

Sustainable Procurement

Martin KENNARD, United Kingdom

Key words: Sustainable Procurement, Supply Chain, Corporate Social Responsibility

SUMMARY

Sustainable Procurement is the process whereby economic development, social development and environmental protection are balanced against business needs.

The benefits to your organisation in adopting a sustainable procurement policy will be to:

- Control costs by adopting a wider approach to whole life costing.
- Improve internal and external standards through Performance Assessments.
- Comply with environmental and social legislation.
- Manage risk and reputation.
- Build a sustainable supply chain for the future.
- Involve the local business community.

Lack of understanding of sustainability within businesses, coupled with poor training and accountability are significant barriers to building supplier capacity.

Project budgets supporting a business case built upon sustainable procurement must be split between the management of capital and revenue spending based on a plan that is environmentally friendly.

Greater consideration must be given to bid evaluation criteria so that they support sustainable methods of construction. The age old fixation of lowest price must go in favour of a whole life solution. The public sector must lead by example.

Ethical core values should be embedded in contractors' policies and procedures. Transparency in such policies is vital to support the ability to demonstrate that the policies have been followed. These policies should include protection of the environment, protection against corruption, respect for people and a zero accident tolerance in health and safety issues. Bid lists should include small and micro businesses to create local supply chains. Suppliers that perform well must be developed and remain in the supply chain

To succeed with sustainable procurement we need to ensure that there are drivers outside of the public sector and to encourage greater private sector and contractor/supplier driven initiatives.

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1. WHAT IS SUSTAINABLE PROCUREMENT

If you do a search on Google, the answer to the question is extensive and varied, depending upon where your priorities rest. I believe, however, that its fundamental aim is to secure the future.

It is the process whereby economic development, social development and environmental protection are balanced against business needs, taking into account the:

- entire life cycle cost of the product. We need to get away from the cheap throw away society. You only need to look at the number of electrical/electronic commodities which you possess where the cost of repair makes it easier to replace and take up landfill space.
- quality required by the specification, bearing in mind the sustainable issue. These need to be both client driven and through the ethical procurement values of the suppliers.
- availability of the product.
- functionality of the product in the environment to which it is to be applied.
- effect the product will have on the environment when in service. We need to reduce the impact of our actions on future generations by radically reducing our use of resources and by reducing environmental impacts.
- labour conditions of the producer and the human rights of the workforce. We should have regard for others who do not have access to the same level of resources and wealth generation.
- use of sustainable or recycled materials and/or products.
- reduction of waste. This not only helps to minimise the use of valuable resources, but also drives better business economics.

2. THE BENEFITS OF SUSTAINABLE PROCUREMENT

By example the UK Government spends approximately £150 billion per annum (13% of GDP) across a range of sectors. It employs 6 million people, consumes 7,000 Gigawatt hours of electricity, 1,000 million gallons of water, £3 billion of food and spends £4.5 billion on waste handling.

Governments have immense buying power and must take a lead in sustainable procurement in a manner that some areas of the private sector are already doing, through enlightened leadership and shareholder pressure.

In the UK, government driven construction accounts for over £22 billion of the spend, a figure that is more than matched by private and commercial output. Therefore our industry has a significant potential to affect the use of sustainable resources.

2.1 The main benefits

In committing to a sustainable procurement policy the benefits to your organisation will be to:

- Control costs by adopting a wider approach to whole life costing.
- Improve internal and external standards through Performance Assessments.
- Comply with environmental and social legislation.
- Manage risk and reputation.
- Build a sustainable supply chain for the future.
- Involve the local business community.

2.2 The Control of costs through whole life costing

Whole life costing is a key tool in obtaining best value. By example energy efficient products often have an increased capital cost that is more than offset by reduced operating costs.

The procurement process starts with the definition of what is needed and in doing so evaluating the options. In essence it is setting the business plan for the product. In some UK public procurement circles this process is driven by the strictures of the “Gateway” process sponsored by the Office of Government Commerce and the Prime Contracting regime operated by the Defence Estates. The design is developed and the product specified to achieve a business plan that is based on environmentally friendly and sustainable methods. Suppliers are chosen for their ability to provide the product by obtaining resources through an ethically and environmentally sound agenda. Post contract management ensures that suppliers that perform well will be developed and remain in the supply chain.

Conclusions drawn from many good practice exemplars in sustainable procurement demonstrate that on a whole life costing assessment, there can be significant savings as well as environmental and social gains.

The method of assessment analyses the whole life cost of assets, supplies or services, not only the cost at the point of acquisition. The approach is complex and analyses all elements of cost from design to operation and on through to disposal/recycling. When considered in this manner, many items that look expensive initially can save costs as they are assessed throughout their lifecycle. Such examples can be found ranging from energy efficient light bulbs to efficient and sustainable buildings.

2.3 Compliance with Environmental Legislation

This must apply right across any project, from the original concept, to its development through the design stage, to the procurement processes which produce the resources to bring the project into being. The product will be subject to the legislation in the country of origin

as well as that governing the project. Where a county's legislation is lacking in these areas, a responsible contractor or supplier should be one that can apply its own ethical operating code.

2.4 Management of Risk and to Reputation

An ethical policy implementing sustainable procurement means changing policies and procedures. To be successful it is essential that management throughout the business fully support such a policy. This will lead to an evaluation of present purchasing policies and practices, together with a clarification of what is purchased and in what quantities. The evaluation will provide a baseline against which to measure future success and will focus the development of sustainable procurement goals. This process will re-evaluate the stability of the supply chain and ensure that you build a reputation for conducting an ethical sustainable procurement regime amongst your peer groups.

2.5 Securing Future Sustainable Supplies

Building a supply chain based on sustainable procurement from the bottom up will also assist in the development of those suppliers in producing a sustainable product that will be followed by their competition, so broadening the availability base and future supplies.

3. REMOVING BARRIERS TO SUSTAINABLE PROCUREMENT

3.1 Lowest Price

Greater consideration must be given to bid evaluation criteria so that they support sustainable methods of construction. The age old fixation of lowest price must go in favour of a whole life solution. The public sector must lead by example and if appropriate legislate in favour of tendering under the mantle of sustainable procurement. Some sophisticated purchasers, both public and private are developing assessment criteria which minimises price as the prime criteria in their search for what the EU Procurement Directives describe as "the most economically advantageous tender".

3.2 Leadership

There is often a lack of leadership and commitment to sustainable procurement, with confusion as to ownership. Both government and private sector clients often send out mixed messages to subcontractors and suppliers as to the value of the sustainable offer. Invitations to tender must make it clear that the criteria for selecting the successful bidder will be based upon providing long-term value for money and therefore sustainability. Project and construction managers should be held accountable for failure to meet the required standards.

3.3 Setting Priorities

Sustainable procurement initiatives are all too often frustrated by a lack of clarity in priorities. This is often exacerbated by the overload of guidance given and an attempt to

promote a “one size fits all” approach. On the other hand, where practicable, buying across projects can produce good economic benefits.

It is important that bid documents clearly state the sustainable procurement policy covering environmental, social, ethical and economic factors. Companies and governments should have a readily available guide to such policies.

3.4 Improving the Supply Chain

Scarcity of good product and service information from the supply chain can make it difficult to set clear priorities, standards and targets. Subcontractors and suppliers must also realise that the standards will be enforced.

Large private sector and government clients also need to signal to the industry future market trends. In this way they will help to manage the supply chain risk.

Part of building and maintaining a supply chain is the creation of a knowledge base for products and services both local and internationally so that compliance with sustainability standards can be quickly recognised.

An important part of the sustainability debate is the awareness of social values.

3.5 Building Capacity

Lack of understanding of sustainability, coupled with poor training and accountability are significant barriers to building capacity. This is not assisted by a suspicion from procurers as to the benefits and merits of sustainable procurement, a position that is not helped by the difficulties in calculating the intangible benefits arising from a whole life costing. All procurers must improve their knowledge base and capacity to enable staff to be trained in making informed spending decisions, coupled to systems like the UK OGC “Gateway” process.

3.6 Removing Barriers

Project budgets supporting the business case must be constructed with appropriate splits between management of capital and revenue spending on the basis of supporting sustainable procurement. Rules must be applied on the basis of whole life costing by focussing on long term benefits at the expense of short term savings.

3.7 Opportunities

Businesses can stimulate innovation while adopting smarter engagement with the market. Businesses should strive to exceed “best practice” management of their supply chains. They should promote innovative solutions and both public and private sector clients together with their technical advisers should be open to such solutions. If such solutions produce savings

for the client, they should be willing to enter into sharing arrangements against those savings to stimulate future opportunities. All levels of the market from the client, through the contractor to the lower tiers of the supply chain must be encouraged to work together on joint improvement programmes.

4. DRIVERS FOR SUSTAINABLE PROCUREMENT

4.1 Commitment

- To building effective policies to make you organisation aware of the sustainable procurement strategy
- To training and guidance through your own organisation and those of your supplier/subcontractor supply chain.
- To developing links to other organisations and peer groups to learn from their experiences.
- Engaging in purchasing consortia where relevant.

4.2 Educating Clients and Suppliers

- Driven by voluntary codes or legislation.
- Environmental Impact Studies translated into the end product.
- Recognised environmental and social performance standards.
- Current or evolving environmental legislation and standards.
- Stakeholder Requirements.
- Bidders explaining their sustainable procurement policy.

4.3 Supply Chain Management

Ethical core values should be embedded in contractors' policies and procedures. Transparency in such policies is vital to support the ability to demonstrate that the policies have been followed. These policies should include protection of the environment, protection against corruption, respect for people and a zero accident tolerance in health and safety issues. Bid lists should include small and micro businesses to create local supply chains.

This can be driven through assurance programmes through all tiers of the supply chain and through the prequalification criteria. Having established a sustainable supply chain it is important to continue to measure the standard of performance and carry out regular audits.

The expectation of performance from the lower tiers in terms of ethics and sustainability must be clearly identified and the risk of them failing to comply assessed in terms of capacity, experience, financial stability, technical qualifications and their systems and attitude in respect of health and safety.

4.4 Supply Chain Enhancement

Contractors should instigate mentor-protégé programmes to coach their supply chain in their sustainable requirements. This method can also define small and micro business opportunities. Through the appointment of a small business specialist the local business community, adjacent to a project can also be addressed. Supplier forums and industry days should also be instigated.

All this sets the stage for an ongoing partnership with the supply chain.

5. THE WAY FORWARD ON SUSTAINABLE PROCUREMENT

To succeed with sustainable procurement we need to ensure that there are drivers outside of the public sector. We need to encourage greater private, contractor and supplier driven initiatives.

Most governments in the developed world have signed up to sustainable principles. Outside of those areas of influence, international regulatory and financial institutions make environmental and sustainable policies a corner stone of providing assistance. Such governments need to enforce the dictates of those policies internally and not just through socially conscious organisations and international contracting operators. A higher scoring for such environmentally friendly bids would discourage the cheapest option of lowest bid wins, which would not necessarily support a sustainable approach.

The public sector needs to lead and persuade other sectors of industry into self regulation and keep enforced regulatory frameworks to a minimum.

The UK Government set up a Sustainable Procurement Task Force which identified a need to help both the public and private sectors towards establishing, at a process level, methods of improving procurement practices to make sustainable procurement happen.

They identified five key themes:

- People
- Policy
- Strategy and Communications
- Procurement Process
- Engaging Suppliers and Measurement and Results

as the key behavioural and operational change programmes to be addressed to deliver sustainable procurement.

The framework proposed below, by that Task Force, is commended to all those establishing a sustainable procurement regime in their business.

	Foundation Level 1	Embedded Level 2	Practice Level 3	Enhance Level 4	Lead Level 5
People	Sustainable procurement champion identified. Key procurement staff received basic training. Sustainable procurement forms part of key employee induction	All procurement staff have received basic training in sustainable procurement principles. Key staff have received advanced training on sustainable procurement principles.	Targeted refresher training on latest sustainable procurement principles. Performance objectives and appraisal include sustainable procurement factors. Simple incentive programme in place.	Sustainable procurement included in competencies and selection criteria. Sustainable procurement is included as part of employee induction programme.	Achievements are publicised and used to attract procurement professionals. Internal and external awards are received for achievements. Focus is on benefits achieved. Good practice shared with other organisations.
Policy, Strategy, Communication	Agree overarching sustainability objectives. Simple sustainable procurement policy in place endorsed by CEO. Communicate to staff and key suppliers.	Review and enhance sustainable procurement policy, in particular consider supplier engagement. Ensure it is part of a wider Sustainable Development strategy. Communicate to staff, suppliers and key stakeholders.	Augment the sustainable procurement policy into a strategy covering risk, process integration, marketing, supplier engagement, measurement and a review process. Strategy endorsed by CEO.	Review and enhance the sustainable procurement strategy, in particular recognising the potential of new technologies. Try to link strategy to Environmental Management Systems and include in overall corporate strategy.	Strategy is: reviewed regularly, externally scrutinised and directly linked to organisations' Environmental Management Systems. The Sustainable Procurement strategy recognised by political leaders, is communicated widely. A detailed review is undertaken to determine future priorities and a new strategy IS produced beyond this framework.
Procurement Process	Expenditure analysis undertaken and key sustainability impacts identified. Key contracts start to include general sustainability criteria. Contracts awarded on the value-for-money, not low price. Procurers adopt Quick Wins.	Detailed expenditure analysis undertaken, key sustainability risks assessed and used for prioritisation. Sustainability is considered at an early stage in the procurement process of most contracts. Whole-life-cost analysis adopted.	All contracts are assessed for general sustainability risks and management actions identified. Risks managed throughout all stages of the procurement process. Targets to improve sustainability are agreed with key suppliers.	Detailed sustainability risks assessed for high impact contracts. Project/contract sustainability governance is in place. A life-cycle approach to cost/impact assessment is applied.	Life-cycle analysis has been undertaken for key commodity areas. Sustainability Key Performance Indicators agreed with key suppliers. Progress is rewarded or penalised based on performance. Barriers to sustainable procurement have been removed. Best practice shared with other organisations.

	Foundation Level 1	Embedded Level 2	Practice Level 3	Enhance Level 4	Lead Level 5
Engaging Suppliers	Key supplier spend analysis undertaken and high sustainability impact suppliers identified. Key suppliers targeted for engagement and views on procurement policy sought.	Detailed supplier spend analysis undertaken. General programme of supplier engagement initiated, with senior manager involvement.	Targeted supplier engagement programme in place, promoting continual sustainability improvement. Two way communications between procurer and supplier exists with incentives. Supply chains for key spend areas have been mapped.	Key suppliers targeted for intensive development. Sustainability audits and supply chain improvement programmes in place. Achievements are formally recorded. CEO involved in the supplier engagement programme.	Suppliers recognised as essential to delivery of organisations' sustainable procurement strategy. CEO engages with suppliers. Best practice shared With other/peer organisations. Suppliers recognise they must continually improve their sustainability profile to keep the clients business.
Measurements & Results	Key sustainability impacts of procurement activity have been identified.	Detailed appraisal of the sustainability impacts of the procurement activity has been undertaken. Measures implemented to manage the identified high risk impact areas.	Sustainability measures refined from general departmental measures to include individual procurers and are linked to development objectives.	Measures are integrated into a balanced score card approach reflecting both input and output. Comparison is made with peer organisations. Benefit statements have been produced.	Measures used to drive organisational sustainable development strategy direction. Progress formally bench marked with peer organisations. Benefits from sustainable procurement are clearly evidenced. Independent audit reports available in the public domain.

REFERENCES

UK - Office of Government Commerce - <http://www.ogc.gov.uk/>
Gateway Reviews - <http://www.ogc.gov.uk/index.asp?id=377>
Defence Estates - http://www.defence-estates.mod.uk/major_projects/index.htm
Sustainable Procurement Task Force - Securing the Future – <http://www.sustainable-development.gov.uk/publications/procurement-action-plan/documents/full-document.pdf>

BIOGRAPHICAL NOTES

Current Position: Project Director Bechtel

Professional Qualifications: Fellow – Institution of Civil Engineering Surveyors
Fellow – Institution of Civil Engineers

Significant Accomplishments:

- Negotiation of multi billion dollar concession and construction contracts.
- Formation and management of a quoted facilities management business.
- Formation and management of a mixed design, construction and facilities management major business.
- Leading major dispute resolution teams.
- Third party mediation
- Commercial management of major infrastructure projects.
- Commercial management of major mixed use developments
- Project Management of social housing schemes

CONTACTS

Martin Kennard
Institution of Civil Engineering Surveyors
Dominion House
Sibson Road
Sale
Cheshire
UNITED KINGDOM
Tel. +44 7769 740451
Fax + 44 1737 357301
Email: mrkennar@bechtel.com