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# Round Table: ‘Sustainable Procurement and SMEs’

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## Discussion Summary 7<sup>th</sup> July 2015

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This Westminster Sustainable Business Forum round table considered the role of public sector procurement in improving sustainability standards in the private sector and how sustainable procurement can engage with SMEs, in light of the Government’s commitment to increase SME participation in public procurement to 33 per cent.

Participating Individuals & Organisations:

Action Sustainability	Huw Irranca-Davies MP
All-Party Parliamentary Sustainable Resource Group	Baroness Miller
Albion Water	Policy Connect
Centre for Research into Sustainability	Westminster Sustainable Business Forum
Federation of Small Businesses	

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## Event Summary

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Attendees at this round table event discussed, inter alia, how the Government's commitment to increase the participation of Small- and Medium-Sized Enterprises (SMEs) in public procurement processes can be delivered in a sustainable way. The discussion also considered the capacity SMEs have to develop innovative sustainability practices, the specific challenges they face across different sectors and the role larger businesses can play in assisting SMEs to improve their sustainability standards.

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## Key Themes

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### **Defining SMEs – medium or micro?**

During the first part of the round table discussion attendees focused on unpacking some of the terminology used in the context of public procurement practices. For instance, some attendees stressed their preference for the term 'small and micro businesses' over SMEs, arguing that of the more than five million businesses that fall into the official SME category there are only 32,000 medium-sized businesses in the UK, over half of which are wholly owned subsidiaries of larger companies. This distinction is often missed and contributes to a misleading impression of SME engagement in procurement processes. One example is the Greater Manchester Authority, which appears to have allocated 27 per cent of its procurement spend on SMEs, but in reality only spends 6 per cent with small and micro businesses.

### **Defining sustainability**

Participants further considered the different aspects of sustainability: economic, social and environmental. The round table agreed that the term 'sustainability' and what this encompasses was still a source of confusion. An appropriate definition of sustainability needs to be contextual, depending on the geographic area, the specifics of the industry, and the nature of the supplier in question. The International Organisation for Standardisation (ISO) provides standards on what sustainable procurement is at the British level and soon at the international level. Discussants agreed that more legislation is not necessarily needed, but better understanding of the issues from a small business perspective and more consistent practice from the public sector is.

Different aspects of sustainability vary in complexity, with simpler areas, like local food supply or manufacturing being easier for companies to grasp and more technical issues being more difficult to assess. Complexities particularly impact SMEs, who lack the resources to pursue more complicated issues in great depth. More research is required on what it means to be a sustainable small business supplier. There are currently empirical case studies, but cross-cutting theoretical perspectives are required to establish benchmarks of performance<sup>1</sup>. In the public sector context, more research is required on assessing the political and partisan drivers behind procurement decisions and how this affects supply chains.

### **Sustainability and SMEs – the situation at present**

Participants considered the level of engagement SMEs have with sustainable issues and, inter alia, referred to statistics on [SMEs' Green Credentials published by Lloyds Bank](#). The report found that 24 per cent of SMEs asked considered they were not doing enough to take on environmentally responsible practices, while a quarter viewed sustainability issues as a top three priority for the year ahead. One fifth felt they do not understand the positive impact sustainability can bring, but 83 per cent had already implemented sustainable business practices, with three quarters of those seeing clear benefits as a result of these practices. Two fifths believed sustainable practices can reduce operational costs and over a quarter felt it impacted on their customers' purchasing

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<sup>1</sup> Spence, L.J. (2014) 'Small Business Social Responsibility: Redrawing Core CSR Theory', *Business & Society*. DOI:10.1177/0007650314523256.

decisions.

The report further claimed that while the [Young Reforms](#) had helped Government engage with SMEs more effectively, it was not engaging with them on sustainability issues. Few tender documents refer to environmental sustainability, particularly at the sub-contractor level. It was suggested that if they did, SMEs would avoid the contracts due to a lack of understanding, with Lloyds' finding that 25 per cent of SMEs do not understand sustainability issues. Round table attendees, however, claimed that this was a generous assumption, with the reality probably being closer to 75 per cent affected by this lack of understanding. Despite this, many SMEs run highly sustainable businesses for purely economic reasons, adopting practices like recycling and using sustainable forms of transport. In addition there is empirical evidence of small businesses making a life-style choice for sustainability, with good practice arising out of a conviction to do the right thing and make good choices for society as well as the business.

The round table highlighted the [Small Business Act](#) as an example of good regulation, particularly the legislation relating to quick payment. Discussants argued that public sector bodies are better at paying quickly than the private sector, with the notable exception of Waitrose, which was cited as a good example of a prompt payer in the private sector. Small businesses require prompt payment, and their continued existence is highly dependent on this. A model which requires tier one<sup>2</sup> suppliers to make sub-contract payments promptly would greatly aid small businesses, particularly in large projects with a relatively low number of contracts, such as High Speed Two (HS2).

## Case studies:

### Heathrow Airport

In the mid-90s, Heathrow Airport sought to improve its engagement with its surrounding area, partly due to public debate over the construction of Terminal 5. The procurement team was also under pressure from the finance director to deliver cost savings. The Heathrow 'Meet the Buyers' event was started as a response to this, which engaged with local suppliers and resulted in millions of pounds being invested in local businesses. The Heathrow procurement team also encouraged their tier one suppliers to engage with local businesses. Following the success of the 'Meet the Buyer' event, the procurement team sought specifically to engage with Black and Minority Ethnic (BME) businesses in 1999, following concern from local authorities that BME businesses were struggling to succeed beyond their communities. The 'Meet the Buyer' event had its 20<sup>th</sup> anniversary in 2015 and is ongoing.

### The London 2012 Olympics

The procurement team determined early on that the Olympic Games could only be considered sustainable if they had a positive impact beyond the boundaries of the Games. The goal was therefore to deliver a legacy of knowledge and good practice that promulgates sustainability.

In 2006, the Commission for a Sustainable London 2012 acted upon the conclusions drawn in the ['Fools Gold'](#) report by the New Economics Foundation, which advocated engagement with SME businesses. The Commission decided that the scale of many of the Olympic projects was too large to focus entirely on SMEs and that a more effective approach would be to require 'tier one' suppliers to engage with SMEs further down the

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<sup>2</sup> Tier one is defined as 'the main supplier used', which is not necessarily the largest supplier in the chain, particularly in construction.

supply chain. Greater transparency was embedded in this process by requiring suppliers to advertise sub-contracts of the 'Compete For' online portal.

Further, the Games' procurers broke their sustainability standards into ten understandable issues and set 40 targets for each, such as 95% of waste diverted from landfill or each building to have 15% better energy efficiency than current building regulations. The director of each sub-project was responsible for delivering these targets, with the sustainability team performing an advisory role. The Games also pursued innovative procurement practices, such as allowing a Coventry-based small business to raise capital on the basis of the Olympic Torch manufacture contract, enabling the purchase of an expensive, world-class laser-hole cutting machine that the business would otherwise have been unable to afford. There is evidence of procurers taking on the lessons of the Olympics, such as the Bonfield report on food or the UK's construction sector's high level of sustainability knowledge.

### Drivers of sustainability

A meta-analysis of research on academic papers on supply chain sustainability for corporations has found that there are multiple drivers of good sustainability practice, including customer satisfaction, risk management, compliance with legislation, competitive advantage and moral/social obligation<sup>3</sup>. A number of these can be applied to the public sector to predict what will drive its uptake of sustainability. Successful sustainable procurers will adopt sustainability standards with a high degree of organisational integrity, with good practice embodied by the organisation's wider strategy. This is applicable to public sector procurement, particularly in terms of conveying genuine commitment to sustainable practice over the long-term.

There are also commercial reasons for increasing the number of suppliers on the supply chain, as a higher number of suppliers will drive down prices for procurers. Fewer companies on the playing field leads to uncompetitive situations, with one round table attendee outlining the situation for the construction sector in Wales, where the requirement to use Welsh businesses has reduced the number of potential suppliers and led to raised costs for the public sector.

### Engaging with SMEs

Work on supply chain sustainability also suggests that engagement is the key to securing good outcomes, particularly with small businesses. A relationships manager can help make large organisations more approachable to SMEs, with Waitrose being a good example of a large procurer with good relationship management<sup>4</sup>. SMEs in general respond best to relational approaches, not bureaucratic ones. Discussants further recommended working with intermediaries like trade associations, as they can help communicate concerns in an aggregate and impactful way. More broadly, public procurers must attempt to stop acting as the 'watch-dogs', assessing the sustainability performance of supply chains from the end point, and instead seek partnerships with suppliers right through the supply chain.

The round table further argued that sustainability will not take hold at the bottom of the supply chain without some form of fiscal incentives. This system should be as simple as possible. The approach of the Energy Company Obligation (ECO) was recognised as having made a big impact, but only through larger companies and not through the involvement of small businesses. Sustainability standards are rarely developed from the perspective of small businesses, and procurement standards could do more to state what sustainability means for SMEs. While not all participants accepted product standards as beneficial, it was argued that if they are to exist they must consider the perspective of SMEs. These standards will differ across different trades and

<sup>3</sup> Brammer, S. Hoijmose, S. and Millington, A. (2011). Managing Sustainable Global Supply Chains: A systematic review of the body of knowledge. Network for Business Sustainability.

<sup>4</sup> Spence, L. and Bourlakis, M. (2009) 'From CSR to SCR: The evolution of Supply Chain Responsibility'. *Supply Chain Management: An International Journal*. 14(4), 291-302.

sectors. More standards would not necessarily be an improvement, with the key factor being the relevancy of the standards.

### **Barriers with procurers**

Round table attendees further argued that public sector procurers in Britain have a tendency to avoid 'thinking outside the box' when drafting contracts, predominantly using the requirements of EU law to draft standard contracts that are not aimed at SMEs. This contrasts with behaviour in France, where procurers are able to prioritise local, small businesses without contravening EU law. Hampshire County Council was raised as a good example of a British procuring organisation that was focusing on local supply chains, due to the procurement team having accepted

One participant made the point that the Civil Service often tends to be resistant to engaging with SMEs, despite efforts of successive Ministers. This tendency to focus on a small number of large suppliers is raising prices and goes against the intention of legislation. It was claimed some government departments still aggregate contracts in a way that locks out small businesses, due to the belief that large suppliers provide better value. Crown Commercial Services was cited as one such department, and is currently under investigation by the National Audit Office (NAO) for over-aggregation.

Moreover, one round table attendee highlighted that not all sustainable business practices are necessarily the most economic practices and that advocating sustainability on a costs basis runs the risk of precluding potentially beneficial practices that are more expensive in the short-term<sup>5</sup>. However, it was also argued that sustainable procurement should not be more expensive 'in the round' if it operates by developing competitive, knowledgeable supply chains. Examples of sustainable procurement increasing costs often reflect procurement being done badly, or the cost being a worthwhile, necessary part of achieving a social or environmental benefit. These costs can be borne across budgets, provided that public sector decision makers are willing to seek 'the big picture' and not micro-manage projects. In the private sector, developers are beginning to realise that, while sustainable practices may increase construction costs, including them also results in a higher-value end result.

There have been instances where a lack of consistency has damaged well-intended policy, with the Young Reforms being cited as an example of good reforms undermined by a Minister making clear the loopholes for local authorities. The reforms 'suggested' that all public sector contracts worth more than £25,000 be advertised on Contract Finder, but this does not apply to standing orders. This means some local authorities have been able to set their advertising threshold much higher. This can undermine quality, as small businesses have a comparatively greater incentive to deliver on a £25,000 value contract than a large multi-national company with a much higher turnover.

Some discussants further questioned whether sustainability sits naturally in the area of procurement, with procurement teams in the private sector rarely being the driving force in pushing sustainable practices. Sustainability is more likely to be referenced in other areas, such as report writing, financial function or human resources management. This is evidenced in the UK's six major food retailers, where social responsibility teams are siloed from the buying department. This likely stems from promotion and appraisal mechanisms for procurers rarely considering sustainability aspects and more thought is needed to determine how sustainability could be integrated in culture around procurement.

Political impacts are also important, with commitment to sustainable procurement being influenced by the ongoing debates on issues like climate change and labour standards. These debates could perhaps be supported and put higher on the agenda by emphasising the importance of natural capital.

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<sup>5</sup> Baumann-Pauly, D., Wickert, C., Spence, L. and Scherer, A. (2013) Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters, *Journal of Business Ethics*, 115(4), 693-705.

## Requiring transparency and measuring success and compliance

It is rare for tier one contractors to publicise their subcontracts across the supply chain; it was, however, a requirement during the London 2012 Olympics, where subcontracts had to be publicised on 'Compete For'. There is a belief among procurers that they can secure lower costs by working with large suppliers they have pre-existing relationships with, however, the NAO have produced evidence suggesting large aggregated contracts do not always provide good value for money. It was suggested that some in the civil service prefer the more expensive, larger contracts as it minimises the volume of follow up for the procuring body.

The round table found that little meaningful measurement on sustainability successes is carried out beyond the tier one suppliers at present. 'Meaningful' measurement would have to be done in a discursive way and not through a 'tick-box' approach, which is more likely to result in worse outcomes. Discussants expressed concerns that Ministers can overestimate the public sector's success in reaching SMEs, with quick, simple measurement methodologies being preferred.

One participant emphasised the importance of a sustainable supply over a sustainable supplier, arguing that public procurement's focus should be on sustainable end products and outcomes rather than seeking information on the sustainability credentials of the supplying companies themselves. The numerous indices of suppliers (such as [CEASAR](#), [ACHILLES](#)) were criticised as creating cost barriers for small businesses while contributing little to procurement effectiveness. Some may disagree with the outcome-focused approach, arguing that procurement ought to promulgate good behaviour, but it was contended that, in practice, purchasers must attend to the sustainability objectives of their own organisation, with other criteria being irrelevant.

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## Conclusion

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Participants made a number of recommendations based on the discussion and their experience in the area. These included public procurers recognising the importance of tiers below tier one, particularly in large projects, developing simple and transparent ways of identifying opportunities for SMEs and requiring tier one suppliers to make use of it and focusing investment in the development of supply chains. Attendees also recommended that performance management should be preferred over performance reporting and argued that prompt payments are essential for supporting SMEs, with Transport for London's standard of ten days being highlighted as good practice. Cross-cutting industry and departmental benchmarks for sustainability were also suggested as a means of simplifying processes for SMEs.

Several 'best practices' were outlined for public procurers, including embedding consistent sustainable behaviour within organisations and employing relationship managers for SMEs. Attendees also suggested procurers work with intermediaries like trade associations to better understand the needs of small businesses, and that they focus on development over delisting for SMEs that struggle to comply with standards.

Questions remain on how best to measure success, particularly at the bottom of the supply chain. Ways around SMEs' reluctance to be open about their difficulties must be found, in order to build a good quality dataset that can inform better practice. This would represent an improvement on the box-ticking approach found in some procurement organisation.

Attendees called for more research on how sustainability standards relate to SMEs, what lessons can be learnt from other countries and the impact of political interests on procurement decisions. The round table also called for research that would help inform a theory explaining why SMEs are different to larger businesses. This should include work on how small businesses perceive sustainability and their role in a sustainable supply chain.

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## About the WSBF

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The Westminster Sustainable Business Forum (WSBF) is a high-level coalition of key UK businesses, Parliamentarians, Civil Servants and other organisations. Providing a politically neutral environment for knowledge sharing and discussion on sustainability policy, we help to inform the wider sustainability agenda in government and are a trusted source of independent information and advice for policymakers. We publish authoritative research reports; impact on government policy through our in-depth round table policy discussions and outputs; and inform the wider sustainability debate by convening Parliamentarians, senior Civil Servants, business experts and other stakeholders at our larger policy events and seminars. The WSBF works in the policy areas of sustainable construction, sustainable infrastructure, water, sustainable planning, green finance and natural capital. We are cross-party, independent and not-for-profit.

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