

Balancing commercial and sustainability issues

purpose: Are these issues mutually exclusive?

Introduction

The purpose of this paper is to debate whether or not these issues are mutually exclusive, or if there is actual conflict.

Definitions

The definition of 'sustainable' in the English Oxford Dictionary is "Ecology, especially of development which conserves an ecological balance by avoiding depletion of natural resources", or secondly "that can be sustained".

CIPS defines sustainable procurement as "A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment". Sustainable procurement taskforce¹.

The following footnote qualifies the definition and states:

"Sustainable procurement should consider the environmental, social and economic consequences of: design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these consequences throughout the supply chain."

(For more information on CIPS views on sustainability refer to the "Knowledge summary on Sustainable procurement" at www.cips.org)

Running a commercial business could appear to conflict with the above as commercial is defined in business terms as "generating profit as a primary aim". The definition of sustainability could appear to erode the profit to achieve its purpose, as described in the above definition. There appear to be areas for a business to consider with regard to balancing sustainability and commercial issues.

Firstly, there are the environmental, social and economic requirements of the law to consider. For example, as a minimum a purchasing organisation would be expected to source from suppliers meeting the law of the country of production, as well as enable the achievement of minimum internally agreed labour standards, as set out by the International Labour Organisation. Ignoring the law can result in costly fines, such as the fine to BP in 2007 for environmental crimes and committing fraud. (ref: <http://news.bbc.co.uk/1/hi/business/7062669.stm>)

Secondly, it is a reality of the current business environment that we have to take serious account of sustainability and the broader issues such as Corporate

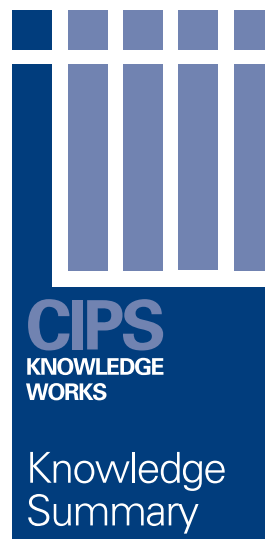
Social Responsibility (CSR) of which sustainability is just one part. Not doing so is a risk in itself which could result in damaged reputation, loss of market share, and so on. It is for the purchasing organisation to select and develop the social, labour and environmental standards they expect of their supply base. These are often above and beyond the minimum required standards agreed, in order to minimise potential risks and enhance their reputation. The London living wage is an example of what companies can offer above a minimum standard.

Increasing external scrutiny, investor and consumer awareness and pressure on organisations to behave in an ethical and sustainable way are all encouraging organisations to act above the minimum standards. A powerful example of the long term damage to reputation that ignoring this aspect of business, is what happened to NIKE when it was revealed to consumers that, further down the supply chain, child workers in Asia making NIKE footballs were working in horrendous conditions (ref: <http://www.american.edu/TED/nike.htm>). It resulted in mass marches and demonstrations outside NIKE stores in the US resulting in a damaged reputation a slump in sales and a considerable loss of market share. Although this was initially an ethical sourcing issue, in the longer term NIKE has had to question its sustainability of supply. Acting responsibly by taking full account of social, economic as well as environmental considerations is now firmly centre stage.

Thirdly, there are relatively quick win things that an organisation can do which make commercial sense and have positive environmental consequences. An example may be to be an organisational decision to turn off lights and not leave them on stand by overnight and at weekends.

In economic terms it is far better for a country as a whole to adjust and act as soon as possible to become more sustainable and take into account environmental and CSR issues, rather than to wait and have to deal with them further down the line (Ref: Stern Review). There are already increases in tax on landfill waste, fuel, disposables, and over time there will be increasing pressure to raise taxes as time goes on. So will the fines imposed on companies for abusing the evolving laws relating to environmental and CSR issues.

Further imperatives for achieving sustainable procurement exist in the public sector where there are targets to reach both in local government action plans as well as at national level. Trading relationships and the behaviour of buying organisations influence the flow and allocation of economic resources and have a very significant impact, whether direct or indirect, on poverty, social and environmental conditions and the development of country economies.



¹ CIPS were a contributor working on the sustainability definition with the Sustainable Procurement Task Force

Balancing commercial and sustainability issues purpose: Are these issues mutually exclusive?

CIPS
KNOWLEDGE
WORKS

Knowledge
Summary

Major world events such as globalisation and outsourcing have had a considerable impact on sustainability issues which in turn will impact procurement. Globalisation, outsourcing and so on, all have an impact on risks, and have made supply chains much more complex. Events can happen that you may not be aware of because they are so far away so everything becomes more complex. Not only are companies separated geographically, but also economically, legally, culturally and politically. This can all impact on the opacity in the supply chain, making it difficult for sustainability issues and risks to be identified down the chain.

Organisations have to balance the potentially conflicting issues of short-term profitability and long-term sustainability. An organisation needs to prioritise what it cares about, what its objectives and key drivers are, and how these can be achieved and strengthened to achieve the most sustainable outcome, whilst maximising profit potential. How can priorities be joined up to find an opportunity to do things differently?

To quote Sir Neville Simms (Chairman for the Sustainable procurement taskforce): 'Future generations will neither excuse nor forgive us for ignoring the signals we see today. They will not accept that it is too difficult or too costly to keep our economic aspirations in balance with the impact on the environment and the effect our decisions will inevitably have on society'

Aims

The aim of this document is to provide guidance to purchasing professionals in dealing with sustainable issues impacting on purchasing activities and to provide an understanding of what appear to be the conflicting demands of the sustainability agenda. Once an organisation has defined its sustainable objectives, it should then encourage "joined-up" organisational thinking strategy development and implementation of sustainable procurement.

There is a strong commercial case for acting more responsibly. Responsible procurement is essential to the core business of a company, since no business can sell its goods or services unless suppliers deliver those goods and services on time, to the agreed specification and cost.

Organisations need to realise that being commercial and sustainable go hand in hand. To have a long term sustainable successful business, social, economic and environmental issues have to be considered.

How does sustainability relate to related topics on the business agenda?

Sustainability should feed into all business decisions and is now an explicit component of most CSR agendas. CSR posits that firms have a responsibility to be ethical, social and environmental stewards, as well as considering economic impacts and that having a positive impact on society and the planet is as important as profit.

Broadly CSR has become accepted as covering the social, environmental and economic performance of an organisation. It is also commonly referred to as corporate responsibility or social responsibility, depending on the individual organisation. There are sustainable aspects to each of these strands and so sustainability itself can also be thought of in economic, environmental and social terms.

CSR initiatives must be chosen and implemented according to the objectives and specificities of a given company's goals. Typically, CSR mandates revolve around a Triple Bottom Line (TBL) approach to organisational sustainability.

TBL is a technique used increasingly in CSR reporting by organisations themselves and by external stakeholders and third parties to rate an organisation's performance. The TBL refers to measures of environmental, social and economic performance and determines that businesses have positive impacts on the three P's: people, profit, and planet and is a standard framework for CSR agenda. (see <http://www.johnelkington.com/TBL-elkington-chapter.pdf> for more information)

'Green' refers to practices, processes and products that have minimal impact on the health of the ecosystem. The emphasis is on non-hazardous, recyclable, reusable and energy efficient products and processes. The words 'green' and 'sustainable' can be interchangeable and cover for example:

- using bio-degradable materials
- using energy efficient devices
- recycling
- material replacement (for example planting a tree when making wooden products)
- avoiding intensive farming/mining
- minimising harmful pollution
- reducing the carbon footprint
- energy efficiency.

CIPS uses the word 'responsible' procurement to try to encompass all of the above. Sustainability runs through all aspects of CSR frameworks and agendas and is incorporated in all aspects of responsible procurement.

Balancing commercial and sustainability issues purpose: Are these issues mutually exclusive?

Impact on the organisational Supply Chains and Purchasing

Despite recent hype about sustainability it has been around in one form or another for several decades. In 1987 the Brundtland Report first put environmental management on the strategic agenda for major organisations, integrating environmental protection and financial performance. Twenty years later Michael Porter (Ref: Porter M and Kramer M. Strategy and Society: The link Between Competitive Advantage and CSR. Harvard Business Review 2006) tells us that CSR is just another weapon in the arsenal of competitive advantage.

Now, sustainable procurement is used by organisations to rethink and retool business processes to meet some of the 'greener' options as described in the list above. Also, stakeholder relationships such as consumer preferences and environmental and social impacts are being evaluated and considered, for example closer monitoring and scrutiny of outsourced services further down the supply chain. Simultaneously costs can be reduced by the removal of 'waste' in the supply chain and innovation of products by rethinking the materials and design of a product.

Sustainable procurement applies to the whole organisation and should influence any decision which is made by it. It is easy therefore, without going into too much detail, to see how sustainability impacts on purchasing and supply management (P&SM).

There are 3 Supply chain management impacts:

- 1) Sustainable supply processes - removal of non-value added activity and waste from the processes and innovative design.
- 2) Sustainable supplier - supplier development, co-ordination, considering partnerships and social aspects etc to take out costs by process improvement and ensuring sustainability of supply over a longer term.
- 3) Sustainable supply chain initiatives- prioritise - define them then develop strategy and set and use standards, mitigation of risks, remembering that all tiers of the supply chain are affected, not just the immediate supplier or organisation.

There are obvious potential impacts that the sustainable procurement has on the supply chain and the environment from raw material extraction, manufacturing, energy and transport costs and usage. Less obvious is the wastage that can result from over-ordering, the cost of disposal or recycling, labour costs and the irresponsible use of power in relationships, manufacturing site remediation and the 'cost' of getting these things wrong. The Primark story is a recent example that summarises the 'costs' associated with getting things wrong. In response to the charge of poor conditions in a supplier's factories and the use of child labour Primark have even set up a website: <http://www.ethicalprimark.com/ethical.html> to try to counteract criticism and prove they are acting responsibly.

Eight key themes of sustainable supply chain management

These are referenced in 'Sustainable Marketing Procurement - Turning Myth into Reality'; a white paper by ProProcure Ltd - July 2008

1. Supply chain analysis that examines every stage in the supply chain and the environmental credentials of each participant.
2. Supplier assessment and monitoring for environmental credibility.
3. Product selection based on those designed and manufactured using ecological criteria.
4. Reduction of transport footprint, maximising capacity utilisation and least cost/time routing.
5. Reduction of packaging, including primary, secondary and transport packaging.
6. Factoring in 'reverse logistics', flows of product and packaging for recovery, disassembly and recycling/reuse.
7. Waste management, where there is currently no infrastructure for recovery, recycling and reuse
8. Codes of Conduct between and within supply chains.

All of these themes are within the remit and potential control of the procurement professional.

As highlighted in 'Taking the Lead' - a guide to more responsible procurement practices (Ref: www.cips.org), the key success factors for an organisation to manage responsible procurement are:

1. Leadership and accountability.
2. Knowledge and the consequence of buying actions.
3. Managing conflicting priorities.
4. Thinking and acting beyond short term horizons.
5. Managing relationships in the supply chain.
6. Responsible use of power in the supply chain.

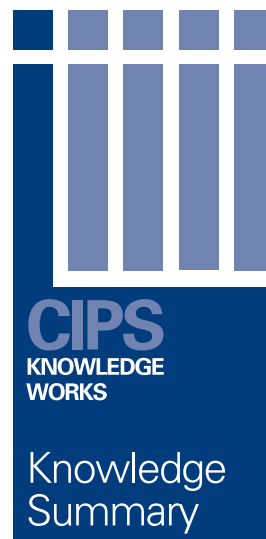
CIPS strongly recommends that you read the guide 'Taking the Lead' to help in the quest to gain support and understanding to implement responsible and sustainable procurement.

Checklist - What will happen if I do nothing?

- inability to mitigate the spectrum of sustainable procurement risks
- competitors will do it better than you therefore loss of competitive edge
- the business doesn't succeed if sustainable decisions aren't made
- the balancing of long term and short term objectives such as you get conflicting objectives for example reduce cost of air travel and flights are increased.

Key Issues

A key issue that an organisation would have to consider is the wider economic, environmental, and social aspects of sustainability and the impact that any purchasing decision would have upon these. The UK Sustainable Development Strategy sets out four key priority areas for action:



Balancing commercial and sustainability issues purpose: Are these issues mutually exclusive?

- sustainable consumption and production
- climate change and energy
- protecting natural resources
- creating sustainable communities and a fairer world. (Ref: Procuring the Future, Sustainable Procurement National Action Plan: Recommendations from the Sustainable Procurement Task Force)

Purchasers will need to think hard not only about the life cycle cost of a product or service, but also what the product is made of (for example if a product contains wood - is it from a sustainable source?), how it is made and where and in what conditions it was made. The carbon footprint of a product will become a big issue in future years, along with carbon management in supply chains, fuelled by legislation such as the Climate Change Bill introduced in 2008.

Some of the indicators that could be used to help make purchasing decisions are still emerging within the areas specified above, so could make it hard to access, for example, carbon labelling.

To add to the confusion, experts often disagree with what is 'best' and technology is changing so fast it could have an impact on the purchasing decision, resulting in bad decisions being made.

How much longer will it be acceptable for organisations to:

- grow their business (at home and off-shore) and increase greenhouse emissions?
- send waste to landfill?
- buy from organisations with poor human rights practices?

Organisations are required to publish detailed statutory financial information according to internationally recognised uniform standards, but there is no system in place for reporting on sustainability, sustainable procurement or CSR. Organisations can provide such information on a voluntary basis; it does however seem likely that statutory reporting will come to encompass CSR and sustainability activities in the coming years.

Based on evidence highlighted in the white paper 'Sustainable Marketing Procurement – Turning Myth into Reality', July 2008, there appear to be three issues to face when developing a sustainable procurement strategy:

- what strategies to implement to ensure procurement practices are sustainable yet create and sustain competitive advantage
- how to capture the data about sustainable procurement and present it to stakeholder groups
- supply chain management strategies that provide clear direction for procurement professionals for every stage in the supply chain.

Benefits

If implemented effectively, sustainable procurement has the potential to cut costs, shorten timescales, enhance stakeholder relationships, increase sales, reduce risks, enhance reputation and improve margins as below:

List of potential benefits for an organisation:

- the existence of a defined procurement strategy and the value outcomes - the improved social, environmental and economic impacts
- compliance with national and international sustainability standards and regulations
- to have a better understanding of risks in the supply chain
- contributes to the sustainable organisational strategy
- better commercial/economic decisions from understanding of issues that impact on the procurement decision (whole life cycle)
- potential benefits in a long term relationship, innovation, better materials, alternatives, technical advice, emerging technologies
- if the objective is 'grab the cash' it's not sustainable, build a more sustainable platform and achieve savings year on year
- better quality of purchasing staff with more satisfying goals and improved performance
- education of suppliers
- much more proactive internal dialogue and challenge with demand side
- more effective evaluation of proposals and bids
- more 'sustainable' source of supply.

Benefits to Society

The environmental technologies sector is one of the main markets in which public procurement can have an impact. New global markets are emerging, which will become a major potential consumer of sustainable designs and products; UK businesses need to be able to compete in these markets of the future.

According to latest DTI-Defra statistics (a survey undertaken by the Environmental Industries Unit) (ref 4) the UK environmental industries sector is growing rapidly. In recent years it has grown from £16bn employing 170,000 people, to £25bn and employing around 400,000. However, this is still a small share of the international market.

Through their internal sustainability initiatives, companies inevitably have a positive impact on society as a whole. For example a construction company which implements sustainability will undoubtedly create many new benefits and opportunities within its own organisation but may achieve the following benefits to society:

- tonnes of CO² abated
- no abatement notices for nuisance
- tonnes of waste diverted from landfill
- no prosecutions for contamination or biodiversity

Balancing commercial and sustainability issues

purpose: Are these issues mutually exclusive?

- tonnes of aggregate and cement abated from natural sources
- tonnes of HFC/HCFC abated
- volume of timber abated from non-sustainable sources
- quantity of PVC not procured
- quantity of formaldehyde not procured
- no residual risks related to human rights.

The public sector research commissioned on behalf of the Sustainable Procurement Task Force, (“Procuring the Future”) has revealed the potential for net benefits to be delivered through sustainable procurement. An example is the case of the use of video conferencing for court appearances. The procurement project replaced the transportation of prisoners to court for remand and other non-sentencing hearings by video links and produced benefits which exceed the costs of the video conferencing. Discounting over seven years (the life of the video conferencing contract) produces a net profit value of £645,776 at a 3.5% discount rate.

On a macro level, economic successes and the transfer of wealth through increasingly globalised supply chains may bring distribution that is fair and equitable and have a positive impact on those in greatest need if achieved in a sustainable and responsible way.

What are the key enablers and inhibitors?

Making sustainability and CSR a core component of existing governance, risk management and compliance controls ensures that it is taken seriously.

As highlighted in “Procuring the Future - Sustainable Procurement National Action Plan”, one of the repeated concerns for the Task Force is that sustainable procurement inevitably costs more – at least in the short-term, even if it offers long-term savings. This is seen as one of the key barriers to sustainable procurement.

The Task Force believes that sustainable procurement, as part of an improved procurement process, should be seen as an organisational priority which questions the need to spend, cuts out waste, seeks innovative solutions and, when it is delivered by well trained professionals, will reduce rather than add to public spending in both the short and the long run. A resource efficient public sector will have lower impacts. Sustainability versus efficiency is a false choice. The taxpayer and the citizen – and future generations – deserve both. Some public sector organisations are already getting it right and delivering real best value. The challenge is to make the best the norm.

In general the resistance and inhibitors organisations might come up against can be summarised in the following list:

Inhibitors:

- what resources and investment will I need to overcome this?
- the very complexity of all the sustainability issues is an inhibitor
- we have to be mindful of the core purpose of the organisation and the core purpose of procurement within the organisation
- the perception of more/additional costs to sustainability issues
- our current economic models don't encourage longevity, durability, upgradeability
- the benefits don't always fall when the costs fall
- sheer constraint of time and resources
- scepticism/active resistance, lack of awareness
- regulations
- cost of compliance
- inertia from leaders.

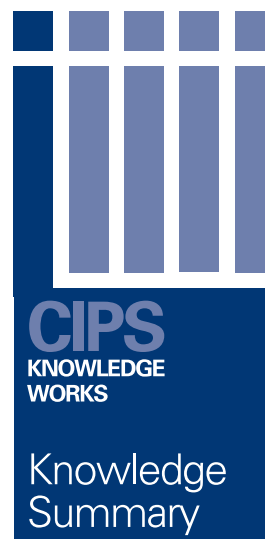
Enablers:

- stern Review: Economics of climate change
- can create competitive advantage
- UK government sustainable procurement action plan (targets the public sector)
- mayor of London's Climate change action plan and business waste strategy
- developing markets for `green` products
- cost of disposal
- risk assessment and avoidance
- redefining `Value for money` - wider interpretation - valuing socio economic benefits
- total cost of acquisition , including value on risk*
- opportunity for procurement to raise profile and to be recognised
- can stimulate markets and encourage product/service innovation
- key enabler is knowledge capture of sustainability issues
- sustainability of supply.

*There is a cost associated with the risks involved with ethics, sustainability, CSR and environmental issues in the sourcing and SC arena. Buyers should be encouraged to try to incorporate a cost associated with and avoiding such risks into the total cost of acquisition.

Conclusion

Although there are increasing legal obligations to consider with regards to the social, environmental and economic strands of the sustainability debate, there is also the moral dimension to consider. If all goods were produced in the UK or the western world there would be no debate with regard to the legal issues and standards that an organisation should meet when buying from abroad. Increasingly organisations need to



Balancing commercial and sustainability issues purpose: Are these issues mutually exclusive?

question if they should accept responsibility for the action of others. Legally the answer may be 'no', but morally and in terms of protecting reputation the answer is more often than not 'yes'.

Organisations also need to address the fact that consumers are putting ever greater pressure on them to consider the environment and to implement sustainable initiatives. Those companies which respond enhance their brand reputation to consumers and often increase their market share; fair trade is an example of such branded products.

There is a conflict in the buying agenda itself. Most buyers are only recognised for the cash contribution they achieve, although organisations increasingly want buyers to consider the wider sustainability issues discussed throughout this document and also to mitigate risks. Buyers need to champion the need for organisations to consider the total value of a product rather than the price paid. For example, buying hardwood from a sustainable forest may cost more. However, it is environmentally damaging to buy wood which has come from a rainforest which is not sustained. Ultimately this will result in risks such as continuity of supply, damaged reputation, exploitation and so on, but it also damages the very environment (such as the planet) in which that business is trying to operate, so is clearly not sustainable in the longer term.

Therefore it is sensible and necessary for an organisation to consider sustainable initiatives which cost money such as vetting your supply chain right back to source, using supplier accreditation and auditing, and setting standards above the required minimum, since this may ultimately protect a brand, enhance reputation and mitigate the risks of a damaged reputation. However, given the length and complexity of supply chains in a globalised economy, a complete audit of the complete supplier base may, for most organisations, prove prohibitively expensive. This is confirmed by KPMG's 2005 survey in which, of the corporations surveyed:

- 80% mentioned supply chain issues in their CSR reports
- 70% have a Code of Conduct with their supply base
- 16% actually directly audit their suppliers.

However, 74% of companies surveyed by KPMG said their prime driver of sustainability in CSR was financial. (Ref: KPMG Group and the University of Amsterdam. International Survey of Corporate Responsibility Reporting. Amsterdam: KPMG Group, 2005).

It is clear there are many business-wide sustainable and sustainable procurement initiatives which could just be called 'being sensible and saving money'. For example, turning lights off, cutting out spare capacity on freight, cutting out waste in supply chain processes (for example LEAN initiatives), all of which add money straight to the bottom line.

Adnams, a Suffolk-based traditional brewer, is an example of this. Efficient use of natural resources is at the heart of its environmental strategy. It focuses on everything from reducing its energy and water use to recycling materials.

Adnams' move to lightweight bottles has lowered its use of glass by 624 tonnes and carbon emissions by 415 tonnes annually. Its new distribution centre is saving an annual £49,000 by using 58 per cent less gas and 67 per cent less electricity per square metre than it did in its former warehouse.

Its latest development is a carbon-neutral beer whose production process uses less gas by brewing in larger batches and recovering the heat from one brew for use in the next one. (Ref: FT article: Slowdown must not stop environmental action, July 2008)

Such innovations are another benefit to organisations when looking at sustainability and their environmental impact.

In hard times the sustainable objective of the company may shift back to 'survival', but this is a perfect opportunity for sustainable objectives that create or save money to be utilised to the hilt. Sustainable objectives which cost money may have to be re-assessed however, to take into account those that a company can't afford to invest in because of the risks involved, and those that are 'nice to have'. Organisations should not make rash decisions, such as 'drop everything' which isn't core to the business, they should think about things carefully.

Hopefully, this paper makes it clear that the decision to implement sustainable procurement in a commercial environment is more often than not mutually supportive, not mutually conflicting. It's not an 'either/or', it's the same sort of argument as commercial versus quality – they go hand in hand.

Balancing commercial and sustainability issues purpose: Are these issues mutually exclusive?

Implementing sustainable procurement and/or sustainability into the business is itself not an end point, nothing is sustainable indefinitely, so organisations should seek a more sustainable option which keeps improving and changing in context with developments across the globe. There has to be a balance and it's about the best balance with regards to the priorities and the situation within your organisation. Anything that reduces resources reduces waste and increases efficiency. If achieved in a responsible way it is a win/win on both sides.

PricewaterhouseCoopers' survey on sustainable growth technologies reports that the shift toward green products over the next two years will be substantial; within two years over half those surveyed anticipate they will be engaged in environmentally preferred purchasing. If this is true, the drive for sustainability, CSR, environmental consideration etc will inevitably excel in the coming years.

