

THE IMPACT OF SUSTAINABLE PROCUREMENT ON DOING BUSINESS

RENE BIZJAK

University of Maribor, Faculty of Economics and Business, Maribor, Slovenia
rene.bizjak@gmail.com

Abstract The purpose of this paper is to compare and present the theoretical findings of established authors with recent articles and literature on the topic of sustainable procurement and its impact on doing business. The goal of this paper is to connect theoretical knowledge of the above-mentioned topic with consumer attitudes towards current sustainability issues in trade as well as to analyse the introduction and impact of sustainable procurement in business based on a practical example. In this example, the author's goal is to determine the effects of the introduction of the sustainable procurement model and its consequences on the social, economic and environmental aspects of doing business. Objective conclusions were reached that will help people from different fields to assess and understand the impact of sustainable procurement on doing business. This decade is crucial for balancing economic, environmental and social aspects, especially after the sobering period of the COVID-19 crisis, which highlighted several problems, including the issue or rather lack of the sustainable aspect of doing long-term business in both the public and private sectors.

Keywords:

sustainable
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responsible
purchasing,
triple bottom line,
business

1 Introduction

It is a known fact that purchasing plays an increasingly important role in companies' activities, mainly due to the desire of business owners to maximise profits. Companies can achieve the latter most rapidly through improved purchasing conditions, without raising the final price of products for their customers or consumers, thus remaining competitive in an increasingly competitive market. However, over the past year it has been noticeable that companies are largely no longer able to maintain the low sales prices of their products and services, mainly due to increased purchasing costs, which companies often convert into higher selling prices in the desire to maintain their margins. Purchasing prices have increased due to individual speculative purposes, the rising prices of various energy sources, higher labour costs and the increased rarity of certain goods. The rise in inflation in the post-corona period has also been created by the reopening of societies, countries and economies combined with various existing expansive monetary policies and low interest rates, which are expected to start rising in Europe by the end of the year.

In the current situation in which the economic situation is unpredictable, the social sphere is increasingly turbulent and financially unequal, and the environmental situation is unsustainable in the long run, the author of this paper believes that it is necessary to start a broader discussion and implementation of sustainable procurement in public and private organisations, as the latter, unlike 'regular' purchasing, not only covers the economic but also the environmental and social aspects. Organisations need to see the sustainability aspect as their competitive advantage and a way of upgrading the company's reputation in the public eye. The general goal of a sustainable business strategy is to positively impact the environment, society or both, while also benefiting shareholders (Miller, 2020).

2 Literature review

Sustainable procurement is most often defined as a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of not only generating benefits for the organization but also for society and the economy whilst minimising damage to the environment (DEFRA, 2006). Procurement is considered sustainable when organisations broaden the basic framework by meeting their needs for goods, services, works and utilities in a way that achieves value for money and not only

promotes positive outcomes for the organisation itself but also for the economy, environment and society (Betiol, 2015). This framework is also known as the triple bottom line (TBL). Over the past few decades, the concept of sustainability has become a strategic goal for many global organisations (Agrawal, 2018). The integration of sustainability concepts such as TBL in the procurement process is called sustainable procurement. According to Walker (2009), sustainable procurement is consistent with the principles of sustainable development, such as ensuring a strong, healthy and just society, living within environmental limits, and promoting good governance.

Sustainability-oriented actions and studies in business strategy have been increasingly receiving significant attention over recent years (Islam, 2016). Many authors today believe that sustainable purchasing needs to become a competitiveness factor as it happens with quality, cost, speed, dependability, flexibility and innovations. Sustainable procurement builds on the principles and good practices of 'traditional' procurement and considers additional factors to maximise the social, environmental, and economic benefits for the procuring organisation, its supply chain and society (UNEP, 2012). Sustainable procurement is a peculiar mechanism for the optimal integration and implementation of the horizontal goals of environmental, social and economic development in public and private procurement, along with the main goal the highest quality at the lowest price (Glas, 2017). According to Silva (2021), as sustainability becomes a mainstream business practice and logic, the social and environmental requirements will go beyond 'sustainability' market niches, while also cascading from large organisations to reach small- and medium-sized enterprises (SMEs). The noticeable emergence of sustainable venture capital firms and the consequent upsurge of sustainability-related start-ups is likely to change business ecosystems. In doing so, firms will need simple rather than simplistic approaches to respond to sustainability challenges.

Below the author has briefly summarised the framework of TBL. This is a sustainability framework that examines a company's social, environment and economic impact (Elkington, 2018). Miller (2020) explains TBL as a business concept that posits firms should commit to measuring their social and environmental impact in addition to their financial performance rather than solely focusing on generating profit, or the standard 'bottom line'. It can be broken down into 'three Ps': profit (economy), people (social), and the planet (environment). In contrast, Slaper (2011) states that TBL is an accounting framework that incorporates

three dimensions of performance: social, environmental and financial, differing it from traditional reporting frameworks as it includes ecological and social measures that can be difficult to assign appropriate means of measurement. The three pillars of sustainable development - environmental, economic and social are usually considered as having the same importance (Gu, 2020). However, there are approaches where the environmental component is recognised as the main and uncompromising element of sustainable development. The idea is that the social and economic components not only affect the environment but they cannot exist without it. After all, for example, the environmental policy will have an economic and social impact and vice versa (Malolitneva, 2019). For example, procurement in which the choice is made for non-recyclable plastic products not only has a negative impact on the environment but also on people in the future, for example, by contaminating the food chain. Therefore, it also affects the social pillar (Choy, 2013).

3 Theoretical framework and discussion

Below, the author has focused on the Nielsen survey (2018) in which the company attempts to provide its clients with valuable insights into consumer behaviour and marketing information by collecting data that measures what consumers watch and what they buy. According to the 2018 study, many U.S. consumers have been touting their desire for more sustainable products for years, and sales data shows that they are using their spending power to effect the change they want to see in the world. Nearly half (48%) of U.S. consumers say they would definitely or probably change their consumption habits to reduce their impact on the environment. Perhaps even more important is the finding that these consumers are putting their money where their values are, spending USD 128.5 billion on sustainable goods. Since 2014, thanks to these consumers, sales of sustainable products have increased by nearly 20%, with a compound average growth rate four times larger than conventional products (3.5% vs -1.0% comparatively). In 2018, sales of products with sustainable attributes made up 22% of the total commercial goods trade.

A large gap can be observed between generations when it comes to sustainable purchase intent. When surveyed, millennials (those born between the years 1981 and 1996) are twice as likely (75% vs. 34%) as baby boomers (those born between the years 1946 and 1964) to say they are changing, or probably will change their habits to reduce their impact on the environment. Let us not forget that millennials are taking over the leaderships of the largest and most influential corporations,

indicating a major leap in the mindset around the issue of sustainability. Younger generations are also more willing to pay more for products that contain environmentally friendly or sustainable ingredients (90% vs. 61%) or products that have social responsibility claims (80% vs. 48%). Millennials are also more likely than baby boomers (53% vs. 34%) to say they would be willing to forgo a brand in order to buy products that are environmentally friendly. By following sustainable trends, especially by the younger generations, we can be moderately optimistic about a better, greener future. Given that the purchasing function itself is integrated into the strategic orientations of the most trendsetting companies, its task is also to identify the wishes and priorities of consumers in certain age groups, geographical areas in combination with purchasing power and so on. It must be emphasised that purchasing, in cooperation with the marketing function, also has the power to set and popularise certain trends, not just follow them. In a limited store growth environment, consumers continue to choose sustainable products over conventional options, making sustainability a consistent growth opportunity for manufacturers. According to the Nielsen report (2018), companies need to evaluate their product portfolios and then understand the impact of ingredients and the level of scrutiny that consumers apply to the products they purchase. Consumer sentiment is shifting towards 'Healthy for me and healthy for the world', and this is influencing sales of sustainable products across multiple categories.

This paper also focuses on the impacts of sustainable public procurement study (UNEP, 2012), a highly cited publication containing eight case studies of sustainable public procurement. In this contribution the author focuses heavily on a USA study on sustainable waste transport procurement. Let's first cover some basic information: the procured service was waste transport that took place in the metropolitan regional government of Portland, the so-called Metro, with more than 1.5 million residents at the time. According to the UNEP (2012), in 2007 Metro decided to secure a long-term contract to transport solid waste from its transfer stations to a disposal site up to the Columbia Gorge, seventy miles away from Portland. Starting in 1989, Metro contracted a haulage firm to provide the service, however, over the years, the contract became hard to manage due to corporate restructuration and buyouts, and the fact that the haulage firm was no longer locally owned but rather part of a larger national corporation based near Chicago, Illinois. Moreover, the firm faced environmental issues due to the lack of investment in maintenance, the acquisition of new technologies, and the replacement of worn-out trucks. The procurement process for a more sustainable service provider started two

years before the end of the on-going contract, thus synchronising the process with the overall institutional needs and assuring a smooth transition.

Metro began a dialogue with the local community by connecting people and sharing the decision-making process to discuss the social aspects of waste transport. Public meetings were organised with community groups, neighbourhood associations and environmental advocates in order to determine what was important in the selection process of a new contractor and to give a voice to their concerns and priorities. The criteria to be met was determined, according to which individual applicants were evaluated. The criteria contained a maximum total of 100 points, with the cost aspect accounting for 45 points, operational considerations (such as sustainable flexibility of the system, adapting to changes in technology, fuel supplies, etc.) accounting for 25 points, environmental impacts (such as a reduction of NO_x and SO_x emissions, carbon dioxide emissions and other greenhouse gases and particulate matter in the Metro area) accounting for 20 points and socioeconomic impacts (such as noise and traffic effects on neighbourhoods, improving mobility, stronger implementation of local suppliers as well as the condition that half of the employed truck drivers should be from the local county) accounting for 10 points. All three of the previously mentioned items from the TBL model are integrated in this scoreboard. Walsh Trucking, located in Gilliam County, was the firm selected for the award of the 10-year contract. The environmental results show that the contract has had the following positive impacts: the selected firm transported the same loads and travelled 3.9 million miles per year to haul solid waste from Metro, compared to the 5.7 million miles with the previous contractor. The significant reduction is partly due to the larger payloads of the trucks used by the current contractor (larger trailers), therefore reducing greenhouse gas (GHG) emissions by 2800 teqCO₂ (a 14% reduction compared to the previous contractor). In terms of fuel efficiency, all the lorries from the new provider are equipped with automatic idle shutdowns after 5 minutes to conserve fuel. This system has had an impact on fuel savings and GHG emissions. In terms of fuel savings, there has been a 5% reduction in fuel consumption as well as a 5% reduction in GHG emissions, equivalent to 460 kgeqCO₂. All the lorries use B5 fuel containing 5% biodiesel and a newer engine standard, thus further reducing GHG emissions by 460 kgeqCO₂. All the lorries respect the standards of the United States Environmental Protection Agency (US EPA) standards concerning NO_x emissions and particulate matters. In terms of NO_x emissions, an estimation based on the truck manufacturer data shows a reduction of 60.9 tonnes of NO_x, equivalent to a 95.6% reduction compared to the

previous contractor. As for particulate matters, the newer equipment has reduced emissions by 1.2 tonnes, which equates to a reduction of 80% compared to the previous contractor. In addition to the previous positive impacts described above, all trucks are equipped with automatic air systems to keep the tyres at maximum air pressure, which extends mileage, hence increasing fuel efficiency and therefore further reducing emissions. After focusing primarily on the environmental aspect, there is now also a need to cover more of the socioeconomic results and impacts. Thanks to the new waste contract, out of the 52 drivers recruited, 39 drivers were recruited locally, thus having a positive impact on unemployment in the Metro area. According to the UNEP (2012), since 2010 the waste transport contract has contributed to the economic revival of the region. Gilliam County receives USD 1.75 per ton of solid waste (+ USD 0.45 for each ton of special waste), reaching USD 2,492,835 in 2010. The funds are redistributed to cities, social funds and public projects, thereby returning the investment to society. The framework and selection methods used to determine needs were definitely a key element in making this sustainable purchase a success in terms of economic and environmental sustainability as well as the involvement of city residents, thereby including the social aspect. A clearly defined framework was critical in coming up with an ‘out of the box’ solution, tailor-made in order to satisfy all stakeholders. Even though stakeholder engagement makes sense when thinking in terms of sustainability, this is too often underestimated.

4 Conclusion

Sometimes societies think that sustainability is just a frivolous marketing concept, as they accuse many corporations of making even bigger profits at the expense of sustainability promotions. Two of the most high-profile scandals of this kind occurred in 2015 (Volkswagen) and 2019 (H&M), which may justify individuals’ doubts about the transparent promoting of sustainable products. However, there is clearly great potential for companies to communicate such a sensitive topic more transparently in their promotional campaigns. It has become clear that consumers, especially millennials, are willing to pay more and are willing to give up certain brands and habits for the wider good. Public companies and private corporations must also play their fair part when addressing the impacts that those consumers have on supply chains and areas where their businesses invest. Simply put, the consumer must know, with the ability to verify the facts, what they are contributing to ‘a better world’ when buying a sustainable product or service.

Through theoretical and practical findings, the author of this study discovered that the driver of sustainability, as such with its strategic function, is indeed sustainable procurement. The latter implements social, environmental and economic aspects into the process with the TBL. The defined purpose of this article was fulfilled by comparing the various views and opinions of established authors and experts in the field of sustainable procurement and supply chain. The goal of the paper was met by analysing and interpreting the Nielsen survey from 2018, where it was shown that millennials are more responsive to changes in consumer habits than other generations. Even more so, they are generating many of these sustainability changes in trade as they are becoming key consumers with strong purchasing power and are taking over leading positions in various corporations. By analysing a sustainable waste transport procurement case, the importance of determining a transparent way of scoring potential service providers was underlined, with an emphasis on sustainability and cost-effectiveness. The right approach, such as that chosen by Metro, is proof that service providers can have a beneficial impact on all three key aspects in the sustainable procurement system, namely the environmental, economic and social aspects. The synergy of theoretical knowledge and practical implementation of such processes shows the ability of the sustainable procurement function to cooperate with companies and organisations without harming any of the TBL functions. The author of this paper is of the opinion that the best practice would be to ensure sustainable procurement in the future by implementing a sustainable policy that increases profitability in the long term through the creation of added value, economies of scale as well as reputation of the company/institution and brand differentiation. Companies need to evaluate their product portfolios and then understand the impact and the level of scrutiny that consumers apply to the products they purchase. It is clear that innovative companies are proving time and time again that it is possible to do well by doing good. Consumer sentiment is shifting toward ‘Healthy for me and healthy for the world’, and this is influencing the sales of these products across multiple categories.

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