

SDRN Briefing 6:

Achieving sustainable public procurement: lessons from the private sector

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This briefing was written by Ben Shaw and Kate McGeevor of Policy Studies Institute and is based on the full review which was written and researched by Dr Helen Walker of Warwick Business School, University of Warwick.

The full Review, '*Successful Business and Procurement: what lessons for sustainable public procurement can be drawn from successful businesses?*' by Dr. Helen Walker, Warwick Business School, University of Warwick, December 2010, is available from: www.sd-research.org.uk.



Policy Studies Institute

SDRN Briefing 6: Achieving sustainable public procurement: lessons from the private sector

Introduction

This briefing draws together the findings and conclusions from the Sustainable Development Research Network (SDRN) Rapid Research and Evidence Review ‘Successful Business and Procurement: what lessons for sustainable public procurement can be drawn from successful businesses?’ The review is the sixth in an ongoing series of reviews commissioned by the Sustainable Development Research Network (SDRN).

The reviews are intended to serve as a clearly structured, rapid, and cost-effective way of improving the transfer of evidence, and facilitating links between researchers and policy-makers.

Public procurement concerns the acquisition of goods and services by government or public sector organisations and is one of the key economic activities of government. Sustainable public procurement involves integrating a concern for broader social and environmental impacts into procurement activities.

It has been suggested that between 8 and 25 per cent of the GDP of OECD countries and 16 per cent of EU GDP is attributable to government purchases of goods or services¹. In the UK Government spends around £220 billion annually on routine products and services². As such sustainable procurement is a potentially important tool for delivery of sustainable development objectives.

Overview

The Review aims to provide an improved understanding of successful businesses and their approaches to procurement and the relevance of these to the debate on sustainable public procurement. It provides an overview of the tools that are currently used by organisations to aid procurement and concludes with lessons for both practitioners and policy-makers in the public sector and suggestions for future research.

There are three main lessons for policy-makers in the public sector. Firstly, strategic procurement has been shown in the private sector to be an

approach that can contribute to successful delivery of a firm’s strategic objectives. As such government should consider adopting (or in some cases expanding) a strategic approach to its procurement activities. Secondly, government should use its significant procurement spend and power to stimulate the development of markets and supply chains for sustainable products and services. Thirdly, on the basis of the evidence reviewed in the literature, more needs to be done to create a regulatory environment that encourages, enables or requires the private sector to adopt sustainable procurement practices.

What is the role of strategic and sustainable procurement within successful organisations?

Before considering the links between sustainable procurement and firm performance the Review first looked for evidence of links between strategic purchasing and successful businesses. A positive relationship between strategic purchasing and firm performance was identified.

Most firms now recognise the importance of strategic procurement, due largely to the amount spent by producers on purchased inputs and the percentage of production costs that such inputs represent. The shift toward strategic purchasing was emphasised when Porter⁵ listed buyers within a company as one of the five forces impacting on the competitive nature of an industry. As a result, more and more firms view procurement as a strategic function⁶, rather than a support function, and one that is critical to the management of supply chains⁷. However, the shift from a traditional model of price-driven procurement can be a slow one⁸.

It is important to note that measures of firm performance in the context of procurement reported in the literature are largely self-reported subjective measures, rather than objective indicators (such as market index performance).

Nevertheless, while only a small number of studies have empirically measured the effect of strategic purchasing on firm performance, there is consensus throughout the literature reviewed that it does benefit company performance.

Strategic purchasing may improve firm performance by addressing:

- Internal integration. Strategic purchasing has been found to promote inter-organisational relationships and therefore overall company effectiveness.
- Strategic alignment. The often significant financial resources spent on purchasing can be used to actively assist in the delivery of a firm's overall business strategy, for example, by not only focusing on lowest cost, but also quality, speed, and flexibility of purchasing.
- Buyer-supplier relationships. Firms with strategic purchasing foster long-term co-operative relationships with their suppliers, and improve the quality of communications and exchange of information across their supply chains.

Box 1: Terms and definitions

*“Sustainable Procurement is 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.”*³

*“Strategic purchasing involves having a formal business planning process, reviewing and adjusting purchasing's plans to match changes in company plans, consistently providing input to top management on future supply needs and constraints, and developing supply strategies to support company strategies.”*⁴

Sustainable supply chain management (SCM) is the pursuit of sustainable development objectives through the purchasing and supply process.

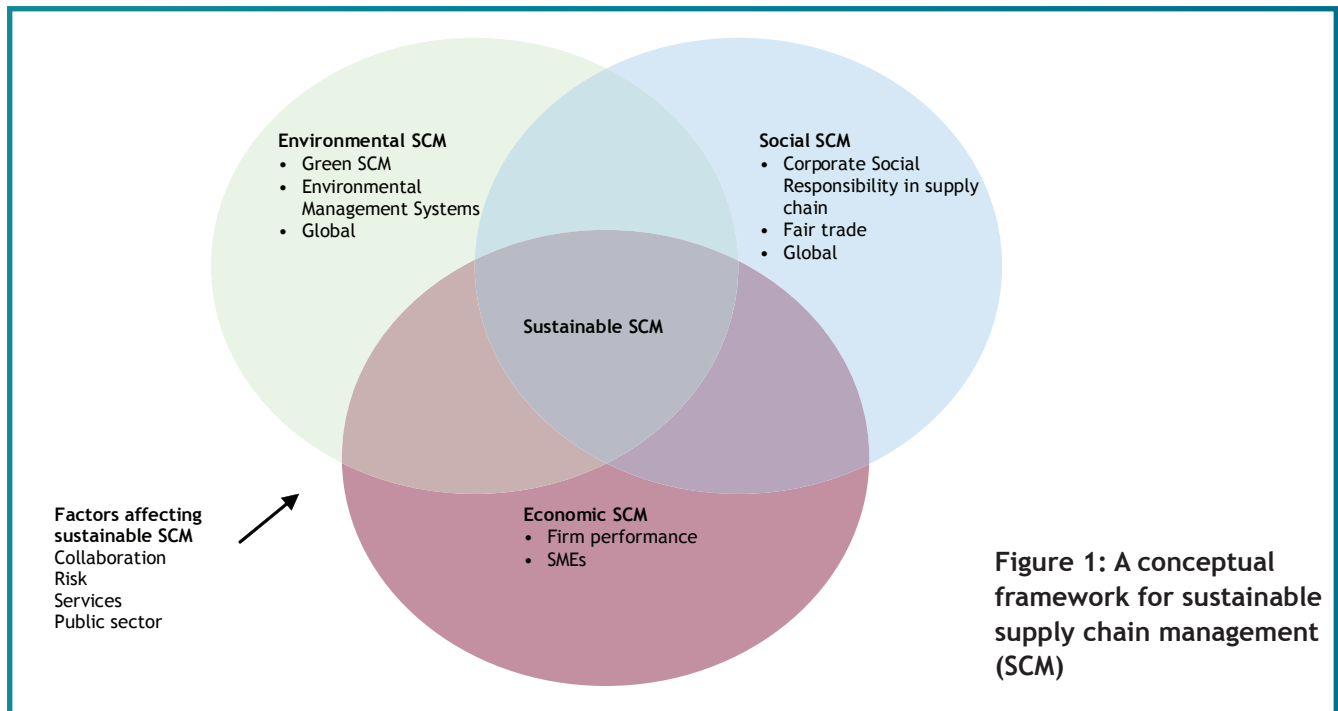
Strategic procurement and sustainable supply chain management go beyond traditional cost reduction approaches to procurement and aim to fulfil broader objectives. They entail purchasers being aware of the firm's strategic direction and assisting in delivering it and are based on greater knowledge sharing, both within firms and with suppliers.

Case study: Strategic purchasing at BMW

A study by Wolf⁹ shows that at BMW, the vehicle manufacturer, the purchasing function adds value by driving innovation and superior long-term cost performance. Purchasing was reported to be transformed by: (1) changing purchasing from an administrative function to a strategic function that influences demand for goods and services, (2) building and sharing deep knowledge, (3) working as a fair and competent partner with all external and internal business contacts, (4) committing to improving in all areas and becoming a benchmark for others, and (5) developing a team approach reliant on shared values. These changes have led to apparent measurable financial results, which are reported in the article.

What is the relationship between sustainable procurement and successful business?

Investigating this question revealed a broad literature covering a wide range of interrelated and overlapping themes as illustrated in Figure 1.



Environmental SCM

The majority of previous research on sustainable procurement and SCM has focused on environmental issues¹⁰, with social and economic issues being the subject of significantly less research^{11, 12}. The number of articles published on environmental SCM has increased in the last 20 years and this seems to reflect the increasing regulatory and stakeholder pressure on firms

to improve their environmental performance. Studies that have focused on environmental aspects of sustainable SCM in global supply chains have found that the greening of global supply chains can improve competitiveness and firm performance^{13, 14, 15, 16}.

Fair trade and ethical purchasing

Research on ethical and fair trade aspects of purchasing, involving codes of conduct for worker welfare, has recently emerged as a form of corporate self-regulation for global commodities. The ethical trading strategies of leading UK food and clothing retailers have been investigated by one study¹⁷ and variations are observed between retailers in terms of their commitment to ethical trade, which are shaped by issues of corporate culture, financial management, and corporate restructuring. Such variations have the capacity to shape the regulation of labour conditions at sites of export production. It is also suggested that fair trade could provide companies with a new competitive strategy based on ethical standards communicated to the consumer through a strategy of differentiation¹⁸. Consideration of ethical issues is also an important part of risk management for many firms, especially those with multiple long international supply chains.

Sustainable SCM and firm performance

A number of studies identify a link between different aspects of sustainable SCM and firm performance. It can be concluded with a moderate degree of certainty that there is a positive causal relationship between aspects of SCM and firm performance. Organisations that adopt sustainable SCM practices tend to perform better. No studies were found arguing the reverse, i.e. firms that perform better have more available resources and are therefore able to engage in sustainable SCM.

Eighteen studies from purchasing and supply research were identified that investigated the relationship between sustainable SCM and firm performance. The Business of Sustainability Survey¹⁹ sought the views of more than 1500 worldwide executives and managers about their perspectives on the intersection of sustainability and business strategy. It was found that purchasing experts believed more strongly than novices in the importance of engaging suppliers across the value chain. One source provides case studies of Nike Inc, start-up electric vehicle supplier Better PLC, General Electric Co,

mining giant Rio Tinto, and Wal-Mart Stores to consider how approaches to sustainability vary, including supply chain issues²⁰. Though it takes investment and commitment, the rewards are seen in cost savings, new products, customer engagement and employee commitment. In this way, sustainability becomes a competitive advantage.

Sustainable SCM and collaboration

Several studies have looked at the role of collaboration in the supply chain for enhancing environmental management and manufacturing performance^{21, 22}. Environmental collaboration in inter-organisational interactions between supply chain members includes: joint environmental goal-setting, shared environmental planning, and working together to reduce pollution. The benefits of collaboration were most evident with suppliers, rather than downstream with customers. One study found that firms with closer supplier partnerships and solid continuous improvement practices are more likely to develop a proactive environmental management programme, which in turn enhances competitive advantage through cost savings, quality improvement, and process/product innovation²³.

Benefits to SMEs

Research into small and medium-sized enterprises (SMEs) in relation to procurement has either focused on local or global supply chain issues. Considering local sourcing from SMEs first, economic benefits have been observed that extend beyond the buying firm. The role of public procurement in buying from SMEs to support sustainability has been investigated²⁴. Buying from small businesses can create benefits in a variety of forms, ranging from a contribution to local economic development through providing innovative green products and services, particularly in the food sector, to helping the public sector organisation to better align its operations with its community. Local government has been found to be particularly supportive of sustainable procurement from SMEs, as it meets complementary objectives such as local economic development²⁵.

Integrated sustainable SCM

Increasingly, studies of sustainable SCM are broadening their perspective to include all three dimensions of sustainable development: economic, social and environmental. A large survey of sustainability in business²⁶ found that while sustainability's novice practitioners thought of the topic mostly in environmental and regulatory terms, with any benefits stemming

chiefly from brand or image enhancement, practitioners with more knowledge about sustainability expanded the definition of sustainability well outside the 'green' silo. They tended to consider the economic, social and even personal impacts of sustainability-related changes in the business landscape, and saw sustainability as an integral part of value creation.

What tools are used to deliver sustainable and strategic procurement in practice?

One of the aims of the review was to see if links could be identified in the literature between successful firms and the tools they use to deliver strategic and sustainable purchasing. The academic literature was reviewed and a survey was also conducted of the websites of companies in the FTSE4Good UK 50 Index to identify references and tools related to procurement and SCM.

The academic literature review did not reveal any links between the use of any accounting, financial or other business process tools and organisations successfully delivering sustainable and strategic procurement. There is acknowledgment that more analytic tools are needed to help companies evaluate the environmental aspects of SCM²⁷. However a range of tools relevant to private and public sector procurement were identified. Tools identified in the academic literature, which are listed in the full Review, include those from the public sector, supplier assessment questionnaires, life cycle assessment tools, and mathematical modelling approaches.

At the centre of the debate surrounding sustainable development is a recognition that companies can make a major contribution by being environmentally and socially responsible and that tools associated with these concepts can enhance the competitiveness and economic performance of the firm.

A large amount of guidance and sharing of best practice on sustainable procurement was identified. However, this again tended to be from the public sector. For example:

- The Office of Government Commerce website contains advice on how sustainable procurement can be pursued in line with Value for Money policy and EU rules²⁸.
- The IDEA website has a guide on making sustainable procurement happen²⁹.
- The 'Procurement Cupboard' is a user-driven resource centre allowing people to share their experiences of procurement with a view to improving exchange of ideas and practice³⁰.
- The Environment Agency website has guidance on sustainable procurement which covers areas such as IT, aggregates, and electronics³¹.
- Large amounts of information, case studies and guides can be found on websites of organisations like the Sustainable Development Commission, Action Sustainability and Forum for the Future and also of sector-specific organisations.

What lessons can be drawn for public sector policy-makers?

There are three main lessons for policy-makers in the public sector. Firstly, strategic procurement has been shown in the private sector to be an approach that can contribute to the successful delivery of a firm's strategic objectives. As such government should, subject to conformity with the requirements of the EU Procurement Directive, consider adopting a strategic approach to its procurement activities. This could incorporate or transfer to government aspects of strategic procurement seen in the private sector such as information sharing, flexibility and collaboration between company functions and suppliers.

Secondly, government should use its significant procurement spend and power to stimulate the development of markets for sustainable products and services.

Thirdly, on the basis of the evidence reviewed in the literature, more needs to be done to create a regulatory environment that encourages, enables or requires the private sector to adopt sustainable procurement practices. It should of course be noted that government in the UK at different levels has taken actions to develop and encourage sustainable procurement. However, evaluations of the impact of this activity are not recorded in the literature - an important lesson in itself.

Further lessons are given below:

- All studies finding links between strategic purchasing and sustainable procurement performance have been in the private sector. Studies in the public sector are needed to better understand the possibilities and means of delivery (see implications for research section below).
- Policy-makers should consider working with industry bodies that are developing codes and guidance for greening construction, energy, and information and communication technologies (ICT). There are indications that firms in direct competition are beginning to collaborate on sustainability as they consider it an important issue to share best practice on. As such there may be an important role for industry bodies and trade associations in coordinating these processes with business and government.
- Whilst it has been argued that government, consumers and businesses all play a role in sustainable consumption³², as one of the biggest customers for goods and services in the country government needs to recognise its role in leading the way.
- Regulation is an important aspect of encouraging sustainable SCM in firms, and as such government should consider how it can create a regulatory environment that encourages and/or requires wider adoption of sustainable procurement through use of the full range of policy levers: regulations, tax incentives, provision of tools and information etc. These policy tools should be designed to encourage and integrate all aspects of sustainable procurement, i.e. the economic, social and environmental rather than just the existing focus on environment objectives.
- Policy-makers need to consider further, and be aware of how sustainable procurement policy fits with the SME agenda. There is a role for government to encourage SME sustainability performance.
- Policy-makers need to develop policy on sustainable SCM issues in global supply chains and could work with NGOs and industry bodies to provide procurement policy on fair trade.

What lessons can be drawn for public sector practitioners?

- Buyers indicate a desire to be more strategically involved with their firms. The Chartered Institute of Purchasing and Supply (CIPS) has a role in promoting the strategic importance of purchasing. Practitioners can ensure they are aware of the strategic direction of the organisation, and that procurement strategy is aligned with that.
- There is an issue around how procurement is valued within firms and as a profession. UK practitioners were found to rate themselves particularly low compared to other countries³³. The reasons for this and how it might be redressed are unclear, but are likely to apply in the public as well as private sector.
- Strategic purchasing in the private sector is characterised by practices such as supply base rationalisation, supplier evaluation, information exchange, sharing knowledge and driving innovation. It has a high status and professionalism. Public sector practitioners, in collaboration with their colleagues working in policy roles, could adopt similar practices to their private sector counterparts to assist in the delivery of the Government's broader policy objectives. Some public sector organisations such as HMRC, the Home Office and Department for Work and Pensions have already taken actions in this regard.
- Sourcing from local SMEs can support local economic development objectives.
- Collaboration with customers and suppliers on sustainable supply issues is beneficial.
- Practitioners may want to approach their sustainable procurement strategies in terms of minimising exposure to environmental, social, economic and reputational risk.
- Many private firms approach sustainable SCM with supplier assessment. These and other tools are on publicly available websites and easily accessible.

What are the implications for future research?

This Review has demonstrated the value in strategic and sustainable procurement and SCM. However, the breadth, depth and quality of evidence could usefully be developed to raise understanding and awareness of the potential sustainable procurement in both public and private sector activity. Areas for future research and issues to consider include:

- Only a small proportion of the evidence base on sustainable procurement appears in the general management literature (14 out of 219 articles reviewed) which raises the issue of management awareness of the issues covered in this review.
- There are few studies on i) estates and facilities management; ii) ICT; and iii) commodities, which could be a priority for future research given the large proportion of public procurement these areas account for.
- There are far more papers with a focus on environmental rather than social or economic issues suggesting areas for future research. Research is needed on how to balance the social, environmental and economic elements of sustainable procurement.
- There are far more studies conducted in the private rather than public sector, which reaffirms the need for our study drawing lessons from the private sector, but also indicates that much more research is needed in the public sector, in particular to evaluate existing programmes and policies.
- In the era of globalisation and offshoring, studies investigating sustainable procurement in developing and newly-industrialised countries are a priority.
- A comparative analysis of sustainable procurement policy in different countries would be useful.
- A study of the effects of a recession on sustainable procurement would be useful.
- Research could refine a set of outcome measures for both sustainable procurement and its impact on organisational performance. If we are to evidence whether the UK is improving on sustainable procurement performance, such metrics seem crucial.

Further reading

The full Review identifies the following texts as a good starting point for readers interested in exploring sustainable supply chain management issues further:

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Endnotes

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