

ISO 20400

THE ROAD TO SUSTAINABLE PROCUREMENT WITH ISO 20400: WHAT, WHY AND HOW



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INTRODUCTION



Making business sustainable is an evolutionary process, and integrating new thinking into 'business as usual' takes time and patience. However, it does happen: many ideas and initiatives previously thought of as innovative

and ground-breaking have now become mainstream for the majority of large companies worldwide. Examples of this include measuring and standardising operational carbon emissions, defining natural capital and enforcing transparency on human rights and corruption through corporate governance efforts.

Embedding sustainability within corporate supply chains is heading in the same direction. Over the past decade, increasing the transparency of supply chains and implementing good management practices in relation to their environmental, social and ethical impacts has quickly risen on companies' agendas. If not addressed, supply chain impacts can present major business risks, but if acted upon with the right approach, significant business opportunities exist.

Many sustainability, supply chain, and procurement professionals and practitioners have contributed their time and expertise to the development of various approaches, initiatives and programmes to further the development of best practices in this field, which has been invaluable for organisations looking to take action. However, up until now these efforts have been fragmented and the difficulty has been consolidating them into a meaningful, standardised approach.

For this reason, the new ISO 20400 Sustainable Procurement Guidance Standard is a welcome resource for the profession – the importance of having a standard that companies can be assessed or benchmarked against cannot be stressed enough. It enables companies to gauge how well they are performing in terms of their sustainable procurement policy, strategy and management practices.

This whitepaper is a product of a partnership between CDP and global sustainability solutions body Bureau Veritas, combining two independent expert perspectives in an overview of the new standard. We welcome the contribution which the new ISO Standard will make to the continuing evolution of sustainability in corporate supply chains and have designed this whitepaper as a useful 'go-to' resource for practitioners looking to embed sustainable procurement practices into their business operations by following the ISO 20400 framework.

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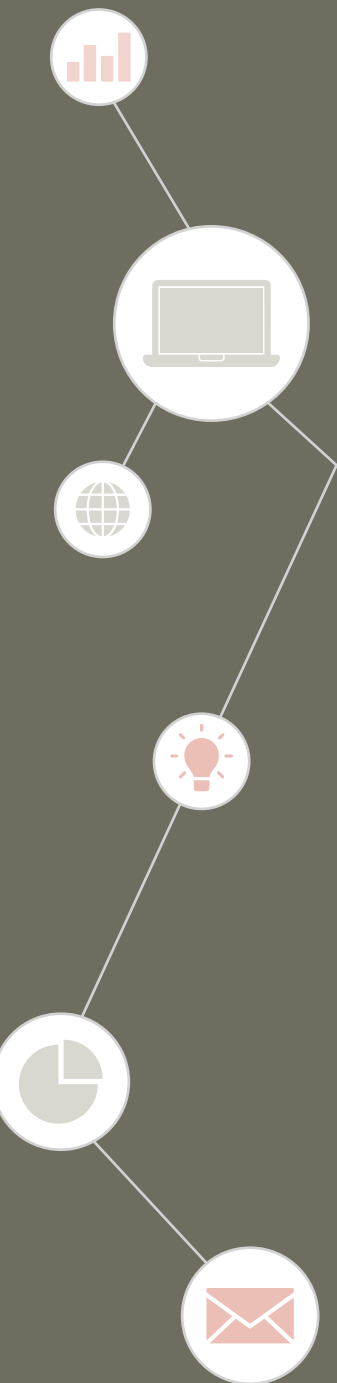
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The impetus for action

Today's supply chains are global, highly complex and significant in scale. Companies are increasingly able to conduct their business on a trans-national basis through direct foreign investments, overseas licensing or subcontracting arrangements, or by creating strategic business alliances.

For many industries the production of raw materials, components and finished products has shifted from industrialised nations to developing countries. This has been driven by the opportunity to drive down costs associated with wages and raw materials. Industries have also taken advantage of the environmental and labour laws in developing countries, which are less stringent than in developed nations. This globalisation of supply has given rise to major social and environmental crises across a range of industries, and as a consequence, organisations have come under mounting pressure to develop sustainable ways of working in the supply chain.

In tandem, rising consumer awareness of social, environmental and ethical impacts in supply chains have been impacting brand choices and loyalty more than ever before.



Awareness but inability to act

Organisations have traditionally focused on reducing their own direct impacts. However, most companies' greatest sustainability risks lie in their supply chain, which is also typically where most of the impact reduction opportunities exist. As such, a key component of the sustainability strategies of many organisations nowadays is not only the management of their own performance but also the management of their suppliers' impacts.

Indeed, for many stakeholders, the performance of a company cannot be divorced from that of its suppliers. This is especially true for retail businesses that may manufacture nothing themselves, but is also true for manufacturers whose products are made primarily from raw materials supplied from the developing world.

However, the reality is that many organisations continue to lack the resources to accurately identify the sustainability risks within their supply chains and accordingly manage them, or the opportunities for enhanced performance. There is a comparative immaturity in strategies for addressing supply chain impacts when compared to action taken on direct impacts, even among the most forward-thinking organisations. Furthermore, even

with sustainability pioneers who are proactive in their approaches to supply chain sustainability, their commitments and practices often do not cascade to suppliers further up the supply chain. To illustrate this, in 2016 CDP found that only 22% of companies reporting to its Supply Chain Program were in turn engaging with their own suppliers to reduce their impacts, and only 4% had related targets in place.

The power of procurement

Embedding sustainability thinking within procurement can be a powerful tool for bringing about positive change in organisations' supply chains. For example, it is not inconceivable for a group of companies with a high purchasing power to transform their upstream sustainability performance. The issue is that at present, many organisations are not active enough in this area to bring about meaningful change.

Until recently, the lack of a harmonised framework for sustainable procurement had been identified as a major barrier to sustainable supply chain management. Whilst there are no universally-effective approaches to taking action within the supply chain, there is now a growing awareness of the strategies and types of actions that can be successful in promoting and developing sustainable procurement, and by extension, supply chain sustainability.



Enter ISO 20400

Sustainable procurement

As the world's first major international standard on sustainable procurement, ISO 20400 provides a unique opportunity for organisations to affect positive change in their supply chains by providing guidance for implementing sustainability objectives through their procurement functions.

Although the concept of sustainable procurement has been around for some time, until now organisations adopting sustainable procurement practices have defined the concept as they saw fit. Indeed, in the absence of a globally recognised and accepted framework, methods across companies and regions have been inconsistent. ISO 20400 is a game changer: it has levelled the playing field by standardising definitions and providing a set of robust approaches that all organisations - irrespective of sector or size - can adopt to implement sustainable procurement.

About this report

As experts in the fields of sustainable procurement and supply chain management, Bureau Veritas and CDP have teamed up to produce this report to provide insights on ways that organisations can mitigate sustainability risks and unlock opportunities in the supply chain by aligning with the principles of ISO 20400. We hope that you enjoy reading this report and that you find the content useful in your sustainability efforts.





ABOUT ISO 20400

What is Sustainable Procurement?

ISO 20400 defines sustainable procurement as “procurement that has the most positive environmental, social, and economic impacts on a whole life basis.” When practicing sustainable procurement, organisations purchase in a way that favours suppliers and products that create positive outcomes for our planet and the global community.

There are many reasons why organisations implement sustainable procurement; most commonly it is done to embed organisational values into purchasing processes; reduce risk; improve competitiveness; and help bring about a more sustainable marketplace.

An introduction to the standard

ISO 20400 enables companies to make more informed choices through a set of guidelines for establishing a sustainable procurement policy and implementing a strategy to assess the sustainability credentials of suppliers, products and services. Its primary aim is to guide organisations to affect positive change in their supply chains by harnessing the power of the procurement function to help achieve their sustainability objectives. The standard is designed to apply to any organisation, regardless of its sector, size and location, and to all stakeholders involved in or impacted by procurement decisions and processes.

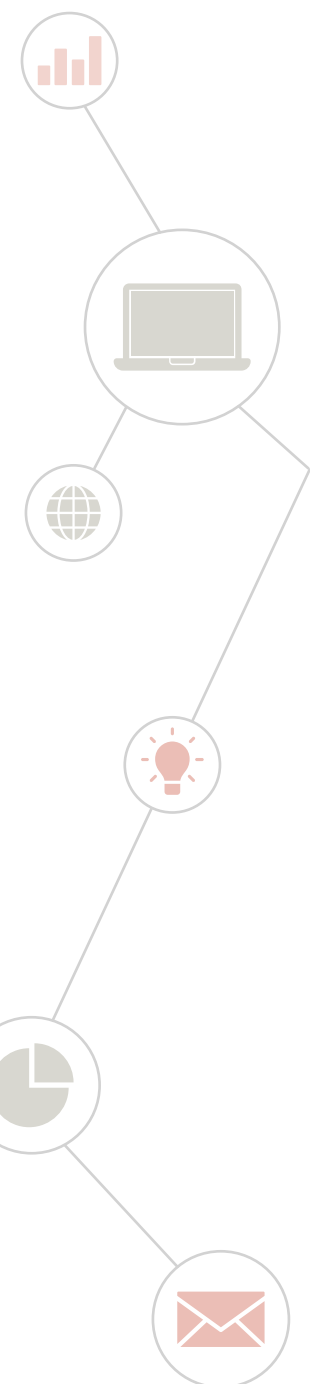
Contributors from over 50 countries were involved in its development, including members of the United Nations Environment Programme; the International Trade Union Confederation; the Sustainable Purchasing Leadership Council; Independent International Organization for Certification; and the Organisation for Economic Co-operation and Development.



What is in the standard?

ISO 20400 provides a framework to enable an organisation to procure sustainably. Although it is encouraged that all relevant stakeholders read the entire standard, the guidance has been written to target specific groups within an organisation, as outlined below.

ISO 20400 Sections		Intended for
	Fundamentals Provides an overview of the fundamentals of sustainable procurement by outlining its principles and core subjects. It underlines the need for organisations to explore their drivers for sustainable procurement and to set priorities based on their findings. This section contains concepts from the UN Guiding Principles of Human Rights and Business and states that procurement is a powerful tool for contributing to the UN Sustainable Development Goals.	Senior management, procurement management, procurement staff
	Policy and strategy Provides guidance about how to adopt sustainable procurement principles within the overarching strategy of the organisation and how to adapt the policy to the procurement context. A key deliverable in this section is the sustainable procurement strategy.	Senior management
	Enablers Describes the organisational conditions and management techniques required to deliver sustainable procurement. The topics covered include leadership, governance, developing people, supplier engagement and setting priorities.	Procurement management
	Procurement process Describes the generic procurement process and the techniques that can be used in different circumstances to deliver sustainability objectives across the supply chain. A key deliverable in this section is a sourcing strategy that incorporates sustainability.	Procurement staff



Importance of external assessment

ISO, the International Organization for Standardization, is an independent standard-setting group that develops voluntary standards for ensuring that products, services and processes are fit for purpose. Over twenty thousand standards have been developed by ISO, including the widely-known and adopted ISO 9001 – Quality Management; ISO 14001 – Environmental Management; and ISO 18001 – Occupational Health & Safety.

Accredited bodies offer certification against a range of ISO standards, but ISO 20400 is different in that it is a guidance standard and organisations cannot be certified against it. However, those who align with its principles can still undergo external assessment by an independent third party, as doing so provides an impartial view of an organisation's adherence to ISO 20400 and offers an unbiased perspective on existing processes. In addition, external assessment can help to identify opportunities for improvement and provide confidence to external stakeholders that sustainable procurement practices are in line with international best practice. External assessment can also communicate to management that policies are being followed across different business units and locations, build trust amongst supplier and stakeholder networks, and improve relationships with customers, investors, partners and the wider community.

An organisation can be assessed against ISO 20400 at any point along its journey towards fully embedding sustainable procurement practices. Proactive and forward-thinking companies may choose to seek external assessment multiple times throughout the development and implementation of the guidance.



WHAT ARE THE BENEFITS OF ENHANCING SUSTAINABLE BUSINESS PRACTICES IN THE SUPPLY CHAIN?

The overarching benefit of aligning with ISO 20400 is bringing together the procurement and CSR functions to facilitate positive sustainability outcomes, both within the organisation and across the supply chain. Following the guidance can also help mitigate risks and unlock financial, environmental, social, and regulatory opportunities. In addition, sustainable procurement and supply chain management initiatives are recognised across sustainability indices and reporting frameworks; as such, companies stand to benefit from reputational gains by aligning with ISO 20400.



Financial

While cost reduction is the most common financial benefit of implementing sustainable procurement, organisations can reap greater financial advantage through attracting investment, and improving brand image and reputation.

Creating and implementing a sustainable procurement policy and strategy can highlight operational inefficiencies and lead to cost reduction opportunities through more efficient sourcing practices and improved supplier performance.

On the other hand, investors are increasingly integrating sustainability criteria into their decision-making processes and rewarding companies who manage sustainability risks along the supply chain. Most crucial to investors is that sustainability management increases the potential for a company's long-term value creation. By implementing the principles of ISO 20400, organisations can evidence the resilience of their business to investors by future-proofing their value creation across the supply chain as resources become increasingly constrained and regulations more stringent. Indeed, resource-efficient organisations are likely to be well positioned to perform competitively in a resource-constrained world.



Environmental

Becoming more resource efficient through implementing sustainable procurement practices is one way for organisations to demonstrate their commitment to reducing their environmental impacts.

A significant environmental benefit of sustainable procurement programmes is through reducing greenhouse gas emissions associated with procurement activities. This may be realised through taking a life-cycle approach to purchasing and sourcing goods and services locally, or by purchasing longer-lasting, more energy-efficient equipment. Similarly, organisations can reduce their reliance on virgin materials by purchasing recycled or reusable materials.

Equally, extending the life of purchased equipment through active maintenance is also an effective way of reducing environmental impact through sustainable procurement. In other words, environmental benefits can be realised not only from sourcing more sustainably-produced goods; but also from purchasing less.



Social

Sustainable procurement can give rise to and help spread social benefits across the supply chain. It also encourages the economic engagement of vulnerable groups, advances human rights and can help spur the uptake of innovative products.

For example, sustainable procurement policies that contain provisions for the purchase of fair trade products help uphold better social conditions in the countries of origin. Fair trade principles include creating opportunities for economically disadvantaged producers; transparency and accountability; payment of a fair price; ensuring good working conditions; and a commitment to non-discrimination and gender equity.



Regulatory

Regulations are frequently updated or replaced, and international organisations must be proactive to maintain compliance. Due diligence is particularly important for delivering a sustainable procurement strategy, as is the notion of complicity where purchasing organisation can be implicated for malpractice throughout their supply chains. For example, the Modern Slavery Act 2015 and the Bribery Act 2010 in the UK are based on this principle. In Scotland, the Procurement Reform (Scotland) Act 2014 includes a sustainable procurement duty for contracting organisations. In France, the Corporate Duty of Vigilance law requires multinational firms carrying out all or part of their activity on French territory to establish mechanisms to prevent environmental damages and human rights violations in the supply chain. In the United States, the California Transparency in Supply Chains Act requires certain organisations to report on actions to eliminate human trafficking and slavery in the supply chain.

Keeping ahead of regulatory requirements is particularly important for organisations with operations in developing nations.



Reporting

Sustainability indices and reporting frameworks such as the Global Reporting Initiative (GRI), in the assessment questionnaire for the Dow Jones Sustainability Index (DJSI), and CDP contain modules and questions about supply chain engagement and/or procurement. For example, organisations that implement ISO 20400 are more likely to be able to report on GRI 204: Procurement Practices from the GRI Standard. The standard requires companies to disclose their procedures and policies used to select local suppliers and promote economic inclusion; the methodology used for tracing the source, origin or production conditions of inputs purchased; and the percentage of procurement budget spent on local suppliers.

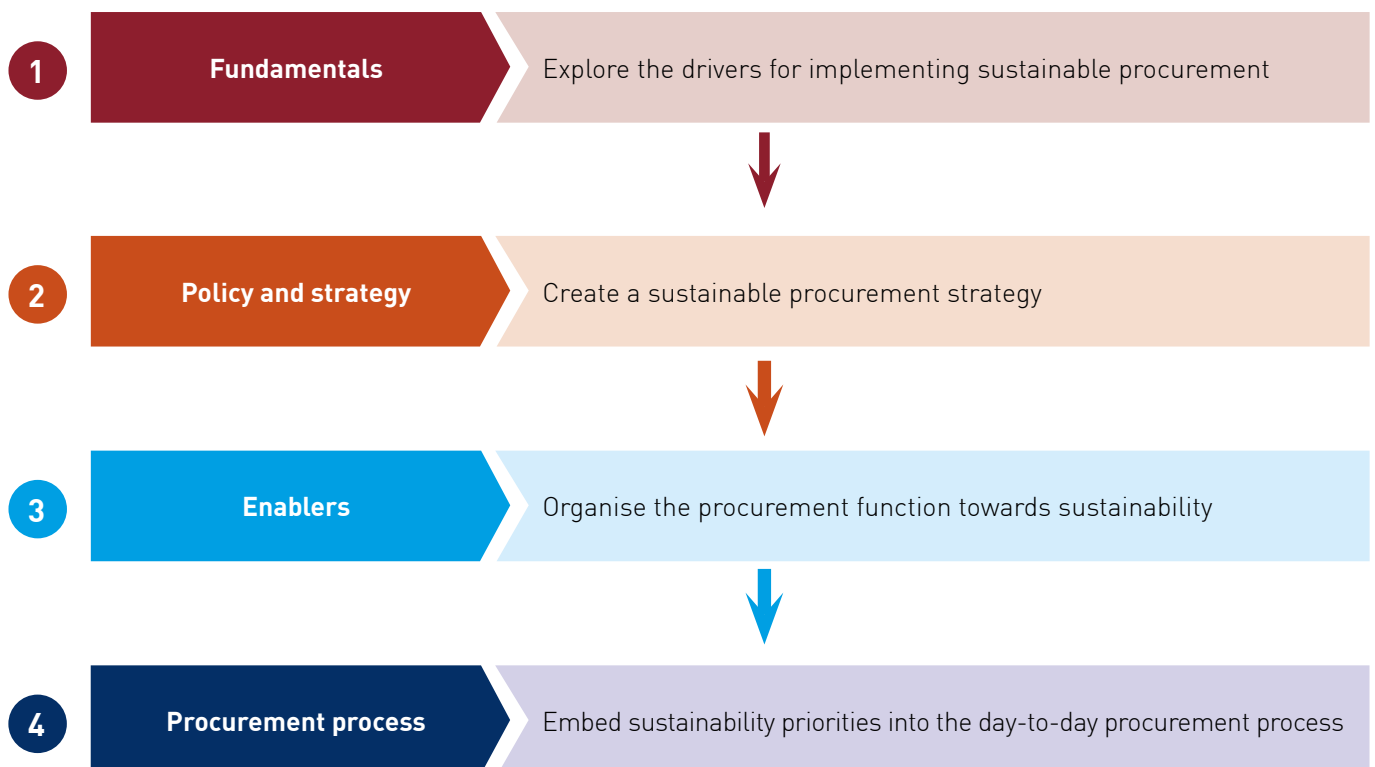
In Section 7 of the RobecoSAM Corporate Sustainability Assessment (CSA) for DJSI, companies must answer questions on how they assess and manage their supply chain risks; integrate ESG into supplier selection; identify opportunities; and publicly communicate their supply chain management, including procurement.

CDP requests companies to disclose their supplier support and engagement efforts across the Climate Change, Supply Chain, Water and Forests programs. These include topics such as company strategy; supporting and improving supplier capacity to supply sustainable materials; enforcement of procurement standards for the sourcing of commodities; supporting smallholder forest management practices; and transparency on supplier water use, risks and management processes.



HOW TO IMPLEMENT SUSTAINABLE PROCUREMENT PRACTICES USING ISO 20400

Implementing sustainable procurement practices can seem like a daunting task to organisations, especially those who have yet to embark on the journey. The following section contains key action items from ISO 20400 Clauses 4-7 that can help organisations get started with the implementation process.



1

Explore the drivers for implementing sustainable procurement

The first step for an organisation seeking to implement sustainable procurement in line with ISO 20400 is to explore their unique set of drivers for doing so. This is an important step because those identified drivers will help inform the sustainable procurement priorities.

The following table contains a list of common drivers as outlined in ISO 20400:

Risk management	Competitive advantage	Cost optimisation
» Customer expectations » Legislation and regulations » Organisational ethics » Public policies » Security of supply chains	» Personal leadership » Investor confidence » Stakeholder expectations » Engaged workers	» Economic value creation » Innovation » Long-term supplier commitment

Ranking drivers on a quantitative scale is a sound approach for analysing priorities from different parts of the organisation, as it provides a starting point for managers to measure the drivers for the entity as a whole. This approach enables comparability and helps guide internal discussions. Following the identification and ranking of key drivers, findings should be presented to top management for feedback and action.

2

Create a sustainable procurement strategy

Having successfully put forward the business case to integrate sustainability into the procurement process, top management should then seek to integrate the organisation's sustainability objectives into the procurement policy and strategy.

As part of this stage, it is key that all relevant roles and responsibilities are assigned, and that sustainability is integrated into the existing governance arrangements. All individuals involved in sustainable procurement processes should receive appropriate training.



3

Organise the procurement function towards sustainability

During this stage, an organisation should set sustainability priorities within the procurement function to ensure that the activities undertaken will result in the most impactful outcomes. ISO 20400 sets out an iterative process for transforming strategy into operational priorities for the procurement function, including the following approaches:

- » Category approach: Grouping similar goods and services into categories, and including sustainability considerations for each;
- » Supplier approach: Plotting sustainability issues against suppliers and their supply chains to determine the ones that have a significant contribution in different contracts and geographical locations; and
- » Sustainability issue approach: Investigating and mapping the key categories, suppliers, and contracts that influence purchasing for each sustainability issue. The output from this approach can be consolidated into a lifecycle assessment.

4

Embed sustainability priorities into the day-to-day procurement process

The final step in aligning with the principles of ISO 20400 is for the individuals involved in the day-to-day procurement activities to embed sustainable procurement priorities, as defined in Stage 3, into their processes.

This involves integrating sustainability considerations and priorities into the procurement of goods and services using the existing procurement process. Organisations should also consider the sustainability aspects of supplier selection when awarding contracts to preferred suppliers. Sustainability should be integrated into contract management, and a culture of continual review and learning from the contract should be implemented, lessons from which should be applied in future sourcing considerations.



CDP AND ISO 20400

Since the release of ISO 20400, there has been growing interest from the member companies of the CDP Supply Chain Program (who request their suppliers to disclose via CDP), as to how the initiative aligns with this new guidance standard. In many ways, the two frameworks are distinct from each other: CDP focuses solely on the environmental performance of organisations’ practices and initiatives in managing their supply chain, whereas ISO 20400 encompasses the broader definition of sustainability (social, environmental, economic). However, the governance approaches for improving environmental performance often overlap with the approaches taken for addressing a company’s social and economic impacts, and in this way are not only transferable, but can aid the implementation of ISO 20400.

Like other similar supplier engagement initiatives, the CDP Supply Chain Program can enable member companies to establish a foundation to build on for full alignment with ISO 20400. The following summary table is designed to show at a glance how the CDP Supply Chain program aligns, or can be used in conjunction with, ISO 20400.



ISO 20400 Section	How does the CDP Supply Chain Program align?
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Fundamentals

CDP’s Supply Chain program is aligned with ISO 20400’s provisions for managing risk related to environmental impact. More specifically, both frameworks encourage organisations to identify, prioritise and manage related risks, including opportunities (ISO 20400 Clause 4.5.1, and correspondingly, CDP supplier disclosure on risk management approaches, plus identification of both risks and opportunities – regulatory, physical or other).

CDP Supply Chain members use a range of approaches to prioritise efforts with suppliers (ISO 20400 Clause 4.5.3), including prioritisation based on CDP’s scoring methodology, risk, spend, purchasing category, and feasibility.

Policy and Strategy

CDP Supply Chain members have used the program to help inform and shape their public supply chain targets, supplier code of conduct and sustainable procurement policies (ISO 20400 Clause 5.1).

ISO 20400 Clause 5.4 contains provisions for identifying sustainability impacts, risks and opportunities, and for developing an understanding of the supply chain. The CDP Supply Chain Program adopts the same approach for environmental impacts, risks and opportunities. In certain sections of the CDP information request (e.g. CC5 & 6), suppliers are requested to disclose any regulatory, physical or other environmental risks and opportunities, and to demonstrate strategies and management procedures to address said risks, and capitalise on opportunities.

CDP Supply Chain members can make use of the program to support, inform and drive the implementation of procurement policies and strategies based on primary environmental supplier data; as such, reporting organisations seeking to align with ISO 20400 are well-positioned to fulfil the requirements of Clause 5.5.

Enablers



Supplier engagement and integration of sustainability into the procurement culture are key focus areas of the CDP Supply Chain Program. The CDP reporting framework can be used by members to facilitate supply chain engagement on environmental matters, and the engagement techniques can be used to incorporate social and economic issues when following the ISO 20400 guidance (Clauses 6.1 and 6.2). Data insights and trends gleaned from the CDP supplier disclosure process help to prepare companies for developing stronger supplier engagement strategies.

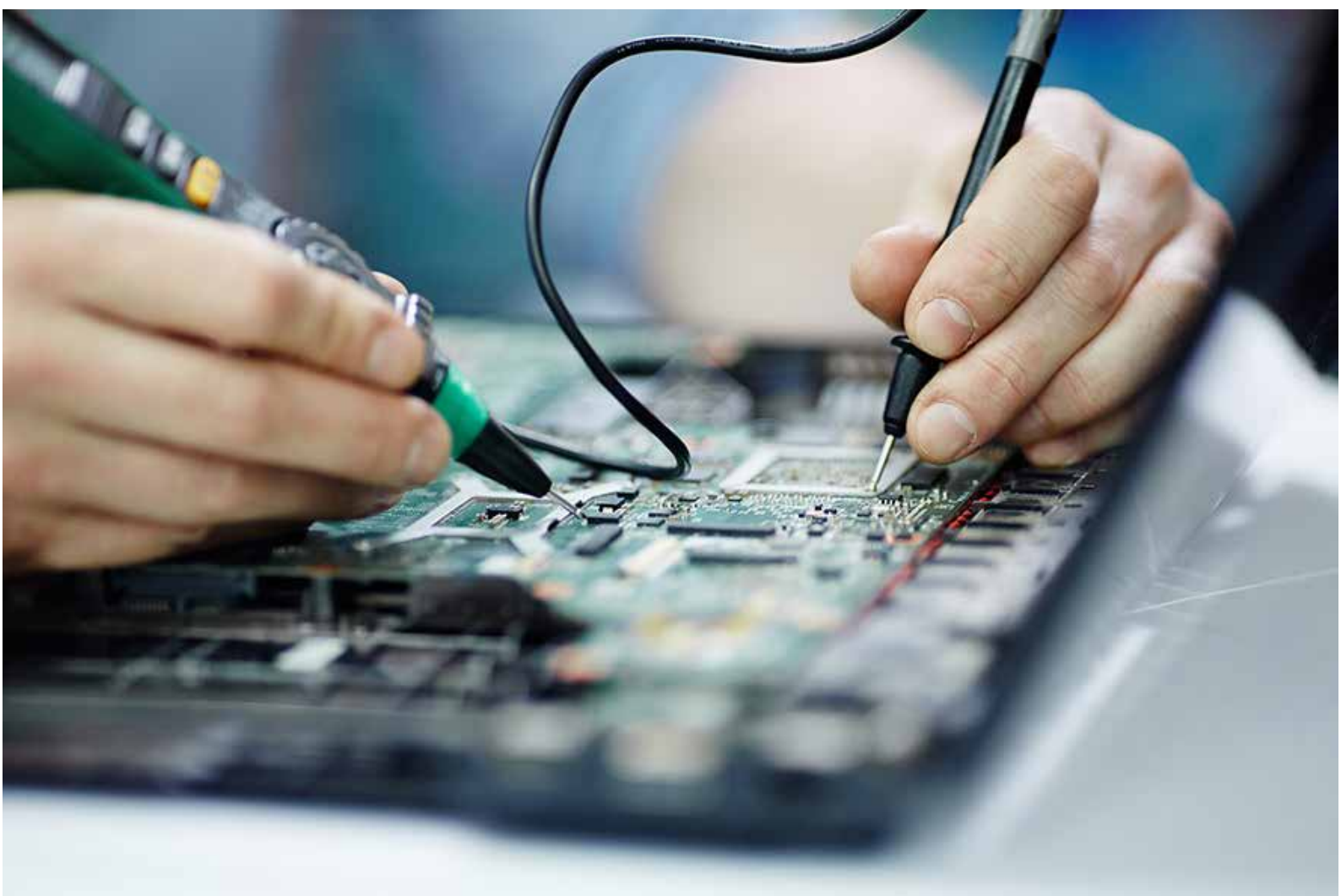
Measurement, management and continual improvement are core aspects of CDP Supply Chain. The program enables organisations to track, report and benchmark the effectiveness of their engagement efforts year after year, and there is significant overlap with ISO 20400 Clause 6.5.

Procurement



CDP Supply Chain members frequently use the reporting framework to help define elements of their sourcing strategies. Examples include target-setting, developing a supplier code of conduct, and integrating CDP data into balanced company score cards. This is a key area in ISO 20400 Clause 7.3.

Organisations who are members of the Supply Chain Program receive input from CDP on supplier selection, based on insights from a global supplier dataset of almost 10,000 suppliers. Although the final assessment and prequalification of suppliers remains with organisations, CDP members are in a good position to learn from peer experiences and adopt existing approaches when aligning with ISO 20400 (Clause 7.4).



WHERE ARE YOU IN THE SUSTAINABLE PROCUREMENT JOURNEY?

Some organisations find it difficult to develop a sustainable supply chain strategy that is fit for purpose; others have trouble putting their plan into practice. Prior to exploring the drivers for implementing sustainable procurement, organisations may wish to explore how advanced their procurement processes are.

The diagram below provides an overview for gauging where an organisation is on its sustainable procurement journey. It may be used as a guide for considering next steps and goals to work towards, or an internal benchmarking exercise against peers.

Beginner

1

- » Exploring drivers for sustainability procurement
- » Sustainability procurement issues identified but no formal action taken
- » Senior management show desire to pursue sustainable procurement

Intermediate

2

- » Sustainability embedded in existing procurement policy and strategy
- » Targets set and action plans developed for short- and long-term improvement
- » Sustainable sourcing strategy developed
- » Procurement employees involved in sustainability groups or committees
- » Training delivered on sustainable procurement
- » Shift from risk mitigation to advancing opportunities

Advanced

3

- » Sustainability integrated into the procurement process
- » Sustainable procurement practiced on an on-going basis
- » Performance tracked, measured and reported periodically
- » Frequent review of practices and continual improvement sought
- » Stakeholders engaged and feedback taken on the procurement process
- » Supply chain managed as a platform for positive impact through integration with the business strategy
- » Tackling root causes of issues through innovation and deep collaboration with other actors



Sources

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DISCLOSURE INSIGHT ACTION

Through its supply chain program, CDP enables organisations to capture vital data on climate change, water and forests management from their suppliers, in order to manage supply chain risks and opportunities.

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