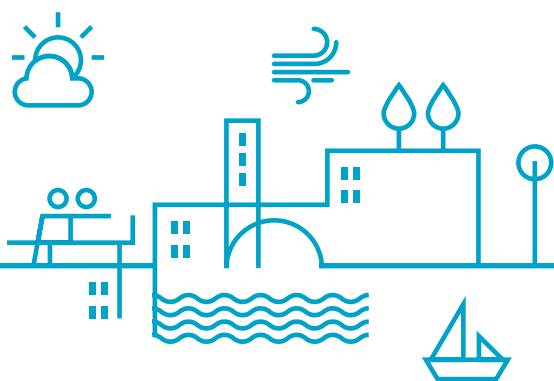


Delivering Sustainable Outcomes Through Supply Chains Using ISO 20400



About IEMA

We are the worldwide alliance of environmental and sustainability professionals, working to make our businesses and organisations future-proof.

Belonging gives us the knowledge, connections and authority to lead collective change, with IEMA's global sustainability standards as our benchmark.

By mobilising our expertise, we will continue to challenge norms, drive new kinds of enterprise, and make measurable progress towards our bold vision: transforming the world to sustainability.

Join us at www.iema.net.

Action Sustainability

Action Sustainability are global thought leaders, consultants, software developers and service providers in sustainable supply chain management. Our mission is to “inspire sustainable business” not only establishing best practice but by pushing boundaries through social enterprise, setting new standards and disseminating new knowledge.

More information on how we can help you implement sustainable procurement can be found at www.actionsustainability.com.

All the latest international developments on ISO 20400, including case studies and blogs, can be found at www.iso20400.org.

Acknowledgments

This briefing note was authored and edited by Shaun McCarthy (Action Sustainability) who led the UK's input into this standard.

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IEMA Transforming the world
to sustainability



Outline

What Is This About?

Government, corporate and societal demand for sustainability is growing to the point that it is becoming a core objective for many organisations around the world. Standards such as ISO 14001 and ISO 26000 help us to develop frameworks and management systems to deliver this. However, most organisations rely heavily on their supply chains to deliver what they do, typically 40-80% of an organisation's revenue will be diverted to a supply chain. Delivering sustainable outcomes through a supply chain where an organisation is less influential is challenging, and often put it in the file marked "too difficult". ISO 20400 is the world's first international standard to provide guidance on delivering sustainability objectives through its supply chain.

TOP TIP

You should note that this is a **guidance** standard like ISO 26000, not a **requirements** standard like ISO 14001. This means you cannot be certified for compliance but you can be evaluated and advised by a competent third party.

Why Use It?

The structure of the standard is very similar to the established BS 8903, which is well proven to have significant business benefits.

CASE STUDY

By following a three year sustainable procurement programme based on BS 8903, United Utilities delivered financial savings in excess of £6M, improved procurement staff awareness by 100%, leading to improved retention and achieved global leadership status in the Dow Jones Sustainability Index, improving shareholder confidence.

The Evolution of Sustainable Procurement

The concept of sustainable procurement is not new. You may recall campaigns against the sportswear sector, arguing against child labour in their supply chains, or a campaign called “No blood on my cellphone” in the 90s against conflict minerals in the electronics sector.

In 2005, the UK government published a sustainable development strategy which called on public procurers to use their leverage to deliver more sustainable outcomes through their supply chains. This led to the Sustainable Procurement Task Force chaired by Sir Neville Simms. In the foreword of his 2006 report, “Procuring the Future”, he defined sustainable procurement as:



“Using procurement to support wider social, economic and environmental objectives in ways that offer real long-term benefits.”

Sir Neville Simms

Chairman of the Sustainable Procurement Task Force

Standards published in the UK in 2010 and France in 2011 provided additional guidance. In 2013, an ISO committee was formed to develop a new international standard, ISO 20400, which was published in 2017.

Who Wrote the Standard?

The standard was developed by a committee of international experts from 37 participating countries, 15 observing countries and 10 international organisations.

Terminology

Many of you will be familiar with some of the terms below and can probably come up with a few of your own. This inconsistent terminology is confusing, duplicates language and impedes progress.

- ***Social Procurement***
- ***Responsible Sourcing***
- ***Ethical and Sustainable Procurement***
- ***Supply Chain Sustainability***
- ***Green Procurement***
- ***Buying Green***
- ***Ethical Procurement and Supply***
- ***Buying Social***
- ***Green Purchasing***
- ***Sustainable Procurement***
- ***Sustainable Purchasing***

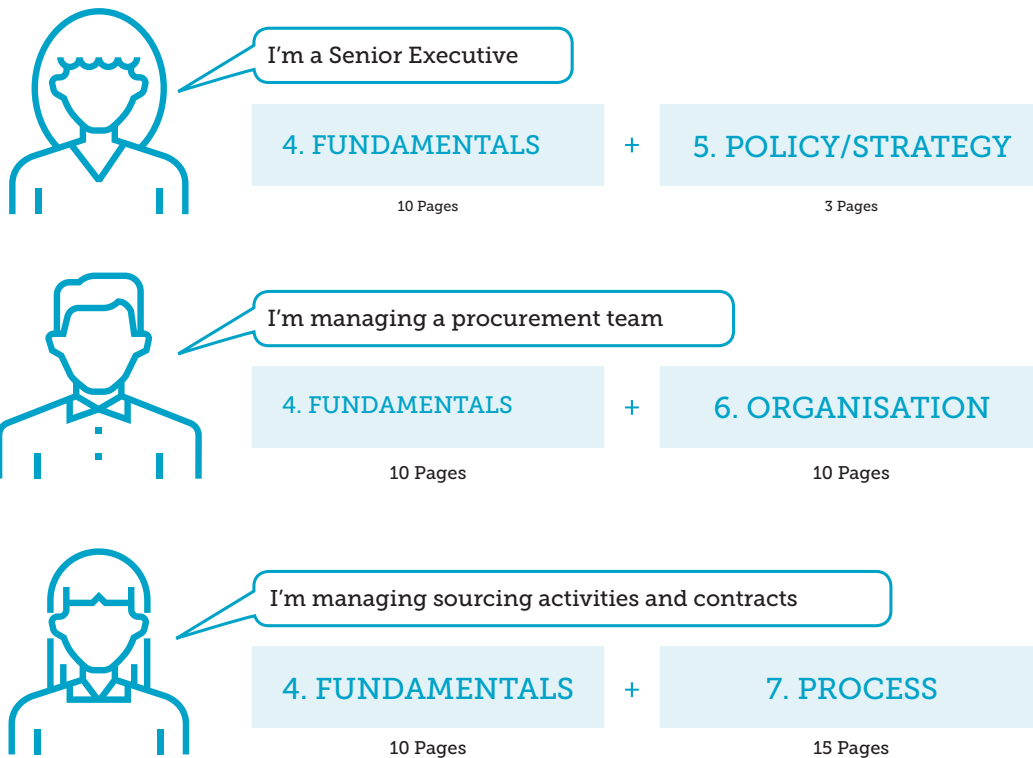
The committee agreed to use the term Sustainable Procurement; “Sustainable” because it encompasses all three elements of sustainability, not just “green” and “Procurement” because it covers all aspects of delivering objectives through a supply chain, not just “Purchasing” which can be seen as a transactional process in some languages.

The committee defined sustainable procurement as:

“Procurement that has the most positive environmental, social & economic impacts possible over the entire life cycle”

Who is the Standard For?

The standard is for anybody who contributes to procurement decisions or works with suppliers. This can be a very large number of people in some organisations, who may be in different departments, different countries and different time zones. The standard helpfully points the reader to sections that may be applicable to groups of people in an organisation.



How Does it Work?

How Does it Work?

The standard is in four sections as illustrated below:



Understanding the Fundamentals



There are some fundamental issues we need to understand before we start. For example, the key principles of sustainable procurement:

- Accountability
- Transparency
- Ethical behaviour
- Full and fair opportunity
- Respect for stakeholder interests
- Respect for the rule of law and international norms of behaviour
- Respect for human rights
- Innovative solutions
- Focus on need
- Integration
- Life cycle approach
- Continual improvement

The standard uses the core subjects of sustainability, taken from ISO 26000:

- Organisational governance
- Human rights
- Labour practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

Organisations will have their own sustainability/ CSR policies and strategies, some based on ISO 26000, some not. This standard is about implementing that strategy, however defined, through a supply chain using procurement processes and expertise.

Drivers for Sustainable Procurement

Before embarking on a sustainable procurement policy, it is important to know why you are doing it. The standard provides guidance on

drivers. With expert help, this can be used to enable facilitated sessions with senior executives to establish the drivers as illustrated below:



Due Diligence and Avoiding Complicity

Due diligence is an important tool in delivering a sustainable procurement strategy, as is the concept of complicity. This is the notion that the purchaser can be complicit in bad practice throughout their extended supply chains. "I didn't know" is not an adequate excuse. These principles are enshrined in law in some cases; for example, the UK Modern Slavery Act, Bribery Act and the Dodd Frank Act in the USA. The standard provides advice on how to incorporate these issues into a policy.

Setting Priorities

The standard does not expect a "one size fits all" solution and advises use of the drivers defined above to set priorities. It considers the relevance and significance of sustainability impacts together with the scope to exercise influence.

Integrating Sustainability into Procurement Policy & Strategy



This section deals with developing a policy and strategy to deliver the organisation's ambitions in the context of procurement. It introduces the idea of a "golden thread" between organisational policy and procurement strategy.

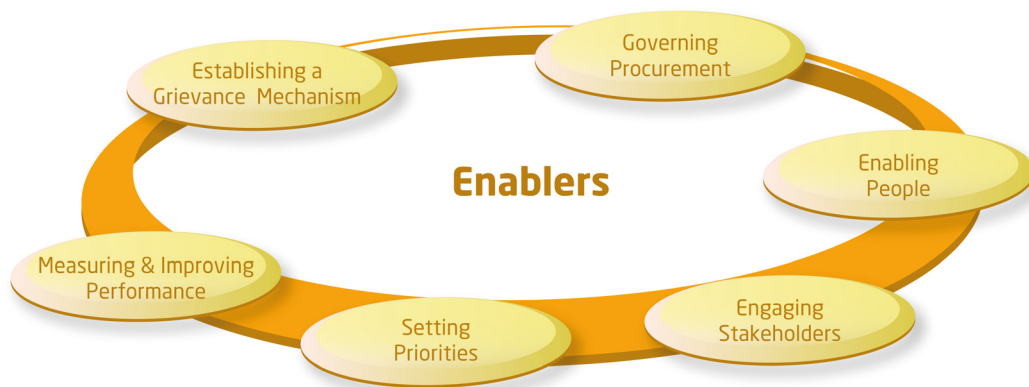
It covers committing to sustainable procurement, clarifying accountability, aligning procurement with organisational objectives and goals, understanding supply chains and managing implementation.

The standard assumes the organisation has good procurement practice. It is critical to have good processes in place in the first instance for category management, tender/award, contract management, materials control, purchase to pay, supplier relationship management, etc.

TOP TIP

Sustainability should not cost you more; bad procurement does. Using the right procurement techniques to ensure a competitive, engaged and competent supply chain will enable sustainability goals to be introduced in a way that delivers value for money.

Organising the Procurement Function Towards Sustainability



This section deals with the organisational conditions you need to put in place to “enable” sustainable procurement to happen:

Governing Procurement

The standard encourages the user to integrate sustainability into existing procurement governance arrangements, rather than creating new ones. This can mean: approval of category plans, sourcing strategies, prequalification, tender, award and supplier KPIs. These all need to include appropriate sustainability priorities. People making decisions need to be properly informed by training and/or professional advice to do so.

TOP TIP

Make sure that approval processes such as Gateway Reviews and contract sign off procedures include a requirement to address appropriate sustainability risks and opportunities.

Enabling People

This is about making sure that people are sufficiently competent and well supported. This includes: training, organisational culture and professional advice. The standard provides advice on embedding sustainable procurement requirements into job descriptions, personal objectives, development plans and recruitment processes.

TOP TIP

Don't expect all procurement professionals to be experts in sustainability. Make sure they have access to professional advice when they need it.

Identifying and Engaging Stakeholders

The standard suggests some groups or organisations that may be engaged and the purpose of that engagement. The most important stakeholders to engage for a sustainable procurement strategy are, of course, the suppliers. Supply chains do not like surprises and will build in risk money to prices if they are suddenly asked to do something they have not done before. Users are encouraged to signpost their supply chains to new sustainability standards well in advance, and to be clear and consistent. This will encourage the supply chain to compete around

the new requirements, keeping prices down. It cannot be assumed that suppliers are competent to deliver new standards of sustainability. If an organisation goes down a track of only selecting suppliers with the best sustainability credentials, others will fall away, leading to a restricted supply market and the risk of price increases. In order to maintain competition and keep prices keen, it will often be necessary to encourage suppliers to build their capacity.

TOP TIP

If you assume your supply chain understands your sustainability requirements perfectly and are competent to deliver them straight away, you will probably get a nasty and expensive surprise. You must take your suppliers with you.

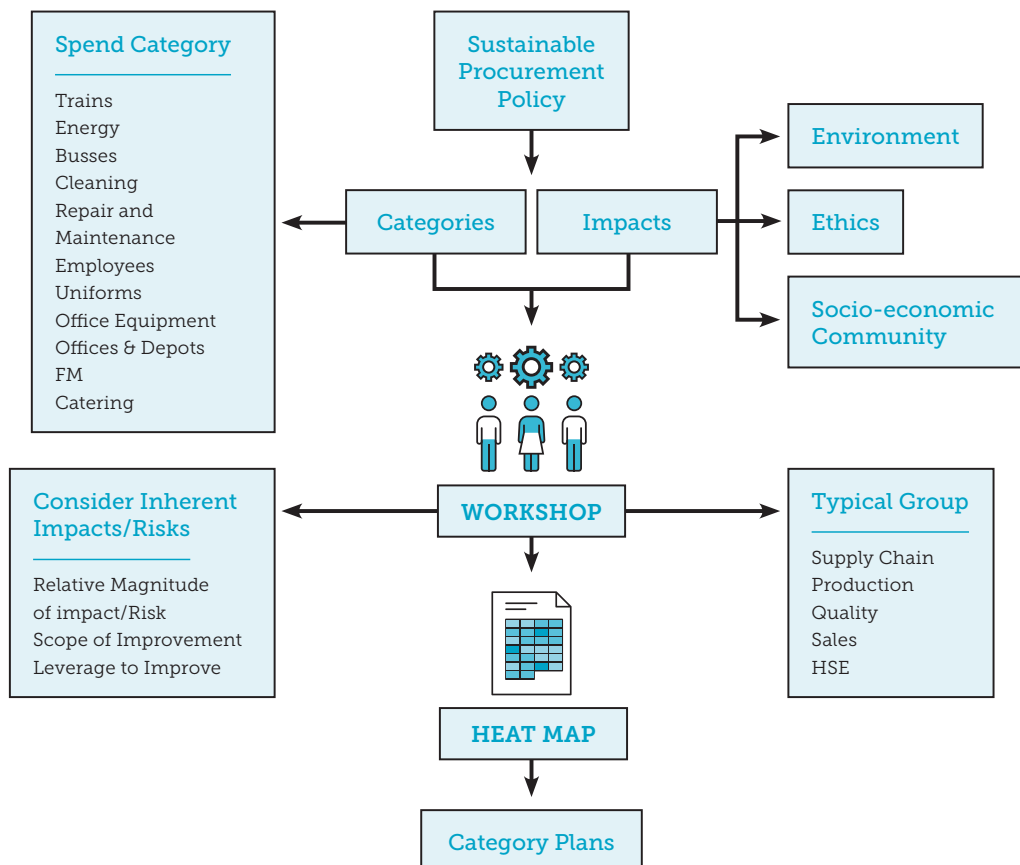
Setting Sustainable Procurement Priorities

Having set priorities based on the drivers' model recommended in the Fundamentals section, it is necessary to set priorities at a more granular level for the supply chain. The guidance is based on two simple assumptions:

- Not all categories of supply will impact the organisation's sustainability objectives in the same way,
- Not all suppliers within a category will have the same sustainability risks and opportunities.

The standard takes you through a stage by stage process to produce priority heat maps on which to base your sustainable procurement strategy. We recommend starting at a category level and working down to supplier level if necessary. This is a critical exercise that will ensure you are only asking your suppliers to do something that is relevant to their category of supply and is supportive of your sustainability goals (remember the "golden thread"). This way you will avoid wasting your suppliers time and your money on irrelevant impacts that are "nice to do" but do not make a difference to your sustainability agenda.

Setting Priorities



Measuring and Improving Performance

“What gets measured gets done”.

Sustainability performance is notoriously difficult to measure, so most organisations don't really do it. Good performance management relies on strong, clear objectives, well communicated through an engaged and competent supply chain. In other words: do all the other things in this guide before you think about measures. The standard describes four different types of indicator for different purposes:

- **Process indicators** – good for the early stages of development to understand how many compliant contracts, how many people trained, how many suppliers engaged etc.
- **Output indicators** – useful to monitor suppliers' performance, carbon emissions, waste volumes, number of local employees, local spend etc.
- **Outcome indicators** – help to understand the contribution of the supply chain to overall organisational objectives, such as carbon footprint, workforce diversity etc.
- **Impact indicators** – help to understand the wider impact on the environment or society, or “externalities”. Examples of this may be the impact on local unemployment figures, fuel poverty, air quality etc.

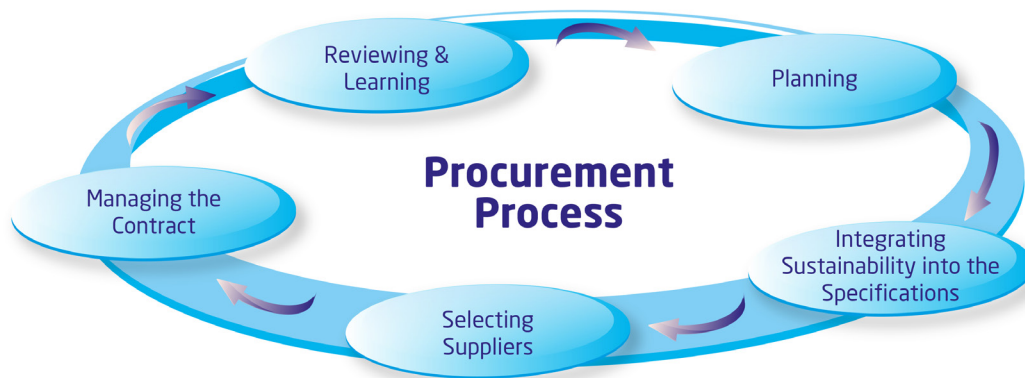
Establishing a Grievance Mechanism

Organisations need a mechanism to enable anybody in the supply chain to raise a grievance and that it will be properly and independently investigated. It is very important to understand if your policies are working.

TOP TIP

It is important to understand the difference between “sustainable supply” and “sustainable supplier”. The standard is focused on the former as a priority. What is a supplier doing to support your sustainability goals, rather than their general sustainability practices?

Integrating Sustainability into the Procurement Process



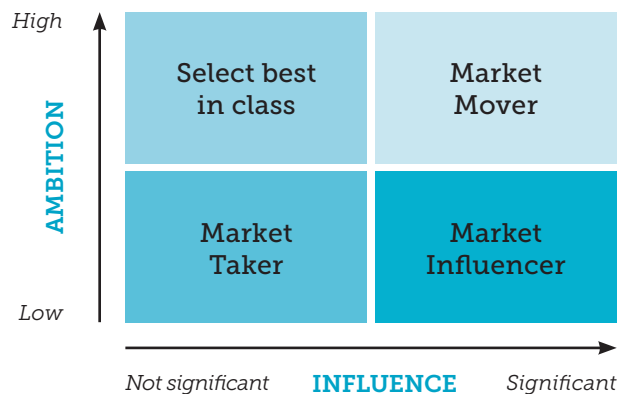
The final section of the standard describes how to embed your priorities into the procurement process. It takes you step by step through a typical procurement process as illustrated and provides guidance on incorporating sustainability.

Planning

It is critical to incorporate sustainability priorities into the process as early as possible. This enables realistic and affordable sustainability requirements to be considered alongside those traditionally addressed in a sourcing plan; including specification, options analysis, demand planning, risk and opportunity analysis, market analysis and early market engagement.

Sustainability risks and opportunities to be considered are dependent on the priority sustainability impacts for the category. Life cycle costing and of disposal of goods at the end of their useful life need to be considered.

When analysing the market, it is important to consider the purchaser's position in that market. Demanding ambitious sustainability requirements when the organisation has little leverage over the market can lead to significant price increases. The diagram below, taken from the standard, illustrates this:



Integrating Sustainability Requirements Into the Specifications

Integrating Sustainability Requirements Into the Specifications

It is important to ensure that the sustainability requirements specified at this stage are realistic, objective and verifiable. If due diligence down the supply chain is necessary, for example, to address human rights risks, it should be clearly stated what needs to be done, who should do it, and who should pay for it.

The type of requirement can shape the outcome of a sourcing programme.

The standard defines three types:

- **Physical or descriptive requirements:** specify a characteristic of goods or services. For example, recycled or renewable content,
- **Performance requirements:** define the performance standards to be met by the goods or services. For example, standards of care and number of patients for a social care service, delivery time, waste, and carbon emissions reduction;
- **Functional requirements:** define the proposed function to be fulfilled by the goods or services required. For example, the strength and durability of a product or energy/fuel efficiency.

Physical and functional specifications are easier to verify, but can stifle innovation. Performance requirements are harder to verify but provide more opportunities for suppliers to innovate and compete. Minimum requirements, for example, with relation to human rights and ethics, should be clearly stated.

Use of labels as a short cut to sustainable goods or services is covered with comprehensive guidance on types of labels and what they mean. Some labels are not all they appear to be. Buyers are encouraged to research these carefully.

Selecting Suppliers

Supplier selection usually involves a pre-qualification and tender process. These should be strictly linked to the sustainability requirements in the specification. Any temptation to gather information or add requirements that are “nice to have” at this stage should be resisted. If it is not in the specification, don’t ask for it.

Pre-qualification is intended to evaluate suppliers’ capacity to meet the requirements, including sustainability. The tender process and associated negotiations tie down what suppliers are actually prepared to commit to and can be evaluated against the specification.

The standard provides comprehensive guidance on this process and examples of questions and evaluation criteria that can be used at each stage. Use of balanced scorecards can be helpful and the opportunity to monetise as many impacts as possible should be taken. For example, the energy efficiency of a product or a “take back” scheme at the end of life can be considered as part of a life cycle cost analysis.

Managing the Contract

The standard provides comprehensive guidance on contract management including; managing the supplier relationship, implementing the contract, using a contract management plan, managing performance, customer/supplier joint initiatives, managing supplier failure and managing end of contract or end of useful life of goods.

In all cases it is important to focus on managing performance against the specification and contract conditions set at the earlier stages and not to introduce new concepts or

requirements that can potentially add cost. If changes are required during the course of the contract these need to be addressed through a formal change management process.

Performance management is not a one way street. The standard encourages an open and transparent way of managing performance that enables suppliers to feed back performance of their customers to facilitate improvement through open and constructive dialogue.

Conclusion

Sustainable procurement is good procurement. Even if a small proportion of organisations with significant procurement spend followed this guidance the multiplication effect through the supply chain would be massive and make a difference to the world we live in.

Delivering Sustainable Outcomes Through Supply Chains Using ISO 20400

Government, corporate and societal demand for sustainability is growing to the point that it is becoming a core objective for many organisations around the world. Standards such as ISO 14001 and ISO 26000 help us to develop frameworks and management systems to deliver this. However, most organisations rely heavily on their supply chains to deliver what they do, typically 40-80% of an organisation's revenue will be diverted to a supply chain. Delivering sustainable outcomes through a supply chain where an organisation is less influential is challenging, and often put it in the file marked "too difficult". ISO 20400 is the world's first international standard to provide guidance on delivering sustainability objectives through its supply chain.