into procurement strategy

Several corporate real estate occupiers in Asia Pacific have already made significant progress towards integrating sustainability into their procurement strategy to balance economic gains with social and environmental pursuits.

Leading examples include a global financial institution, whose initiatives include introducing business-viable sustainable supply chain solutions to clients; helping factories adopt sustainability practices; and partnering with NGOs, industry bodies and customers to increase demand for materials certified and sustainable sources. The company will also require suppliers of risky products and services perform self-assessments by 2020.

Elsewhere, an international tech giant has been engaging with its suppliers to support sustainability procurement initiatives. Example includes encouraging major suppliers to switch to renewable energy and initiatives to help suppliers to reduce GHG emissions.

The same company has also provided labour rights training to suppliers' employees and launched health programmes for suppliers' female staff.

Examples in the real estate sector include Prologis, which has worked alongside Avetta to ensure suppliers meet requirements including insurance coverage, safety programmes, financial stability, quality systems, terms and conditions, sustainability, supplier codes of conduct and regulatory compliance.⁴

Conclusion – An integrated sustainability procurement strategy for corporate real estate occupiers

The coming years will see corporate real estate occupiers accelerate the integration of sustainability into their supplier network. This will involve significant collaboration and transparency with supply chain partners and may require specialised services provided by external providers.

CBRE believes that the complexity of supply chains and increasing need for flexibility requires an integrated sustainability sourcing strategy.

Benchmarking and market analysis should be conducted to understand where corporate real estate occupiers are positioned in relation to their peers, followed by stakeholder engagement programmes utilising internationally recognised standards to determine issues of importance for the development of sustainability strategy.

⁴ Sustainability Report, Prologis, 2017

Tools from third party service providers including Avetta and Refinitiv World-Check can dovetail with benchmarking and stakeholder engagement results to inform and develop a sustainability strategy that includes a clear implementation plan.

This plan should include a framework that establishes meaningful sustainability performance goals and roadmaps to ensure targets are met within the given timeframes. This stage of the process may also involve customising sustainability policies and practices to suit the individual organisation.

Other key elements include employee training, which should be designed to generate awareness among staff and ensure they understand, engage and buy into the company's sustainability goals.

Finally, bringing all of these components together into a digital platform and using a sustainability lens to improve vendor risk management through increased compliance and efficiencies can create a robust foundation.

Corporate real estate occupiers considering integrating sustainability into procurement strategy are advised to consult experienced third party providers capable of providing an entire suite of services.

These services should include sustainability strategy solutions based on best practice guides (engagement, policies, benchmarking, tools, training, frameworks, and scorecards); measurement and reporting; green building services including energy audits and building certification; and dedicated specialist energy staff.

CBRE believes this approach can help occupiers move beyond routine supplier code of conduct compliance and audits to developing a closer and more fruitful relationship with vendors interested in improving their sustainability programmes, to the benefit of all parties.

CBRE GLOBAL RESEARCH

This report was prepared by the CBRE Asia Pacific research team which forms part of CBRE Global Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate.

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