

Supply chains should add value

by Larry Berglund

The true cost of producing and consuming energy has not been fully loaded.

If we accept this posit, by extension, we must consider that the costs of the goods and services that derive from the current energy sources and resources have been understated and will need to be revised. *The lifestyle costs of the developed world may be at the expense of the developing world.*

The new business model will absolutely challenge what has been the norm. The thought of internalizing many of the costs associated with more sustainable operations will invite a level of risk. This implies that the cost of goods sold has been undervalued where emission costs have not been internalized and included in the sale price. Some products could turn out to be uncompetitive if they are expected to absorb their portion of emissions overhead. But we are faced with more risks if we do not take an increased responsibility for our actions. Risk management is an important part of the sustainability equation but it is not new. Risk management is inherent in all decisions.

The definitions that revolve around sustainability are many. The same is true if we try to define democracy or human rights. The progression of philosophical beliefs and values continues to cause reflection on how we conduct ourselves, treat animals, deal with the unfortunate in society, or consume resources. We are faced with choices that require judgments we have not been adequately prepared for. There is a lot of ambiguity in what is the best decision. Paradoxes abound when we have to make compromises between what is good for the planet and what is good for our business or ourselves as individuals. We are going to make mistakes – but we have to learn from these mistakes. We don't have another millennium to fritter away.

It is imperative that sustainability and corporate social responsibility gain legitimacy in all business practices and operations. As a strategic core value, sustainable businesses will deliver on the expectations of society. Where emerging markets and countries are 'bending the rules' in terms of environmental and social rights, they too will eventually come around to more acceptable standards and practices. If we continue to trade and work with international organizations aimed at improving working conditions and protecting diversity, we can ensure a sustainable future for business and beings.



The path to social procurement

I will direct some comments at public sector procurement groups. Being that the public sector is taxpayer funded, there is an added onus on this group to be developing new relationship models with social entrepreneurs, and small- and medium-sized enterprises (SMEs) through procurement policies and practices to affect social values. This is referred to as *social procurement*. The public sector spends billions of dollars on goods and services each year. There are many domestic and international trade agreements which appear to encumber their actions. However, there are many more options for the public sector procurement groups to exercise and affect the social and economic development within their mandates and support local enterprises.

The public sector procurement groups have enveloped themselves in legalese and intimidating procedural bureaucracies aimed at the lowest cost. These are not real barriers. The unbundling of larger, multi-year agreements can be managed in the same way these low cost strategies were zealously pursued. SMEs are a part of the Canadian culture and social fabric. The public sector needs to be more cognizant about how its procurement strategies affect long-term value in society.

The City of Toronto was one of the first to implement a Social Procurement Framework. In 2012, their Council researched the need to increase access to local employment and training initiatives to advance economic and

social development. The policy is aimed at increasing employment through municipal opportunities and a more diverse work force. The pilot initiatives will be reported back in 2015.

Social procurement objectives are developed for the communities which they serve. The objectives for Toronto will be different from Vancouver, Edmonton, or Nunavut. Procurement principles will be common while social procurement initiatives will support local strategies. The contracts for goods and services will need to balance international trade agreement obligations and local interests. Compromises will be made that will seldom satisfy all parties but will lead to innovative procurement strategies with community benefits. Procurement professionals should contribute to the dialogue on where and how local interests can be served.

A decade ago, the Honourable Madam Justice Denise Bellamy, stated, *“For government, effective procurement should be measured by social, environmental, and other benefits to the community. Balancing price with these qualitative dimensions is at the heart of effective best-value procurement in the public sector.”*²

Social procurement looks at opportunities to affect social and economic development while ensuring value for money is being addressed. These should be viewed as concurrent objectives not competing interests.

The economic multiplier effect of sourcing from local companies when compared to multinational corporations has been shown over and over again to contribute greatly to social and economic development. LOCO BC³ sponsored a study in Vancouver which reiterates the benefits received from the multiplier effect of local sourcing. *Buying Local: Tools for Forward-Thinking Institutions* by researcher Tony Pringle is a must-read for public procurement leadership.

Another study, *Facts or Fiction: Dispelling the Myths about the Bundling of Construction Contracts*,⁴ pointed out the serious shortcomings of current public sector procurement practices. If public sector procurement groups do not factor in local economic and social development in the value proposition, then they will continue to define their role as one of finding the lowest price...and not necessarily the best value.

I’m often asked what the biggest impediment is to implementing more responsible procurement

strategies. It is not a lack of policies. It is not a lack of best practices. It is not a lack of strategic knowledge. It is not a lack of expertise. It is not a lack of funds. It is a lack of professional fortitude to leverage the resources at hand to do more social and economic good because it invites a level of personal risk.

The fear of failure or criticism outweighs the potential to demonstrate value by exercising one’s professional integrity. At a minimum, point out to other decision makers where the choices can be made; and wherever possible, choose to make a difference in affecting social and economic values within a business case. Challenge the status quo. It’s good for the profession, the people, and the planet! ♫

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1. <http://www1.toronto.ca/wps/portal/>
2. The Bellamy Inquiry Report <http://www.toronto.ca/>
3. December 2013. © Columbia Institute, LOCO BC, ISIS Research Centre at the Sauder School of Business.
4. Stephen Bauld and Glenn Ackerley, 2013.

