

# Advancing procurement

by Anne Phillips

TWO REPORTS, *HEC-EcoVadis 2009 Sustainable Procurement Benchmark* and TerraChoice's *EcoMarkets 2009*, show that "green" procurement continues to grow in importance within the public and private sectors despite the recent economic downturn. In fact, in some cases the downturn is seen as an opportunity for greener offerings of goods and services with the attendant technology development. The pressure to be greener appears to be due to an increased consciousness on the part of citizens/consumers regarding sustainable development and environmental issues... more people are simply making those choices when spending personal dollars, and are demanding the same attention from buyers in the public sector and from manufacturers and service providers in the private sector.

The pressure is having a ripple effect. Major suppliers in both manufacturing and retail are applying significant pressure on their own suppliers, effectively pushing the "green" demand down the supply chain. For example, HP and Xerox have made significant changes in the printing area. Walmart took its supply chain by storm with its packaging reduction goal – just one of its many green focussed efforts – providing impetus for thousands of its suppliers worldwide to confront and resolve the issue if they wanted retail space on Walmart shelves. These companies are not alone in their efforts to provide greener goods and services.

For you as public sector buyers, procurement became more complicated by adding green considerations to the already complex equation. The sheer size of the public sector marketplace can and does have an influence on the suppliers and what they offer. You have an important role to play in advancing green procurement in that you must exercise your expertise and be diligent to ensure that the green claims of the goods and services you

are purchasing can be backed up by green evidence. A recent study by TerraChoice Environmental Marketing shows that "greenwashing" – the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service – is alive and thriving in the supplier community. It is an international challenge. According to the study, so-called 'green' products have increased between 40 percent and 176 percent. TerraChoice developed a list of six greenwashing ([www.sinsofgreenwashing.org](http://www.sinsofgreenwashing.org)) sins, and this past spring added a seventh: the 'Sin of Worshiping False Labels.' Assessing greenwashing is not always easy, but certification, market sector knowledge, support from your own internal "green" procurement experts, transparency in what you are seeking and continuous learning about this continuously moving target will allow you to make the best decision possible at any given moment. And, transparency about those decisions and the criteria you based them on will enable you to defend them should that be needed in this evolving environment.

Despite the challenges, the results of the two studies show that you are not alone.

The internationally acclaimed HEC Paris (École des Hautes Études Commerciales de Paris) was founded in 1881 by the Chamber of Commerce and Industry of Paris. The first HEC sustainable development study was done in 2003.

EcoVadis operates EcoVadis SP®, a collaborative platform integrating a Web-based software and analysis services that allow companies to assess the environmental and social performance of their suppliers on a global basis. It combines technology and corporate social responsibility (CSR) expertise to deliver simple and reliable suppliers scorecards, covering 150

purchasing categories and 21 CSR criteria.

Pierre-François Thaler is a partner and co-founder of EcoVadis. Thaler has 14 years experience in procurement and the business development of innovative solutions for procurement organizations. He was previously CEO and co-founder of B2Build SA, the first electronic procurement solution for the European construction industry.

According to EcoVadis, "Implementing sustainable procurement on a wide scale is a challenge for many organizations:

- The number of standards published by NGO's, government and private companies, related to sustainable development is growing everyday... and procurement professionals cannot cope with the proliferation.
- Accessing reliable information on the environmental footprint and social practices of a supplier is challenging... especially true for smaller suppliers, which, in some cases, represent the highest level of risk.
- Even if sustainable procurement goals are generally supported by most employees, significant change management issues remain - the most important being linked to the short term objectives of the buyers (savings) conflicting with the medium to long term goals associated to CSR.
- Unlike many other supply chain risks (financial, operational), the environmental and social risks are carried through the various tiers of the supply chain. You may be more exposed to the unethical practices of your Tier 2 and Tier 3 suppliers than you are to your Tier 1."

Thaler, who is based in Paris, expanded on this last statement, noting that while many organizations evaluate their Tier 1 suppliers, some are pushing their Tier 1 suppliers to evaluate their subcontractors. Thus the Tier 1's score depends on how

their Tier 2 and 3 subcontractors rate as well. Walmart is using this method to push the evaluation process downward through the supply chain.

Over time, sustainable development (SD) has become a key concern for procurement departments. The *HEC-EcoVadis 2009 Barometer* looks at how sustainable procurement initiatives are weathering the current economic and industrial crisis and at the solutions procurement directors developed to solve the implementation difficulties they faced as were revealed in the 2007 study.

Only about three percent of study respondents were from the public sector but Thaler said that he finds the public sector “as engaged, if not more so than the private sector. The public sector in Europe is lessening the environmental impact of products and services by reviewing standards, and what they buy... the private sector is engaging their own suppliers in the effort.”

According to the 2009 study, (online at [www.ecovadis.com](http://www.ecovadis.com)), the responses of a large number of European procurement directors to the “same strategic and operational questions to assess the progress of intentions as well as achievements” shed light on the development of sustainable procurement and moving from a “Why?” to a “How?” approach.”

The study defined the principal lessons learned:

- Sustainable procurement is the number 3 priority of procurement directors, an objective deemed “critical” or “important” by 90 percent of them.
- Image protection and cost management remain two key motivation factors, but compliance with environmental regulation completes the trilogy. According to Thaler, “the public sector wants to lead by example... to have a good reputation.”

- In 2009, the objectives are considered “achieved” or “in the process of being achieved” by 80 percent of the respondents. The transition to operational implementation is effective.
- The obstacles mentioned in 2008 (contradiction between short and medium-term objectives and lack of pertinent indicators) remain predominant, with an additional focus on budgetary constraints.
- Only 11 percent of companies intend to reduce the sustainable procurement budget; 35 percent will increase it despite the budget cuts affecting most companies. The study concludes that the recent economic downturn will reinforce the need for sustainable procurement policies... perhaps even be a crucial lever to end the crisis.
- Of the companies interviewed 37 percent have put in place a sustainable procurement department or at

least a dedicated entity. Half of the companies have raised their buyers’ awareness, or fully trained them in SD concerns.

- The tools specific to sustainable procurement have significantly evolved, with a special focus on supplier evaluation and risk analysis tools for each procurement category or each country. Supplier evaluation methods have become more prominent to the detriment of the buyers’ empirical judgement. These CSR evaluations do not yet cover the entire supplier portfolio, with only 11 percent of the companies applying them to all suppliers. When asked what was meant by the words “detriment of buyers’ empirical judgement” Thaler said that “companies now use more supplier evaluation tools to assess performance, where before they used to

rely on buyers’ judgement. With the use of formal tools, organizations can now give consistent and important weight to the assessment criteria and process.”

- CSR is being integrated into the bidding process and 30 percent allocate significant weight to these criteria in the grading and selection system (average weight is 10 percent).
- Finally, 75 percent of the companies use sustainable procurement performance measurement indicators, although these indicators are still largely focused on processes and resources. In addition, progress has been made regarding the emergence of individual performance objectives required of the buyers for approximately 16 percent of the respondents.

Thaler says that large companies see “the supply chain as a risk to manage, but also as an opportunity to excel. Even with the natural competitive environment between these companies, they share information among themselves in the effort to minimize SD impacts. For example, in the auto industry information is shared regarding alternative fuels. However, the vehicle manufacturers differentiate themselves based on the type of fuel being used and how well the automobile utilizes it.”

One of the tools most commonly implemented is the Sustainable Procurement Charter, which varies from a simple outline of “major principles and values” to a detailed code of conduct. Those tools next in line are more operational and include supplier self-assessment, categories/countries risk analysis, supplier audit programs, best practice guidelines, and total cost models. Many seek out specialized service providers or professional associations that provide standards and solutions. Many use the various government and organization environmental certifications, but these labels are not applicable to all products and services. If you are just starting to develop a sustainable procurement policy, Thaler suggests you “review your supply base and find the 2 or 3 categories with the highest SD impacts and then develop the tools or methods to assess your suppliers.

TerraChoice Environmental Marketing Inc. manages Environment Canada's EcoLogo<sup>M</sup> Program. It also provides the EcoBuyer network, the Environmental Choice catalogue, and the EcoSAT procurement self-assessment tool to help you include environmental and social criteria in your buying practices. TerraChoice also conducts an annual EcoMarkets Survey. In 2009, it partnered with the National Institute of Governmental Purchasing (NIGP), the Purchasing Management Association of Canada (PMAC), and the BuySmart Network (formerly known as the Sustainability Purchasing Network).

The survey was completed by 587 professionals with diverse purchasing expertise in a variety of procurement-related jobs in Canada and the US. Most work for organizations that either have a formal (37 percent) or an informal sustainability policy (19.5 percent) and of those in organizations without such a policy, more than half indicated they plan to implement one soon – an increase in both areas over 2008.

When asked what would motivate implementing a sustainability and/or environmental policy, more than half said “interest from senior management” followed by the “need to comply with regulations.” The third factor identified was “employee demand.” Interestingly, while the top two factors chosen by public purchasers are also on the list of factors for companies, according to the study, “the prime reason for a company to implement a ‘green’ purchasing policy is the ‘organization’s commitment to sustainability’ (suggesting that for many organizations, developing a “green” purchasing policy may be one of the first steps taken towards greater sustainability).”

This is a good sign that organizations still consider purchasing policies to be an effective tool for promoting “green” purchasing within their organizations.

Like the HEC-EcoVadis study, TerraChoice also looked at the potential effects of the economic downturn. According to the survey, “purchasers continue to buy ‘green’ despite a downturn in the “economy”.

Generally the most important purchasing factor continues to be “performance,” but most of the purchasers surveyed said that there is “no discernable difference between “green” products and their conventional alternatives.” “Availability,” “durability,” and “purchase price” were also ranked as important, as was “environmental considerations.” Apparently many purchasers do still think that green products cost more, but they also believe that “more competitive pricing for green products” will

encourage more buyers to purchase these products.

So whether the study took place in Europe or in North America, on the economic question the results appear the same – no appreciable negative impact on ‘green’ purchasing. Both studies show an increase in sustainability awareness and the implementation of policies and processes to support ‘green’ purchasing. The sophistication and timing of the approach at any given organization is variable, but overall we are all going ‘green.’ 