



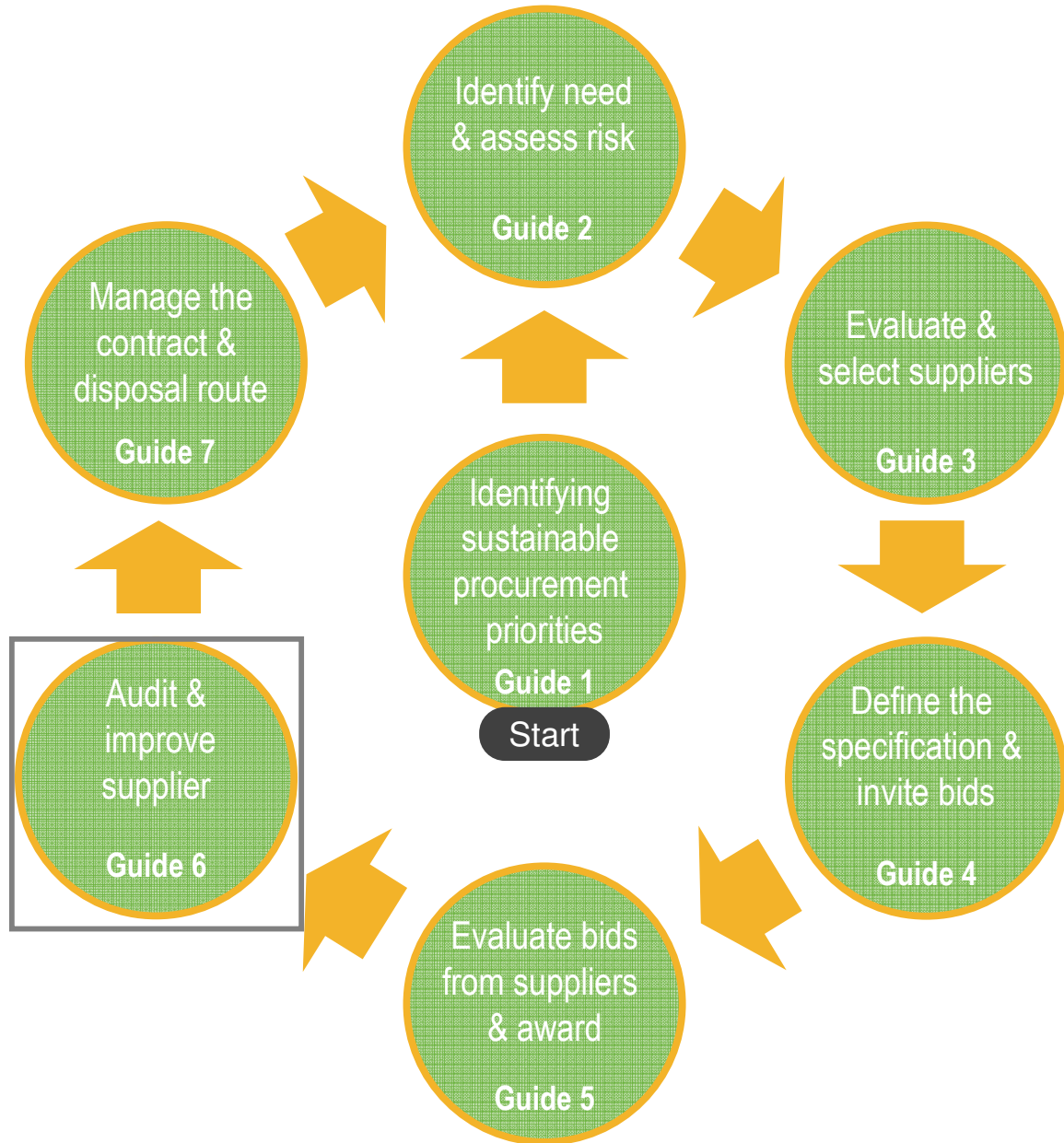
Guide 6 to Sustainable Procurement

Audit and Improve Supplier

A guide for agencies

July 2010

This guide is part of a series of documents focussed on 'Integrating Sustainable Procurement into Practice'. This material was developed by Sustainable Procurement Limited for the United Nations Marrakech Taskforce for Sustainable Procurement of which the New Zealand government is a member. The series is based around a typical procurement process with a guide for each relevant stage as identified below:



Please see the separate guidance notes referenced for other stages of the procurement process.

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Does your agency audit suppliers management of key sustainability issues?

Background

This guidance document details the key issues involved in supplier development, auditing the suppliers operations and agreeing actions for improvement. Effectively encouraging them to improve their sustainability and that of their suppliers throughout the supply chain. For starting agencies the approach is to pick and choose from the example questions given and audit on a limited basis to reflect your own need to learn and/or the limited resources available.

Whilst referencing inter-linked procurement stages, this guide focuses on supplier development to improve sustainability performance. Suppliers to target are informed by prioritisation of the key expenditures of the organisation. See Guide 1 *Identifying Sustainable Procurement Priorities*. Once suppliers are identified, areas for review should be informed by the contract risk assessment undertaken. See Guide 2 *Identify Need and Assess Risk*. This approach also complements contract management activity and specific supplier performance measures. See Guide 7 *Manage the Contract & Disposal Route*.

The Australasian Procurement and Construction Council has developed a set of questions that could be used as an alternative or during the pre-qualification stage of the supplier selection. These can be found at www.procurement.govt.nz.

How to use this Guide

The guide is structured by subject, so it can either be read fully in order to obtain a complete overview of the issues in bid evaluation or the reader can jump to a specific subject area (see above). However, the guide does follow a logical order so it is recommended to start at the beginning and work through to avoid any confusion.

Introduction

Principally this guidance document focuses on evaluating in detail a suppliers approach to managing their own business in a sustainable manner and how they apply sustainability principles with their suppliers down the supply chain. The sustainability principles that are of most interest will vary between agencies and from contract to contract, but may include such issues as:

- Job creation
- Impacts on the environment
- Health impacts of products and services
- Education
- Human rights
- Working conditions
- Innovative technologies

Determining a suppliers approach to these and other sustainability issues could be achieved via a questionnaire or through dialogue and this approach is often part of initial supplier selection. See Guide 3 *Evaluate and Select Suppliers*. In this guidance document, the focus is placed on evidencing a suppliers approach through undertaking a supplier sustainability audit and agreement improvement actions that encourage the supplier to improve their sustainability performance.

Identifying suppliers suitable for development

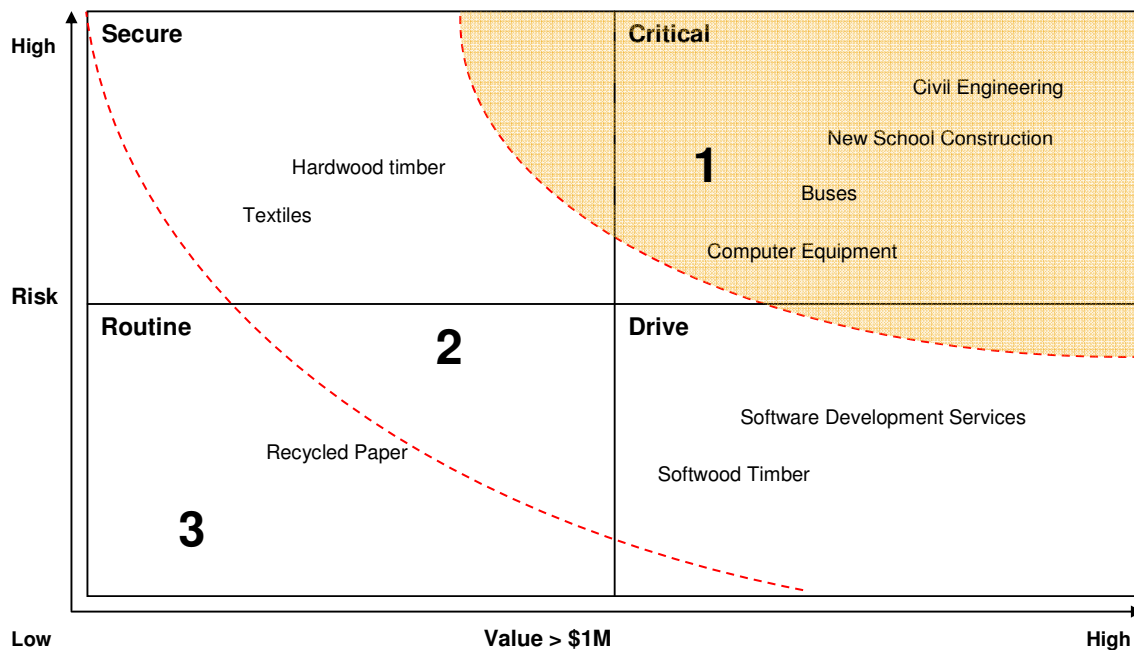
This is usually informed by whether the supplier provides you with a high sustainability risk product or service and the degree of expenditure you have with that supplier. See Guide 3 Evaluate and Select Suppliers.

To summarise, suppliers should first be targeted that supply critical items to your agency, see table 1 (over) as follows:

- Section 1 - Suppliers of the highest priority items as they have both a high sustainability impact and are high spend for the organisation.
- Section 2 - Suppliers of medium priority items, as they encompass both higher risk, but low spend items and High value, but low risk items
- Section 3 - Suppliers of lowest priority items, low risk and low value

Spend is a factor in this assessment, as it is both instrumental in influencing the supplier, is often indicative of volume consumed and is a useful measure to show % of overall agency spend where sustainable procurement is taking place.

Table 1 – Focus of supplier development activity



Source: Matrix based on original works courtesy of PMMS Consulting Group

Having completed the above assessment, procurers need to identify the suppliers who provide the products and services positioned. So in table 1 above, procurers would be identifying suppliers of:

- Civil engineering (infrastructure projects)
- New school construction
- Buses
- Computer equipment
- Hardwood timber

These suppliers would then form the basis of supplier development activity and should be approached in rank order above, in highest spend order. For example, civil engineering is the highest priority so suppliers should be listed for civil engineering in order of total spend and prioritised based on expenditure. Logically suppliers with higher spend should be more co-

operative on sustainability issues, there are however other factors that need to be considered. See Guide 2 Identify Need and Assess Risk.

To summarise the key issues. It is possible to plot a supplier against another matrix to inform the degree of influence you have as a buyer with that supplier. This will assist in determining how far you can push sustainability issues with the supplier and their supply chain. Attractiveness is informed by an assessment of the working relationship and your performance as a client. See Guide 2 Identify Need and Assess Risk. Value is informed by whether your business is more than ½% of the suppliers' annual turnover. Each box in the diagram is labelled with a description that aims to summarise the suppliers' attitude to various clients.

Table 2 – Example illustration of suppliers' possible view of clients

Client Attractiveness	High	<p>Develop the Client's business</p> <p>Supplier is hoping to grow their business with you, so they will be receptive to change/ sustainability demands.</p>	<p>Core Client</p> <p>You are vital to the suppliers business, so they will be very open to change and development of sustainability issues.</p>
	Low	<p>Nuisance Client, Ignore them</p> <p>You are of very little importance to the supplier, it will be extremely difficult to drive sustainability issues.</p>	<p>Exploit the client</p> <p>Supplier will miss the volume of business from your organisation, but not the difficulty in supplying you. It may be possible to push sustainability issues, but you may have to improve your relationship first..</p>
		Spend less than ½ % of Supplier's total turnover	Spend more than ½ % of Supplier's total turnover High

Source: Matrix based on original works courtesy of PMMS Consulting Group

If you believe that the supplier considers your agency to be an attractive client then it is possible to be very demanding about sustainability issues, both in the product or service being supplied as well as in the way the supplier manages their own business. However, if you are not an attractive client it will be extremely difficult to push sustainability issues, other than those that are fairly easy for the supplier to deal with. In this situation, your options are to either work to improve the working relationship or change supplier to one who will value your business more.

It is important to consider this degree of supplier influence before beginning any supplier development activity. The level of influence will be essential in determining how demanding you can be as a client as well as informing the best way to influence the supplier.

Procurers should now have a list of suppliers to target based on sustainability risk/ value and the degree of influence will have been determined to inform how demanding the procurer can be.

On site supplier sustainability review/ audit

On site reviews/ audits of suppliers premises/ operations require careful planning. Reviews should be based on the risks identified in the contract and the issues that are of most importance to the procurer. If the supplier has made specific claims in any pre-qualification or bid then these could also be investigated as part of the review.

Procurers should identify the issues that will form the review and give the supplier appropriate warning so they can provide the evidence for the visit. However, judgement must be used as

procurers need to see the real picture as opposed to one created just for their visit. However, it is highly unlikely that procurers can just arrive unannounced and be allowed into a suppliers premises so pre-warning is inevitable.

Suggested areas to examine (Sustainability review template)

The following list is not exhaustive, but illustrates sustainability issues that could be reviewed as part of a supplier audit. The approach here is to discuss each issue with the supplier on their premises and seek evidence of practice, systems, operational approach and where appropriate to physically see the system in practice (manufacturing method etc). Agencies starting the approach could pick and choose from this list.

Table 3 – Example supplier sustainability review

Environment

1. General overview of the company's structure, strategy for environmental management including particular roles and responsibilities, status of ISO 14001 certification etc.

<ul style="list-style-type: none"> • Company structure and size • Locations • Activities • Senior management commitment responsibility • dedicated resource • working groups etc. 	<ul style="list-style-type: none"> • Strategy • ISO14001/EMAS • Company reporting - externally
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2. Processes used to identify and manage environmental risks within the business

<p>Review process by which significant environmental aspects have been determined</p> <p>Identification</p> <ul style="list-style-type: none"> • Structured approach such as “Activity, Product or Service/Aspect/Impact/Likelihood of Occurrence/Severity of Consequence”? • Environmental legislation – method for identification relevant to company/site activities • Environmental Policy - developed from review process so ties in significant aspects? <p>Management</p> <ul style="list-style-type: none"> • Do significant aspects have associated management action? • Monitored regularly? • Performance improvement shown? • Mechanism for environmental audit/review?
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3. Examination of future plans and targets for improving environmental performance

- What objectives and targets have been set for improvement?
- Are these related to the significant aspects & impacts identified?
- How is progress against these monitored and reported
- Is there any synergy with your own corporate targets etc.

4. Site management issues [where relevant]

General housekeeping

- Impermeable surfaces – condition, extent, etc.
- Materials storage
- Nuisance issues

Waste Management

- Identification of waste streams;
- Segregation
- Storage – containers, labelling, capacity, security etc.
- Duty of Care documentation – Waste Transfer Notes, Waste Carriers Licences, WML, Hazardous Waste registration etc.
- Waste minimisation – reduce, re-use, recycle
- Packaging

Emissions to air

- Identification of routes;
- Relevant consents in place where relevant;
- Licences – LAPPC, Solvent Emissions Regulations [SER], etc. if relevant
- Compliance & monitoring.

Discharges to water

- Identification of routes;
- Relevant consents in place where relevant;
- Treatment systems – interceptor etc.
- Compliance & monitoring.

Hazardous substances – fuel etc.

- Storage – compliant with Oil Storage Regs etc.
- Others – storage, bundled, secure etc.
- General management – monitoring, refuelling, spillage response/spill kits - link to emergency response below.

Vehicle Management

- Repair & maintenance
- Use of alternative fuels
- Selection of vehicles – how? Policy/incentives for environmentally less damaging vehicles?
- Logistics – route planning etc.
- Travel initiatives – car sharing, video conferencing; travel hierarchy etc.

5. Emergency preparedness and response [where relevant]

- Examination of how this issue is managed
- Integration into company/site procedures etc.
- Staff awareness and training
- Reporting incidents – mechanism, review, corrective actions etc.

(Link to Hazardous substances previous)

6. Training, awareness and communication

Examination of how training needs and competency of staff are assessed.

- Induction;
- Competency based assessment of environmental training needs?
- Methods for awareness of company environmental policy, EMS etc. – company intranet, environmental bulletins, in-house training, Director level communication etc.

7. Sustainable procurement, including supplier development, overseas sourcing etc. [detailed questions are provided in Social/Ethical]

Examination of how both environmental and social values are communicated to suppliers, contractors. etc.

Product/Supplier selection

- Initiatives for sustainable management of supply chain – risk assessment [spend & sustainability risk of commodity], life cycle mapping of products procured etc.
- Do you conduct supplier vetting? Does this include questions about supplier environmental policies, legislation and awareness?
- How or is information used to enable purchasers to use environmental credentials as a weighting when making a decision?
- How do you communicate your policy/requirements to suppliers?
- Do you carry out supplier development audits?
- How do you assess the effectiveness of your policy/requirements?

Overseas sourcing

- Do you purchase goods or raw materials from overseas, particularly from the developing world? If so, where from.
- Do you source your materials from 'ethically approved' sources?
- Do you have a policy with regard to ethical sourcing? What is the scope of the policy? [For example based on ILO/UN core Conventions inclusive of working conditions, age of employees, Pay, Trade Union membership, H&S, equality of employment etc.]
- Does the policy include environmental criteria? For example Use of natural resources, emissions, waste etc.
- How do you communicate your policy to suppliers?
- How do you assess the effectiveness of your policy?

8. Non-conformance, corrective and preventative action

How areas for improvement in environmental performance are identified and corrective actions implemented etc. when things go wrong.

Links to specific areas above.

9. Social/Ethical Responsibilities

Company processes as regards Social and ethical responsibilities

- Do you have a human rights/ethical policy? What is the scope of the policy?
- How do you support compliance with this policy?
- How do you communicate issues with regards to this policy?

10. Supplier Workplace

a.) Employee issues – human rights

- Do you have a human rights/ethical policy?
- What is the scope of the policy?

[Working conditions, age of employees, pay, Trade Union membership available to staff]

b.) Occupational Health & Safety [as opposed to the traditional H&S]

- Do you have an OH&S Policy?
- How do you support compliance with the policy?
- How do you eliminate or minimise risk to employees and other interested parties who may be exposed to OH&S risks?

[Operate to OHSAS 18001, the international occupational health and safety management system specification, embracing BS8800]

c.) Overseas sourcing – human rights

- Do you source goods or materials from overseas
- Do you source your materials from 'ethically approved' sources?

[Use of web databases which hold information concerning labour standards in the supply chain, e.g. SEDEX (the Suppliers Ethical Data Exchange)]

- Do you have a policy with regard to ethical sourcing?
- What is the scope of the policy?

[ILO core Conventions [ILO Declaration on Fundamental Principles and Rights at Work]; UN Conventions – UN Universal Declaration of Human Rights, Convention on Rights of the Children etc. – inclusive of working conditions, age of employees, Pay, Trade Union membership, H&S, equality if employment etc.]

- How do you communicate your policy to suppliers?
- How do you assess the effectiveness of your policy?

[Regular internal assessment; compliance with SA 8000; improvement programmes/targets etc.]

d.) Community Engagement – local initiatives

- Do you get involved in/engage with your local communities? How?

[Support/encourage staff involvement with time and funding – e.g. in volunteer programmes in schools, cleaning waste lands, etc.; develop different community partnerships e.g. charity, environmental organisations and work with them on different initiatives e.g. fundraising, promoting greener ways of working at their site/environmental activities etc.]

- How do you assess the effectiveness of your involvement?
- How do you communicate issues with regards to your initiatives?
- Do you report externally regarding CSR issues?

[CSR report produced in accordance with the Global Reporting Initiative's guidelines and AA1000 accredited]

- How and to what standard?

The issues and questions highlighted above attempt to illustrate how procurers could examine key aspects of sustainability including supply chain management issues.

It is possible during an audit that evidence of very bad or even illegal practice may be uncovered. Procurers will need to judge each situation and decide if relevant authorities should be informed. These situations need to be discussed with senior management in the procuring organisation and a specific approach agreed.

Links to supply chain management

Many of the sustainability impacts present in a contract will actually be further down the supply chain¹, with the suppliers' suppliers' and so forth. Of key importance in any supplier review, is how the supplier you are contracting with actually deals with their suppliers and so on. This also has implications for contract management as it will be necessary to ensure that your supplier is applying similar criteria to their suppliers down the supply chain. Procurers therefore need to check as part of the review that back-to-back contracts are in place between the main supplier and any sub-contractors/ suppliers they may have involved in delivering your contract. This approach should ensure that sustainability commitments made in the contract are applied down the supply chain.

It must however be recognised that back-to-back contracts are only usually used for higher risk/ value contracts as they are often not popular with suppliers. So their use should be considered carefully and only applied in higher risk/ value contracts where there are concerns about sustainability beyond the main supplier down the supply chain. If this approach is taken it will be necessary to add additional performance measures into the contract so that the supplier reports on their suppliers' performance also.

The supplier audit approach identified in table 3 could also be applied by the main supplier down their supply chain. You will note that specific questions are highlighted in table 3 that ask the supplier about their approach to supply chain management. This should be judged against the own procurers approach to determine if it is at least as good or better. If no supply chain management is applied then procurers should consider the future of this supplier carefully, either assisting them to implement supply chain management principles as detailed in this guidance or

¹ A **supply chain**, **logistics** network, or supply network is a coordinated system of organisations, people, activities, information and resources involved in moving a product or service in **physical** or **virtual** manner from **supplier** to **customer**. Supply chain activities (aka **value chains** or **life cycle processes**) transform **raw materials** and components into a finished product that is delivered to the end customer. Referenced - © Wikipedia 2007.

to seek an alternate supplier that has better practice. If possible effort should be placed to develop the current supplier.

Supplier improvement programme

Having completed a review of the suppliers operating facility you should be in a position to develop improvement actions. The areas of concern should be highlighted with the supplier during the review and a general discussion should be held at the time concerning possible actions. Procurers should write up a report of the review, suggesting possible actions and agree the findings and actions with the supplier.

Actions need to be realistic and time bound so that progress can be monitored. Procurers also need to consider how they will support the supplier to deliver the improvements as they as much in the procurers interest as the supplier. Procurers should resist detailing numerous actions for suppliers then just leaving them to it, this will cause frustration and may damage the working relationship. It is better to target key areas and offer some support or expertise to assist. This is particularly relevant for any actions relating to sustainable procurement, procurers operating at this level will have a sophisticated approach and should be able to mentor a fellow procurement colleague in a suppliers organisation to deliver improvement.

Depending on the culture of your agency you may choose to use the review to inform a supplier development meeting of senior management to discuss the working relationship more broadly. The sustainability review is useful as it provides real data and a basis for agreeing mutual actions between the organisations. It also assists in raising the profile of sustainable procurement in both the procuring and supplying organisation.

Once actions are agreed and support identified, procurers must ensure they meet any commitments given or credibility will be lost with the supplier. Procurers then need to ensure that suppliers deliver on their commitments, this may include building these actions and review into any contract management undertaken. See Guide 7 Manage the Contract & Disposal Route.

Finally procurers should ensure that an annual review of actions delivered and achievements are formally recorded and the supplier rewarded or penalised as appropriate. Follow up reviews should be undertaken that seek evidence of delivery of actions prior to agreeing any new actions identified in the follow up review.

Summary

Supplier development can be an intensive activity and needs to be focussed on key suppliers. Procurers must ensure that they target activity appropriately and use the initial contract risk assessment to inform areas of review. Of particular importance is that procurers review the suppliers own approach to sustainable procurement and their application of sustainability principles throughout the supply chain.

The sample sustainability issues detailed in table 3 give an indication of the complexity of the subject and procurers need to think carefully about where to focus attention. It can be resource intensive and procurers must maintain their commitments to suppliers or they will lose credibility and damage the working relationship. Suppliers are usually very receptive to development work and it can bring commercial as well as sustainability benefits by building a stronger commercial relationship, but it takes effort for both parties.

By applying targeted supplier reviews, agreeing actions to improve supplier sustainability performance and giving support to the improvement the procuring organisation is demonstrating true sustainable procurement principles. It is delivering better results and developing suppliers in the economy to respond to the sustainability challenge.