

Sustainable procurement

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Introduction

We all have an opinion about sustainability, developed by our experiences and the media. There are many varying definitions, each reflecting the values and needs of the particular organisation, person or society. This CIPS Knowledge Summary takes the opportunity to develop sustainable procurement in its business context and detail its application in the purchasing and supply management environment.

Sustainable procurement is an important issue to CIPS. It is at the heart of the CIPS corporate strategy for 2007-2010, and reflects the growing contribution effective sustainable procurement can make to organisations.

Definitions and background

CIPS have adopted the definition of sustainable procurement used by the Sustainable Procurement Task Force (SPTF). The SPTF was established as a business-led task force by the UK Secretary of State for the Environment and the Chief Secretary to the Treasury in order to develop a National Action Plan and make the UK a leader in the European Union in sustainable procurement by 2009.

In *Procuring the Future*¹, the output from the SPTF's Sustainable Procurement National Action Plan, sustainable procurement is defined 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.

The definition then elaborates on the meaning of 'whole life basis' by stating that "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".

In alignment with the European Union's Sustainable Development Strategy (EU SDS)², true sustainable procurement should take into consideration economic, environmental and social factors in analysing the impact of sustainable procurement on the purchasing and supply chain environment. Most debate, research and action have focused on the environmental aspects. This is understandable as an initial step, but any framework for analysis must consider the three pillars of sustainability. To promote this focus, CIPS have segmented the areas as follows:

Economic impact of sustainability;

for example

- corporate governance
- ethical trading
- payment on time

Environmental impact of sustainability;

for example

- biodiversity
- climate change and carbon footprints

Social impact of sustainability;

for example

- diversity (supplier and workforce)
- human rights.

It is also helpful to think about sustainability within business/organisations, on three levels:

1. Legal requirements
2. Cost and waste reduction
3. Mitigation of risks, protection of brand and reputation.

CIPS guidance material on sustainable procurement

CIPS acknowledges the interrelated nature of economic, environmental and social impacts of sustainability on supply chain activities. Environmental challenges and opportunities are considered as 'heartland' issues – established thinking in direct response to the effects of climate change. A number of authoritative studies, including the 4th Assessment Report from the Intergovernmental Panel on Climate Change (IPCC) and the Stern Review on the Economics of Climate Change, confirm that human activity is accelerating global warming to a point where humans, animals and other organisms are unable to adapt, with catastrophic consequences. The Stern Review highlighted the projected economic impact of climate change at between 1% of global GDP and 20% of global GDP (dependent on the time taken to stabilise levels of greenhouse gases in the atmosphere). The former value is based on stabilising greenhouse gas levels³ at between 500 and 550 parts per million (from the current 430ppm of carbon dioxide equivalent).

Sir Nicholas Stern's review has become a reporting benchmark on the potential effects of climate change. The resultant UK Climate Change Bill (and UK Energy Bill) is part of the Government's action plan to reduce the impact of climate change and move towards a low carbon economy. Legislation has thus become a main driver for changing behaviour and making private and public sector organisations recognise that addressing environmental issues makes good business sense and is the responsible thing to do.

These issues, together with useful hints and tips for energy buyers, are discussed in the CIPS Insight guide to purchasing energy and carbon footprint impacts.

¹ *Procuring the Future* is available at <http://www.sustainable-development.gov.uk/publications/procurement-action-plan/index.htm>

² Further details on the EU SDS (10117/06) dated 9 January 2006 are available at

<http://ec.europa.eu/sustainable/>

³ Greenhouse gases (GHG's) is the generic term used to represent gases (including carbon dioxide and methane) that contribute to climate change.

The effective management of waste is part of the environmental management remit and is covered by the CIPS Environmental Purchasing in Practice guidance document. This publication explains in detail how the environment can be considered at each of the key stages in the purchasing process. Complementary to the CIPS Environmental Purchasing in Practice Guide guidance document are many different tools and techniques that can be used, and to see them in relation to purchasing in this way should bring a new level of clarity to the subject. Secondly, it makes the connection between supply chain management and environmental management systems (EMS). An EMS requires an assessment of significant environmental aspects, many of which will lie in the supply chain. Where this is the case, the Institute of Environmental Assessment and Management (IEMA) draft code offers practical guidance on how they could be handled.

Professor Michael Porter and Mark Kramer, in documenting the link between competitive advantage and corporate social responsibility⁴, promote a shift in thinking from CSR to 'corporate social integration'. Similarly, CIPS has recognised the increasing need to consider social issues in sustainable procurement decision-making. It can be argued that management of the supply base is one of the best value-adding activities to engender innovative solutions for customers.

There is a particularly strong synergy between economic and social aspects of sustainability in particular commercial sectors. With increasing globalisation and the prevalence of extended supply chains, auditing of ethical sourcing practices becomes a mandatory supply chain activity to maintain consumer confidence on the one hand, but also to create products that may command premium prices in the marketplace. This is the case particularly in grocery and garment retailing. The CIPS Knowledge Summary on ethical business practices in purchasing and supply management, complemented by the CIPS booklet on 'How to develop ethical purchasing practices' and the CSR Codes and Standards, contribute to knowledge in this area. CIPS is also working with non-governmental organisations such as Traidcraft Exchange to develop and promote good practice. Traidcraft Exchange is the UK based charitable arm of Traidcraft which focuses on developing trade with people in developing countries to improve their standards of living.

The subject of diversity covers a broad spectrum of issues. 'Affirmative action' as practised in the USA where public sector bodies are required to source 25% of their goods and services from 'diverse' suppliers, is not a requirement in the UK. Diversity within the supplier base is of particular relevance to purchasing and supply management.

The CIPS Supplier Diversity paper, based on the expertise of Professor Monder Ram at the Centre for Research in Ethnic Minority Entrepreneurship (CRÈME) at De Montfort University, Leicester, emphasises the demand and supply side potential of engaging UK ethnic minority businesses, to afford them the same opportunities as other businesses.

Identified commercial and societal benefits of a level playing field would include:

- new procurement and sales opportunities (with the supply base also being a potential customer base)
- increased commitment, flexibility and security from the ethnic minority business.
- sources of innovation and cost competitiveness (and the agility for rapid response)
- mirroring the customer base
- encouraging local economic development and growth
- developing the organisation's resource base
- risk reduction (by meeting stakeholders' societal requirements)

CIPS also has a position on supplier diversity contained in the Supplier Diversity Knowledge Summary.

The case for sustainable procurement

The CIPS literature has alluded to risks and opportunities created by actively pursuing a sustainable procurement agenda.

Most large organisations have adopted some aspects of good sustainable procurement practices. This is borne out by aspects of the Business in the Community's (BITC) corporate responsibility index, a leading benchmark of responsible business in the UK⁵. The index was developed in 2002 and participants include FTSE 350 companies, sector leaders from the Dow Jones sustainability index, together with non-quoted BITC member companies with a significant economic presence in the UK.

Of most relevance to the sustainable procurement are the conclusions of the 2006/2007 report which state that: "supply chain management remains a challenge for companies, although there has been a significant increase in the number of companies working with suppliers to help them improve their social and environmental management and performance". BITC research supports CIPS' findings that climate change and the use of resources have become key issues for businesses, providing risks and opportunities for the organisation. The BITC report comments that 73% of companies involved stakeholders to identify key issues affecting businesses, and that 87% of companies publicly reported performance on climate change. There is clearly a benefit to pursuing a sustainable/responsible business.

⁴ Porter, M and Kramer M, *Strategy and Society*, Harvard Business Review Spotlight, December 2006.

⁵ The index assesses the extent to which corporate strategy is integrated into business practice throughout an organisation. It provides a benchmark for companies to evaluate their management practices in four key areas of corporate responsibility and performance in a range of environmental and social impact areas material to the business.

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Benefits of sustainable procurement

Some of the benefits are as follows:

Minimise business risk, discussed in greater detail in a later section.

Provide cost savings, through focusing organisations on following a whole life costing methodology when sourcing goods and services. This would include reducing use, reusing and recycling and ultimately reducing the amount of waste going to landfill.

Enhance corporate image in the marketplace, by demonstrating purchasing and supply management's value to the organisation.

Create markets for new products and services, by using technology to develop and market sustainable products that will initially attract consumers who are early adopters and command a premium price in the marketplace.

Secure the supply of goods and services in the light of increasingly environmental legislation.

Reduce waste and improve resource efficiency.

A case study

Preparations for the 2012 Olympic Games and Paralympic Games provide a good case study to draw together sustainable procurement in practice.

Sustainability is core to the two organisations at the centre of delivering the 2012 Games – LOCOG⁶ and the ODA⁷. The sustainability policy identified five key themes to run throughout the three phases in the development of the project covering planning and construction, staging the games and realising the legacy. The five overarching themes are:

- climate change
- waste
- biodiversity and ecology
- inclusion
- healthy living.

The total budget for the Games is £9.345 billion. Of this, £1.7 billion has been allocated for infrastructure development and regeneration of the local vicinity. With particular reference to sustainable procurement, it is a condition of supply that potential suppliers agree to support all sustainable procurement principles. The three most applicable to the procurement environment are climate change, waste and inclusion.

The ODA aims to minimise the carbon emissions associated with the Olympic Park and venues and achieve a 50% reduction for the built environment by 2013. For example, the ODA aims for all permanent Olympic Park venue structures to achieve a BREEAM⁸ 'excellent rating', and be 15% more energy efficient than the 2006 Part L Building Regulations. The carbon footprint will be reduced further by the use of combined cooling, heating and power plants (CCHP) and the use of renewable energy. Managing waste is closely aligned to the climate change agenda.

The ODA have followed a well established hierarchy for managing waste as follows:

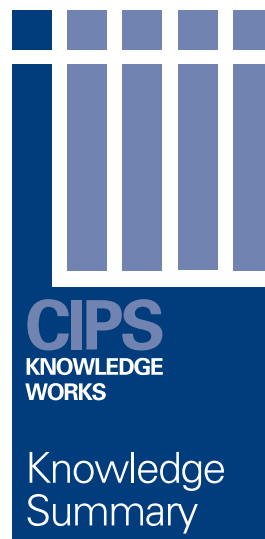
- eliminate
- reduce
- reuse
- recycle
- recover, and
- dispose of waste.

90% of buildings demolished on site have been recycled. Purchasing and supply management professionals are engaging innovation within the supplier base to deliver products that will use 40% less water than current industry practice.

An organisation's greatest assets are its employees. The ODA recognise that at its peak (between March 2010 and November 2010) there will be 18,000 workers per day on site. It is therefore important to engage the diverse supplier base. It is estimated that 2000 small value contracts will be established.

A sustainable procurement policy is a sensible starting point, however, no sustainable procurement policy can be developed in isolation - it does need to be formulated in collaboration with other key disciplines within the organisation. It must be aligned with the sustainability policy of the organisation as a whole. For this to be possible, the policy must be robust and meaningful; it must stand up to scrutiny from a wide range of interested parties and must take account of their particular needs, viewpoints and contributions. In this way, another vital criterion for success can be met: ownership.

Just as the sustainable procurement policy needs to fit into the overall policy of the organisation, it must also be integrated with the existing sourcing governance and policy structure. A sustainable procurement policy that sits outside the main sourcing governance structure will, inevitably, create unwanted contradictions and tensions. The policy needs to convey a strong, clear message to suppliers and contractors about what the organisation seeks and expects from them.



⁶ LOCOG is the acronym for the London 2012 Organising Committee of the Olympic and Paralympic Games.

⁷ ODA is the acronym for the Olympic Delivery Authority.

⁸ BREEAM is the acronym for the Building Research Establishment Environmental Assessment Methodology.

The CIPS positions on practice

CIPS views, opinions and beliefs are stated throughout this document; however, the broad practice statements that underpin the text are as follows:

- a) CIPS believes that sustainable procurement is good practice procurement.
- b) Sustainability is on the mainstream agenda for both private and public sector organisations. It is positioned at the heart of the CIPS corporate plan for 2007-2010, which builds on the content of the CIPS CSR Principles document (2004).
- c) CIPS was an active member of the Sustainable Procurement Task Force and supports the recommendations detailed in Procuring the Future (2006), (available at www.sustainable-development.gov.uk), and the principles therein.
- d) CIPS strongly believes that sustainable procurement is a powerful driver for delivering improved economic, environmental and social outcomes, and believes that sustainable procurement underpins the achievement of cost effective, leading practice procurement.
- e) CIPS believes that sustainable procurement is a means of generating value for money and gaining efficiencies within and between organisations, for example, from managing supply risk, and increasing resource productivity.
- f) CIPS believes that optimum business benefits from sustainable procurement are realised through integrating sustainability throughout the procurement decision making process.
- g) CIPS believes in applying a whole life costing approach to procurement, rather than selecting on purchase price alone.
- h) CIPS believes that, to realise the benefits and to send clear signals to suppliers regarding the government's requirements, it is imperative for the UK government to demonstrate leadership by integrating sustainable procurement approaches into its own day-to-day procurement activities.
- i) CIPS continues to encourage purchasing and supply management professionals to ensure that all supply chain dealings meet the highest standards of governance and transparency which should be aligned with the CIPS Code of Conduct and the conventions of the International Labour Organisation.
- j) CIPS believes that purchasing and supply management professionals should be trained effectively in sustainable procurement. Procurement professionals should upgrade and maintain their education. CIPS will support this through activities aimed at developing and communicating the art and science of responsible/sustainable procurement.
- k) CIPS believes that purchasing and supply management professionals can only deliver sustainable procurement through ongoing engagement and collaboration with internal stakeholders, budget holders and key suppliers to reach the most effective solutions.
- l) CIPS believes that maximum effectiveness is gained by a truly holistic perspective, with consideration of environmental, economic and social aspects of sustainability.
- m) CIPS acknowledges that sustainable procurement is a priority when setting policy, which should be reflected in appraisal frameworks and purchasing and supply management practices so that sustainable procurement objectives are brought to the fore. Organisations should promote the principles of sustainable procurement throughout their supply chains.
- n) CIPS believes that demand management and specification optimisation will be key to effective sustainable procurement outcomes, and value-for-money benefits.
- o) CIPS believes that sustainable procurement represents a significant opportunity for the profession to raise its profile and to demonstrate leadership in a key strategic area of the organisation.
- p) CIPS believes that procurement is central to delivery of the organisation's corporate commitments on sustainability at an operational level due to reliance on high levels of purchased goods and services.

The case study of the 2012 Olympic Games and Paralympic Games has illustrated opportunities for purchasing and supply management professionals by engaging in the sustainability agenda. However, the CIPS positions on practice also highlight the other side of the sustainability equation – the supply chain risks of inaction.

Legislation: the risks of inaction

Sustainable procurement illustrates that risks and opportunities may be different sides of the same coin. The purchasing and supply management professional must manage the challenges of government legislation on the one hand, and customer pressure (through consumer perceptions) on the other hand. Legislation is one of the main drivers for sustainable development.

It has already been mentioned that in the UK, at the top level, two separate Bills, on energy, and climate change, will put in place the regulatory framework for sustainability. Surrounding this core legislation are directives and regulations around a range of environmental issues such as the Waste, Electrical and Electronic (WEEE) Directive, a Waste Framework Directive and the regulations governing the registration, evaluation, authorisation and restriction of chemicals (REACH). CIPS guidance papers covering these areas are available from the Knowledge and Representation Team at CIPS.

Specific legislation

The Climate Change Bill gives statutory force to government targets for cutting emissions by 80% by 2050 and 26-32% by 2020, against a 1990 baseline.

The Bill introduces five-year carbon budgets which will require the Government to set, in secondary legislation, binding limits on carbon dioxide emissions during five-year budget periods, such as the Carbon Reduction Commitment which comes into force in 2010. Emission reductions purchased overseas may count towards the UK's targets, consistent with the UK's international obligations. However, ministers rejected Conservative calls for mandatory annual reductions, branding them inflexible.

The Bill also allows for the establishment of a carbon committee to work with the Government to reduce emissions over time and set out improved monitoring and reporting arrangements. The committee will advise on the level of carbon budgets, reduction effort needed by sectors of the economy covered by trading schemes, and on the appropriate balance between domestic action and international trading in carbon allowances.

Every five years, the committee's report will contain an explicit review of the UK's performance over the last budget period, and the implications of this for meeting future targets and budgets.

The Energy Act drills down into the some of the detail set out in the Climate Change Bill. The Bill proposes the creation of a regulatory framework for carbon capture projects and alters the framework to encourage private sector investment into gas supply security. There will also be measures to ensure owners of new nuclear power stations pay their share of decommissioning and waste costs. Further information can be found in the CIPS Knowledge Summary on 'Carbon management legislation and the Climate Change Bill' at www.cips.org.

The Environmental Liability Directive (2004/35/CE), which became law in the UK in April 2007, is an example of legislation specifically aimed at preventing environmental damage. Human activity can cause severe damage to the environment. For example, in 1998 a dam containing toxic waste from a mine burst in the south of

Spain. A massive wave of toxic sludge was released that eventually reached a national park. It poisoned soil and water and killed wildlife that came into contact with it. Spanish authorities spent more than €250 million on clean up operations over a period of years. In EU member states, there are national civil liability regimes that cover damage to persons and property. Only rarely do they cover damage to the wider environment. The Environmental Liability Directive specifically implements the 'polluter pays principle'. Its fundamental aim is to hold operators whose activities have caused environmental damage financially liable for remedying this damage. It is expected that this will result in an increased level of prevention and precaution. Operators (who do not include individuals within 'society'), whose activities may cause imminent threat to the environment, can be made to take preventative measures. With particular reference to sustainability, the Directive establishes significant protection for environmental damage in relation to its impact on biodiversity, human health and water (covered by the Water Framework Directive), but excludes maritime oil disasters and nuclear accidents. Public authorities would be the enforcers of the Directive.

Conclusion

Other global regions, such as the United States, acknowledge that the European Union is the leader in using legislation to promote the sustainable development agenda. Trained and commercially astute purchasing and supply management professionals will continue to recognise the opportunities for sustainable procurement. The 2012 Olympic Games and Paralympic Games are proof that integrated economic, environmental and social procurement is achievable. CIPS will continue to develop and signpost good practice in sustainable procurement.

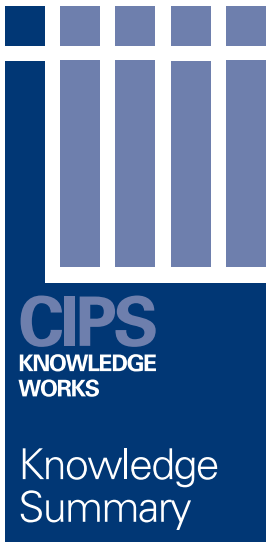
A number of CIPS Knowledge Works documents are available at www.cips.org:

Knowledge Summary documents (available to CIPS members and non-members):

A guide to purchasing energy and carbon footprint impacts
Ethical business practices in purchasing and supply management.
Carbon Management Legislation and the Climate Change Bill.

Knowledge Insight guides (available to CIPS members only):

CSR Guide: The Ethical Decision
Corporate Social Responsibility Principles document
Corporate Social Responsibility
Supplier Diversity
Commercial versus Sustainability.



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Knowledge Now documents (available to CIPS members and non-members):
Carbon footprints in your business.

CIPS Australia White Paper (available to CIPS members and non-members)
Socially Responsible Procurement: Corporate Social Responsibility in a supply chain context.

Other CIPS documents

Action Sustainability Flexible Framework Benchmarking Tool available at www.actionsustainability.org
4th Assessment Report from the Intergovernmental Panel on Climate Change: www.ipcc.ch
Stern Review on the Economics of Climate Change: www.sternreview.org.uk

Useful websites

Building Research Establishment Environmental Assessment Methodology: www.breeam.org
Business in the Community: www.bitc.org.uk
Carbon Trust: www.carbontrust.co.uk
Chartered Institute of Purchasing & Supply: www.cips.org
Commission for a Sustainable London 2012: www.cslondon.org
Constructing Excellence in the Built Environment: www.constructingexcellence.org.uk
Department for Environment, Food and Rural Affairs (DEFRA): www.defra.gov.uk
Energy Information Centre (EIC): www.eic.org
Energy Saving Trust: www.est.org.uk
Environment Agency: www.environment-agency.gov.uk
Environmental Association for Universities and Colleges (EAUC): www.eauc.org
Forum for the Future: www.forumforthefuture.org.uk
Industry Council for Packaging and the Environment: www.incpen.org
Institute of Environmental Management & Assessment: www.iema.net
Intergovernmental Panel on Climate Change: www.ipcc.ch
Local Governments for Sustainability (ICLEI): www.iclei.org
London Remade: www.londonremade.com
Mayor of London's Green Procurement Code: www.london.gov.uk
Organisation of Petroleum Exporting Countries (OPEC): www.opec.org
Sustainable Construction: www.bre.co.uk
UK Energy Research Centre: www.ukerc.ac.uk