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CHINA CONFERENCE: SUPPLY CHAIN MANAGEMENT AND GREEN PROCUREMENT – OCTOBER 2012

TITLE: TRANSITION TO IMPLEMENTATION.

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INTRODUCTION

There are many aspects to consider when looking at supply chain management and green procurement. It is vital to consider what is important as well as the need for education, training, innovation, looking ahead and thinking strategically. It is essential to consider and ensure that the total supply chain can support green procurement.

Managing the supply chain is essential as is the need to behave 'green' and to be able to know the theory and then apply it in practice. It is not a matter of 'ticking boxes' to look good – the results need to be there as well. It will take longer than five minutes to achieve.

It is timely to link green strategy and supply management together. With the existing economic situation comes the need for future flexibility and to consider procurement collaboration and integration.

Both buyer and supplier must look ahead to plan for smart procurements and to think/act strategically. Flexibility is imperative.

Definitions:

Supply –	provide what is needed or wanted.
Management –	managing, control
Strategic –	giving an advantage
Sustainable:	support, keep something happening
Procurement:	obtain, acquire, look after.

I find these definitions interesting. All are interlinked and show the need for sustainability and the need to manage appropriately procurement overall. Perhaps we need to take some notice?

Procurement sustainability and socially responsible procurement – good ideals but how do we get there – and once there, how do we stay there and continue to improve?. We need effective management and the need to be inclusive of the supply chain. All too often this linkage is not well thought through – or not considered at all.

It starts with the recognition that the 'same old' ways cannot continue. Buyers need to provide a vision for procurement sustainability and perhaps it needs to start in the tender process. Suppliers need to recognise that they have a role to play in respect of the product they provide. Buyers need to ensure that they achieve optimum operations management by including the supply chain in its entirety. Operational aspects are a mix of factors that provide for the effective and efficient workings of procurement/contract management.

Question: Are you reliant on the 'same' way of doing things?

Supply chain management is just that: - to ensure that the day to day operation is managed – and well. Supply chain management are active words: one is the responsibility of the buyer and one the responsibility of the supplier – truly a match of a positive buyer and supplier relationship. It is worth the effort to see the results. This is positive managing and is certainly better than the alternative and managing the consequences of poor results. This is especially true when we consider procurement sustainability and how we can implement into our organisations.

The practical aspects of operational management and links to supply chains are significant and often not done well, which is detrimental in the extreme. Buyers often do not consider external considerations in their operational thinking and day to day management. This is very short sighted. You can have the greatest plan but without an effective supply chain, the result may not be what you want.

QUESTION: How is your thinking and planning?

Buyers need to be clear about the definition of 'supply chain'. You need to consider not just the immediate supplier but the total supply chain. This is vital if the product has strategic value to your business.

You need to make sure operationally that management of the supply chain works well. This provides procurement sustainability for both buyer and supplier. This issue shows the importance of taking a holistic approach rather than just a narrow focus and treating each activity in its own 'box'.

QUESTION: Do you know what contracts are of strategic value to your organisation?

Supply chain management is often the missing link in strategic management. This is only one missing link as buyers often are so involved in the day to day work that concepts of innovation, strategy and practical considerations of managing the supply chain are not considered, or are left in the 'too hard basket' which is often where you will find Green procurement – which is unfortunate and not at all helpful.

We need to be practical when discussing supply chain management and green procurement. We need to be realistic and the focus should be on the following four areas - ethics, vision, courage and realism. Without these four we cannot achieve what is needed.

VISION

A vision is needed desperately and soon but the vision has to be realistic and practical. A 'working vision' would be best to adjust to circumstances. It would not be helpful to put in place a vision that was (a) theoretical and (b) politically correct but did nothing to push things along.

The vision needs to be aligned with the overall strategy which includes a sustainable initiative to ensure that procurement can equally adapt to sustainability.

This is especially relevant when looking and dealing with commercial public procurement and socially responsible procurement for both public and private procurement.

Taking both in turn:

(a) **Commercial** - As a part of the planning process, consider how the procurement can be achieved in a way that is not harmful in the long term – respecting service and relationships. The most obvious way is through electronic procurement. This will reduce the paperwork and draw in a wider audience and be more sustainable, e.g. save trees/forests.

(b) **Social Responsibility** – We need the above four tenets - ethics, vision, courage and realism. There is a need within the procurement mix, i.e., buyer and supplier to consider and take such steps. It cannot be left to only one party – both parties need to work together.

This is an area where sustainable procurement can link into social responsibility and when looking at procuring items such as desks, computers, etc. There are two areas where a difference can be made. This then links into evaluating not only the immediate supplier but the entire supply chain. This will ensure that the product 'line' complies with legislation, social responsibility and requirements. We need to collaborate so all parties 'do their bit'.

Let us think strategically, think big and innovatively and to act - and soon. We cannot afford to talk and not act.

However, take a reality check because to achieve climate neutrality, for example, through procurement will not be easy. We have to recognise also that it will take time and there is no 'one size fits all' - particularly for developing countries where, for example, the concept of electronic procurement is not always feasible due to budget constraints, infrastructure issues etc.

LEGISLATION

In addition, we need not only the political/societal will but also legislation, education, enforcement, and an effective implementation plan. We need to make a start and if done right we can implement the vision.

Firstly however a sustainability initiative is needed and the courage to do what is required. There is the potential to make a difference and procurement is a good place for this to occur.

Procurement people have a place in this - they need however to be allowed to act. This requires support from management and through legislation. They cannot do it by themselves.

Legislation is a must, which will take courage, ethics and realism. This will give procurement a base to work from in terms of evaluation and compliance.

EDUCATION

Education is the key – management, procurement staff, suppliers, supply chain. It would be in the buyers' interest to promote and run procurement education programmes. Training in supply chain management will assist in achieving well trained staff, who can look positively at all options which can lead to innovation/technology improvements.

We need to emphasise green and sustainable procurement by including these in the evaluation criteria and weightings. By doing this procurement can (a) promote sustainable procurement and (b) award contracts to suppliers abiding by sustainability requirements.

In addition the contract can have compliance clauses and link to performance and which link to penalties and rewards. Compliance is vital – from both sides.

How do we implement? We need:

Legislation
Policies and Procedures
Procurement Strategy
Education.

Buyers can only influence (b) and (c). They can implement and they can enforce. Implementation would be easy if there were law(s) to back it up.

QUESTION: How sustainable is your procurement process?

ECONOMIC IMPLICATIONS

We need to consider and incorporate the visible and non visible aspects of economics. We can achieve both visible results, i.e., savings and saving of precious resources. We cannot afford not to look at procurement change. There will be an effect on both buyer and suppliers' 'bottom line' even if only in terms of compliance costs. How do we manage this? Could it be that compliance costs are shared? There is no easy answer.

The economic consequences of doing nothing are huge - if not for the current generation - then for the next.

All of us need to be aware of the economic implications if nothing is done. There again realism is needed. It will take time to understand the implications and make significant change.

USEFUL FOCUS

What we need to focus on are:

Supplier Selection
Green Performance Measurements.

and look at some practical solutions.

Supplier Selection.

This is vital to ensure that we can have sustainable procurement. Buyers need to incorporate sustainable procurement into the evaluation process by way of sustainability-related criteria and evaluation weightings. Evaluation needs to consider bidders' capacity to move in the right direction and whether they have voluntarily moved toward and into a state of readiness to work in a sustainable manner.

Example of Evaluation Criteria/Weightings.

	Marks
Price	20
Technical	30
Sustainable/Green Procurement	30
Response to Scope of Work	20
	100

This shows the importance that buyers place on procurement sustainability. To add sustainable procurement to evaluation criteria however, means that (a) either an extra criteria is added or (b) something has to 'go' to fit sustainable procurement into the criteria. This is not a reason not to include.

Both parties need to discuss sustainability during proposal presentations within the tender process. This can assist to ensure that both parties have the same thinking and that one – or both – are not paying lip service to the latest 'buzz word'. This will ensure that the supplier has the ability to ensure sustainability of requirements overall and the importance of sustainability for the total supply chain.

Selection of a Supplier - The selection is always important but when you consider future product requirements then sustainability is vital. Consistency is the key as is the ability for the supplier to be agile especially in uncertain times.

Performance Measurements and Sustainability.

The contract needs to have performance measurements as they relate to sustainable procurement. There can be rewards and penalties – and organisations must be prepared to use them. It is not useful to 'threaten' penalties but then not use them– this gives a poor message.

It is too important to allow poor performance to continue. Positive performance should be recognised and rewarded –remember the 'rewards' may not always be monetary in nature.

Practical Solutions

There are issues that concern suppliers. Buyers must recognise these exist and there needs to be discussion as to how to manage these concerns. The obvious issues are:

1. Sharing of Compliance Costs.

Suppliers are finding compliance costs to be prohibitive. To achieve sustainable procurement and having a valuable supplier there could be a case to be made for sharing of compliance costs. This could then be minimal for both sides and can save time, money, compliance, legislation requirements later on.

It is useful to have a contract clause outlining co-operation and also identify a defined timeframe at which point suppliers will bear the responsibility. This concept is really applicable especially in the short to medium term.

2. Collaboration.

Collaboration is an offshoot of compliance cost sharing. This can be achieved by having a positive buyer/supplier relationship.

This is an interesting area and one in which there can be huge possibilities. However this can cause confusion and misunderstandings. A lot of effort and work needs to go into establishing what is meant by the term and to establish boundaries. All too often this concept is bandied about without giving regard to the practicalities. Be clear and write it down so others can understand too.

Some areas of green and procurement sustainability collaboration are:

Research and Development.

Storage

Office space – shared.

Personnel – shared.

These are but four but sufficient for this paper's purpose to reflect on what can be achieved. Consideration should also be given to the extent of the collaboration. It would be unwise to commit to an area in its entirety with the consequence of one entity 'losing' itself in the process.

In respect to boundaries – the following are some that need to be considered:

1. One off/ongoing – to be effective, it would be best for it to be ongoing. This will make it worthwhile for both sides.
2. Management- own/linkage?

3. Operational – own/linkage?
4. Work output – who/what?.
5. Communication/Reporting/Reporting lines – specific requirements need to be worked out.

These are areas that need to be worked through so there are no unnecessary double ups. It certainly needs to be clear in the area of work outputs. When it comes to financial boundaries it is essential to get this right.

Information Sharing

Sustainable procurement and the possibilities are ongoing as more is known. Information sharing can benefit both buyer and supplier. There is a lot of information so more than one set of eyes are useful in researching information.

These three areas are ways in which the need for sustainability is backed up in a practical way. They are actions that are proactive and show the need to look at sustainable procurement in a strategic way.

Practically, in respect to compliance costs – if there is no consideration for cost sharing then the buyer will, one way or another pay, and this will show in increased supplier pricing which will be passed on to the buyer. What would be required is an acknowledgement of sharing compliance costs and to provide an applicable timeframe.

In addition it would be useful to make the contract a strategic one for both sides. This would assist in respect to timetable, Key Performance Indicators and information sharing.

Value: Sustainability adds value to the procurement requirements and to the contractual relationship. The importance of sustainability means that ongoing value needs to be recognised. Leveraging as it relates to sustainability is valuable and can be equally beneficial to both sides.

When it comes to supply chain management, we also need to focus on innovation management and early supplier involvement. When we look at the reality, however, it is a pity that buyers often leave out the party who can often provide the solution to procurement needs. Buyers cannot do this alone but can often act as if they can.

Question: Are you the problem?

WHAT WE NEED

Buyers do not have the key on innovation. Suppliers have often assisted others and can provide valuable input – if buyers would only ask or provide a forum for discussion.

The key to innovation and proposed concepts is communication – both internally and externally – thereby achieving early supplier involvement. The reality is that if the existing supplier cannot manage the change or the expenditure level reaches a specific point then a tender will be needed.

Supply management is often the missing link in strategic management. This is only one missing link as buyers often are so involved in the day to day work that concepts of innovation, strategy and strategic thinking are not considered, or are left in the 'too hard basket'. This unfortunately is not helpful. If left in this state progress will not be made.

Question: Do you provide an environment that suppliers feel comfortable in providing solutions?

Buyers often look at suppliers as 'them' or 'the other side'. There is still an issue of 'us and them' and treating suppliers as a necessary evil rather than as a valuable partner.

Buyers often forget that each side needs the other and buyers can make their lives easier if they involve suppliers early. Suppliers have often supplied the solution before to other parties. Examples of involvement can be: ideas/concepts, technology, advice etc.

Question: Do you treat Suppliers as equals or ???

GENERAL

It makes sense strategically to close the link and work together to achieve a result. There is a link between strategy and innovation and buyers can obtain the best result by including their suppliers.

All too often we either do not involve our suppliers or we involve them too late in the process. Having early involvement is useful and can assist greatly in planning.

THE WAY AHEAD

Buyers need to look at the word: management. We need to manage the events before events manage us. Managing requires: (a) clear direction, (b) clear thinking and (c) operational plan. This includes supplier involvement who can provide an answer/alternative to achieve a better result.

We need to include our suppliers and by doing so we can be closer to closing the link. We can then be innovative and forward thinking in practice – rather than theoretically. What constitutes innovation? Innovation is about looking at effective ways of the buyer/supplier relationship. Practical innovation requires work – by both sides.

Innovation requires thinking about, as does strategy. When done well, management is not only achievable but sustainable. To achieve sustainability requires positive input and certainty from suppliers. Sustainability is vital and requires continual assessment as well as ongoing review and planning.

Both sides need to contribute and provide positive input. This can take the form of: timeframes, supply access etc. Sustainability and innovation are active concepts so requires more attention and work. than theory. Implementation is therefore essential.

Question: Do you continue to 'wish' but do nothing?

Supply strategy is a key to sustainable management which can equate to innovation and strategy management. We can consider all of these concepts but without supply we will not achieve any benefit so early supplier involvement is essential.

We need to communicate the vision so both parties can work together to achieve mutually positive results. Sustainability, innovation and strategy require vision – and a pathway to make it happen. Who knows – we might not only achieve, we might exceed expectations – this should be the goal.

The definition of 'link' is: (a) to connect, (b) a connection and (c) join things together. The common usage of 'link' is in effect a bridge from one place to another. So looking forward, buyers need to prepare and plan for taking the first step. While the buyer is responsible for the vision and strategy buyers need to include suppliers for achievement of results. Being inclusive is the key.

Question: Do you take the time to plan?

The Way Forward – innovation and technology implementation takes time, with research at its core. Achieving the desired outcomes requires positive input and direction from both parties which cannot happen in isolation – it takes work to have a clear plan of action so both can operate in the new environment.

QUESTION: How inclusive are you?

How to achieve? Communication is the key. Having a clearly defined strategy and timeframe to implement follows on. Being inclusive is the key which will allow buyers to achieve innovation, strategic vision and most importantly, effective supply management. Operational management will go much more smoothly as will the buyer/supplier relationship. Buyers need to recognise that suppliers wish to contribute and asking for supplier input can bring huge benefits to the relationship overall that outweigh the initial hesitation in asking.

What can suppliers bring? Or, perhaps a better question is: why should they care? Suppliers can bring ideas, experience and expertise. The answer to the second question is the more important. Yes, they should care but are sometimes disillusioned by buyer action. They do not feel part of the relationship, they are not asked often enough for assistance.

Buyers do not often acknowledge the positive supplier actions. Buyers' actions are key and suppliers take past actions as a precursor to future actions. You can understand therefore that when you get to the point of wanting input (and typically 'urgently') they might not be too keen to respond. You need to remember also that suppliers' research more than buyers do. I therefore repeat the question above: how inclusive are you?

Suppliers can provide the means to achieve green and sustainable procurement – there is no opportunity here for either buyer or supplier to 'opt out' and to think that green procurement can just happen. It will not; it takes the combined effort of buyer and the whole supply chain to achieve.

However, let us be positive here. If the concept seems too big then starting small and grow by way of a pilot could well be useful to gauge the result. Before considering a pilot however, it requires thought as to (a) outcome, (b) timeframe of the pilot and (c) some means of measurement results and (d) a review to ascertain meeting or otherwise of the planned goals. This will then be followed by a decision as to the merits in rolling out after ironing out any issues.

QUESTION: Do you have a strategy?

Can research alone sort out all issues?. No, it cannot but it can give credence to what has gone before and what can occur going forward. Research can eliminate issues such as technology, environmental, product, etc, but it can also provide key accurate information for decisions to be made. Research can also assist in strategy gathering which will allow forward movement.

Training of staff is vital and should be a part of the strategy. Depending on the staff numbers it can take some time for staff to be trained to achieve managed operational matters.

Procurement sustainability should also be a part of the sustainability. Innovation does not come about by staff involved in the day to day issues, without taking time out to look at options and new ideas.

Innovation occurs by giving staff both empowerment as well as a training outlet to look at options. Positive input and feedback so staff can feel that they have an important role to play in the procurement process. Over time this will result in achieving positive supply chain involvement and relationships.

BENEFITS

1. Strong operational management.
2. Certainty of supply chain involvement.
3. Inclusion of supply chain extension.
4. Innovation involving both buyer and supplier.

These benefits are worth striving for on their own merits. When you combine these with how research can assist, as well as the need for sustainability then this should be the goal. Sustainability should be actively encouraged and worked towards as the goal. This should be a discussion with the entire supply chain as it will take all parties to achieve total sustainability.

Achieving the above benefits is a win-win for all. This will not only achieve strong operational management and innovation, but we can also look ahead.

This is the way forward and buyers need to look at the word: 'management'. We must manage before events manage us. Managing requires: (a) clear direction, (b) clear thinking and (c)

operational planning. This includes supplier involvement who can provide answers or provide an alternative to achieve the result. Research is key and will give us clarity of thought and direction. The operational plan will be better for the planning and research.

Are you ready? You need to be able to 'sell' the vision internally as well as externally and be clear as to required outcomes. You can achieve optimum operational management by involving your supply chain. They can provide focus and ideas – you just need to ask and provide a positive forum that they feel they can contribute in and be listened to.

QUESTION: Do you operate in an open environment?

You cannot achieve alone – buyers need to take the first step, though research is essential and the quality of the research will go a long way to ensuring a positive outcome. A change will take time to show but it is worth it ultimately.

QUESTION: Are you ready?

SUMMARY:

The reality of sustainable procurement means that, in the short to medium term, there are going to be additional costs. In addition, to ensure that buyers appoint the right supplier, the tender process will take longer as the evaluation process needs to ensure the chosen proposal response incorporates sustainable procurement issues.

Sustainability is a must as we look forward to a world of scarcer resource and the need to look at how we are buying in a different light. By 'we' this means both buyer and supplier – it is going to need both parties to make it work. Responsibility is the key. Sustainable procurement is the new reality – and we need to embrace it.

If procurement people do not embrace the concept then it could be that legislation will make it mandatory. It would be better if we were ahead of the game and played an active positive role. This is after all the socially – and morally - responsible thing to do. It will assist the process of legislation development if and when that time comes.

We need to have clear direction by way of policy and then be prepared to realistically implement.. We can be innovative, ethical, strategic and forward looking. 'We' means all of us - without vision, ethics and courage and a reality check we cannot achieve anything.

A start is needed – as is the courage – as well as our ethical responsibility to look at sustainability overall and then link it to procurement. Sustainable procurement can make a difference.

The only real issue is: when do we start and how long it will be before we can achieve good results.. The goal of achieving climate neutral (for instance) through procurement potential – and social responsibility.

It needs to be recognised that sustainable procurement has started but in the scheme of things is really only in 'pockets'.

There is a need for political and societal will – and it is needed fast. This is the only ethical step.

CONCLUSION

Next step: we need to take the time to look at what is working and what is not. It is helpful to put together a plan outlining necessary actions and then to communicate such actions to supplier(s). Tap into their vast experience, adapt and apply– and go for it. You can then review and adapt if necessary.

Buyers need to take the first step – are you ready? Can you afford not to work to achieve and resolve missing links? Taking small steps will reduce the 'too hard' factor.

Supply management are active words: one is the responsibility of the supplier and one the responsibility of the buyer – truly a match of a positive buyer and supplier relationship. It is worth the effort to achieve and see the results.

Question: Are you ready? Can you afford to leave it and work alone?

It is over to you. The first step is the hardest but not doing what is required will be harder again. Be a visionary or at least have the idea and allow your 'partner', i.e., supplier to assist so that practical steps can be taken to positively move forward. Do not be left behind.

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Author: Contract Matters: Sustainable Procurement
Author: Contract Matters: A Practical Guide to the Contractual Process
Author: Contract Matters: Negotiation
Author: Contract Matters: Strategic Contracts/Contract Strategies
Author: Contract Matters: Changing the Buyer/Supplier Conversation: A Paradigm Shift (co-authored)
Author: Contract Matters: Connecting the Education and Contract Worlds
Author; Contract Matters: A Practical Guide for Suppliers.
Author: Contract Matters: Procurement and Ethics

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BIOGRAPHY

Margaret Gilbert is the CEO of Corporate Contracts Management Ltd. Margaret has 23 years' experience in contracts and procurement covering public and private procurement as well as having worked internationally. Margaret has delivered training and presentations in many countries across the world including Asia, New Zealand, Australia, South Africa, USA, Europe, Middle East and the Pacific (Tonga, Samoa).

Margaret is a New Zealand consultant assisting in the complex contract world by looking at the 'whole of life' contract world and working with both one on one and larger groups. We assist our clients with being able to be ready for the contractual process.

Margaret has written numerous Contract Matters books: A Practical Guide to the Contractual Process, Contract Matters: A Practical Guide for Suppliers, Contract Matters: Negotiation, Contract Matters: Contract Strategies/Strategic Contracts, Contract Matters: Changing the Buyer/Supplier Conversation: A Paradigm Shift, Contract Matters: Connecting the Education and Contract Worlds and Contract Matters: Procurement and Ethics.

In addition she has written Contract Matters: A Practical Guide to the Contractual Process specifically for countries within Asia, the Pacific, Europe, United States of America, Canada, The Russian Federation, China, India/Pakistan, Central and South America and others.