Sustainable Procurement: Balancing Cost, Operational Needs and Social Sustainability Policies in Procurement

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Balancing Cost, Operational Needs and Social Sustainability Policies in Procurement

How do you make sure social responsibility is not included in procurement at the expense of operational and financial sustainability?

This session explores the basic types of social responsibility categories (supplier diversity, environment, labor, etc.) and provides insights and best practice approaches to incorporating socio-environmental requirements into procurement that can actually increase efficiency and effectiveness.
SUSTAINABLE PROCUREMENT

Sustainable procurement (SP) is about taking social and environmental factors into consideration, along with financial factors, when making procurement decisions.

It involves looking beyond the traditional economic parameters and making decisions based on the whole life cost, the associated risks, the measures of success, and the implications for society and the environment.

Making decisions in this way requires setting procurement into a broader strategic context including value for monetary considerations, performance management, government and community priorities.
Sustainable procurement is the process by which organizations purchase commodities or services by taking into account a number of factors including:

• The value of monetary considerations such as, price, quality, availability, and functionality
• The entire life cycle of products
• Environmental aspects such as the effects that the assets, supplies and/or services have on the environment over their whole lifecycle ("green procurement")
• Socioeconomic factors
• The value of using sustainable or recycled materials/products
SOCIAL AND ECONOMIC FACTORS

Procurement can be used as a mechanism to further the economic, social and environmental development.

As such, sustainable procurement should incorporate a number of safeguards and checks in the procurement process to positively assist in the following areas:

- Human rights
- Labor rights
- Environmental impacts
- Local entrepreneurship
- Empowerment women
- Poverty eradication
- Governance
SUSTAINABILITY FACTORS – ENVIRONMENTAL

Environmental factors to be considered include, but are not limited to, the life cycle assessment of:

- Pollutant releases
- Toxicity, especially the use of persistent, bio-accumulative, and toxic (PBT) chemicals
- Waste generation
- Water efficiency
- Greenhouse gas emissions
- Energy efficiency and consumption
- Use of renewable energy
- Depletion of natural resources
- Impacts on biodiversity
- Recyclability
- Recycled content
SUSTAINABILITY FACTORS – SOCIAL EQUITY

Social equity factors to be considered include, but are not limited to:

- Human health impacts
- Environmental justice (disproportionate environmental and health impacts on different population groups)
- Fair labor practices
- Health and retirement benefits
- Safety
- Livable wages and worker rights
- Use of local businesses and vendors whenever possible
- Use of certified Small and Minority and Women Owned Businesses
- Service disabled veterans
SUSTAINABILITY FACTORS – FISCAL FACTORS

Fiscal factors to be considered include, but are not limited to:

• Use reduction (i.e., purchase only necessary products)
• Product performance, quality, and durability
• Cost (monetary and non-monetary)
  • Life-cycle cost assessment
  • Lowest total cost
• Leveraging buying power
• Impact on staff time and labor, including operational and maintenance requirements
• Long-term financial/market changes
SUSTAINABILITY FACTORS – FINANCIAL FACTORS

Financial factors to be considered include, but are not limited to:

- Costs
- Whole-life costs
- Stranded and disposal costs
OPERATIONAL FACTORS

The procurement function plays an important role in achieving and ensuring good governance.

It is an integral component of a government’s capacity to provide required commodities and services.

A well-functioning procurement system ensures:

• Better value for money
• Increased efficiency and effectiveness of delivery
• Reduced potential for corruption
• A positive impact on a country’s investment climate
• Non-discriminatory practices
• Transparency
• Accountability
OPERATIONAL FACTORS

Good governance encompasses a functioning regulatory system, as well as institutional set-up, well designed processes and proven capacity.

Strategic approaches to procurement, as well as the knowledge transfer of good procurement practice and capacity building within procurement functions toward government procurement entities assist in the development of good governance practices.

Good governance makes sure that customers get what they need when they need it.
IMBALANCE DRIVES A LACK OF SUSTAINABILITY

If you only care about the lowest cost, you generate a race to the bottom where people reduce their quality, and use low costs methods of production which usually hurt labor and the environment. It also may not produce products or services that meet the operational needs.

If you only care about the operational needs, the vendor will always sell you the Cadillac, whether you need it or not. This happens a lot in IT where the vendor over scopes what you need and over-builds the solution, because cost and the “how did it get built” are not priorities.

If you only care about the sustainability, you often sacrifice efficient operations and pay a large premium in order to buy something fair trade or “green.”
IMBALANCE DRIVES A LACK OF SUSTAINABILITY

Any two of these considerations begin to balance the procurement:

• **Fiscal and operational** – Sets a floor so the quality can never go below a level otherwise it will not meet the operational needs but still leaves the environment and labor issues exposed

• **Fiscal and environmental** – Creates a ceiling on the costs but does not necessarily meet the operational needs efficiently

• **Operational and environmental** – This is the chemical formula for overspending
  • In addition to being sold the Cadillac, these two together encourage the Cadillac being upgraded to environmentally leveraged, which adds a cost premium
  • You’re basically taking the operation person who wants to use the best and fanciest tools, and combining them with the environmental justice advocates who believe cost should not be an issue

Only all three together create a sustainable procurement environment.
POTENTIAL BENEFITS

Potential benefits of sustainable procurement include:

• Long-term efficiency savings – financial
• More efficient and effective use of natural resources – socio-economic
• Reducing the harmful impact of pollution and waste – environmental
• Reducing the impact of hazardous substances on human health and the environment – operational / environmental
• Encouraging innovation – financial
• Providing strong signals to the sustainable products market – operational
• Practical expression of organizations’ commitment to sustainable development – operational
The main barriers to achieving sustainable procurement seem to be:

- Difficulty in changing procurement behavior
- Lack of suppliers of sustainable suppliers or services
- Complexity of comparing costing/value for financial assessments
- Difficulty of including additional evaluation points
- Perception that the process and outcomes are more costly or time consuming
ADDRESSING EACH BARRIER

BARRIER: Difficulty in changing procurement behavior

How do you change a vendor’s behavior?

• Add the goals to the procurement
• Ensure the vendor abides by the rules, terms and conditions of the contract and program (Accountability)
• Schedule a Meet and Greet
• Schedule Roundtables
• Leverage the organizations that work with these vendors to get the word out, i.e., SDVOB office, MWBE office, Business Council, etc.

NYS Example: Manufacturer’s Umbrella
ADDRESSING EACH BARRIER

BARRIER: The difficulty of including additional evaluation points

- Policy enforcement
- Collecting certified payrolls as a requirement
- Training
- Outreach
- Documentation, i.e., MWBE plan, certification documents

Example: NYS MWBE “…consideration must be given to awarding technical evaluation points to bidders: 1. Who are New York State certified MWBEs, Service-Disabled Veteran-Owned Businesses (SDVOBs) or New York State Small Businesses (SBEs) as defined in Executive law Section 310(20) (“Quantitative Factors,” in accordance with State Finance Law § 163(1)(j)), or 2. Based upon a bidder’s efforts to include New York State certified MWBEs in their business practices (“Diversity Practices,” in accordance with Executive Law § 313-a and 5 NYCRR § 142.3)
ADDRESSING EACH BARRIER

BARRIER: Lack of suppliers of sustainable suppliers or services

- Advertise, advertise, advertise
- Meet and greets
- Roundtables
- Research from other states, etc.
- Publish success stories
- Leverage the organizations that work with these vendors to get the word out, i.e., Business Council, etc.
- Waivers

NYS Example: Executive Order 4, Establishing a State Green Procurement and Agency Sustainability Program, established the creation of green procurement lists and specifications of commodities, services, and technology for use by state agencies during a procurement.

Include in the procurement the condition that items in the product list must be 100% sustainable products, or must be recyclable or remanufactured. This could be a Go/No-Go requirement. Example: Carpet procurement.
ADDRESSING EACH BARRIER

BARRIER: Complexity of comparing costing/value for financial assessments

- Training
- Policy and procedures
- Procurement record

EXAMPLE: NYS EO 190 – “…for appropriate best value procurements where price is NOT the determining factor, an affected state entity shall consider structuring the procurement to allow the award of additional technical points for proposals that address the New York State’s Prevention Agenda priorities and the World Health Organization (WHO) Eight Domains of Livability based upon set evaluative criteria.

Let’s assume Technical is worth 70%. Within that 70%, you made HAAP worth 5%. A bidder who meets all listed HAAP criteria gets 100% of those points, which is 3.5 points (.70 x .05 = 3.5 pts).

Or perhaps Bidder receives only 50% out of a possible 100 points. (3.5 pts x .50 = 1.75).

Bidder HAAP scores are not pro-rated against each other, but rather they are eligible to earn the same points. For example, if two bidders both meet 100% of the HAAP criterion as listed, they both would receive 3.5 points.
ADDRESSING EACH BARRIER

BARRIER: Perception that the process and outcomes are more costly or time consuming

- Education
- Whole-life costing analysis; 15% benefit compared to the costs of caring for unemployed individuals with disabilities, etc.
- Statute enforcement
- Publish success stories
- Leverage the organizations that work with these vendors to get the word out, i.e., Business Council, Green teams, etc.

Examples: Electric vehicles
SUSTAINABLE PROCUREMENT PROCESS

The sustainable procurement process does not differ greatly from the traditional procurement process.

• It incorporates an initial stage to determine the effect of the procurement action in terms of a desired outcome that is both environmentally and socially benign
• It also includes an additional stage at the end of the process to monitor and assess, and to adjust the net effect of the desired outcome if need be
• Other sustainable interventions are incorporated throughout the various stages of the procurement process

https://www.ungm.org/Areas/Public/pph/ch04s05.html
Planning the procurement - Prior to procurement, sustainability opportunities should be identified. This would be done through a number of analyses, such as a risk assessment, supply market analysis, stakeholder analysis, demand analysis, etc. The type of analysis used and the decisions will depend upon the sustainability issue(s) affected by the procurement action.

Planning the requirement - This involves the transformation of a stated requirement or organizational goals and objectives into measurable activities to be used to plan, budget and manage the procurement function within the organization. As with the traditional procurement process, procurement planning is vitally important to ensure an effective, efficient, strategically viable and sustainable result. This is usually achieved through goals.
SUSTAINABILITY THROUGH YOUR PROCUREMENTS – BEST PRACTICES

**Requirement definition** - This needs to be a specific requirement of the specified outcome desired by the procurement (e.g., 15% of the awarded vendors will be minority- and women-owned business enterprises).

**Sourcing** - Supplier sourcing and evaluation strategy enables the procurement function to address the goals stated in your procurement. This can be achieved by including suppliers from identified minority groups and representation in the bidding process. Environmental and social issues can be considered during the pre-qualification exercises.

**Solicitation** - Solicitation documents should incorporate sustainability specifications and requirements designed in the previous stages. Potential suppliers must then be able to show they are able to meet those requirements.
SUSTAINABILITY THROUGH YOUR PROCUREMENTS – BEST PRACTICES

Evaluation and contracting - The evaluation and award stage makes use of the standard evaluation methods; however, it should place specific emphasis on use of weighted and ranked criteria incorporating the specific performance criteria and specifications that address sustainable procurement factors.

Sustainability evaluation criteria - Assessment of finances is a key part of the procurement process. The degree to which tenders are scored is dependent upon a number of factors. Tender assessment is the opportunity to go into more specific detail about how the supplier is going to deliver the requirements from a cost, quality and sustainability perspective. Through risk assessment, sustainability criteria may have been set that are so important that a supplier must have them in order to bid; typically, these are addressed through the specification and are considered as pass/fail criteria. Items that are important but not vital are dealt with through asking the supplier for information that is then scored, called sustainability criteria.
SUSTAINABILITY THROUGH YOUR PROCUREMENTS – BEST PRACTICES

Monitor and control - This stage involves monitoring suppliers’ performance throughout the contract period. Where sustainability criteria have been set, these should be monitored during this stage.

Monitor and assess the desired ‘outcome’ achieved - The final stage of the sustainable procurement process is to measure the results against the outcome that was initially set. The results and lessons learned should then be fed back into stage one. The outcome may be difficult to measure, or may need to be measured in intervals over a certain time period. Specific indicators may also need to be developed to facilitate meaningful measurements.
CONCLUSION

• While the concept of sustainable procurement is becoming more widely accepted and practiced, it is constantly changing.

• While not all factors will be incorporated into every purchase, procurements should make a good faith effort to incorporate and balance these factors to the maximum extent possible.

• What began as green procurement incorporating only environmental product criteria has grown to encompass social performance criteria as well as economic goals to further the notion of sustainable development.

• Product and company environmental performance are readily quantifiable and measurable, but social aspects relating to human rights and labor standards are more difficult to include as quantifiable requirements within solicitation documents.