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Greening Public Procurement: a review of the issues

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ABSTRACT

Purchasing in the public sector differs in important ways from private sector procurement. Understanding how these differences affect the 'greening' of supply practice is important not just for the public sector itself, but also for any attempt to develop explanations of how organisations in general make a link between what and how they buy and the impact of such purchasing on the environment.

This paper summarises the key ideas in green supply and examines why public procurement has a particular relevance to this issue; analyses the issue of regulation and public accountability in relation to green supply; reviews the use of procurement as a tool for policy and explores the impact of budgeting systems and organisational design. The paper is based on: a review of literature on public procurement, drawn from the USA and the UK and case studies of public sector organisations - in local and national government - carried out by the authors as part of a research project on *Greening of Supply Chains*.

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INTRODUCTION

Purchasing in the public sector differs in important ways from private sector procurement. Understanding how these differences affect the 'greening' of supply practice is important not just for the public sector itself, but also for any attempt to develop theoretical explanations of how organisations in general make a link between what and how they buy and the impact on the environment.

This paper describes some of these aspects and seeks to draw out the implications for the analysis of green supply. To do so, it makes some crass aggregation, in lumping together all public procurement and in drawing freely from observations from several countries (especially the United States, where the literature is more abundant); this of course does violence to the both the variety in structures and practices in the public sector, and also in government's institutional responses to environmental issues (on which, see Weale *et al.*, 1996). Nevertheless, a broad approach is necessary to frame the general discussion. The paper begins by briefly summarising some of the key ideas in green supply, and examines why public procurement has a particular relevance to the issue. We then focus on three distinctive issues that arise in public procurement: the degree of regulation and accountability, the use of procurement as a tool of policy, and the impact of budgeting systems and organisational design.

THE PUBLIC SECTOR CONTEXT

Although much attention on corporate environmentalism has focused on the private sector, it is important to recognise the economic and environmental importance of the public sector: it represents a major force in terms of the scale of its spending on goods and services. Within the OECD countries, government-related procurement of goods and services represents between 5 and 15% of Gross Domestic Product, with central governments accounting (on average) for about one third of this (Cinq-Mars, 1997). As well its scale, public procurement is also notable for its complexity (Hartley, 1991). Heinritz *et al.* (1991) outline ten areas of difference between public and private sector purchasing. The first is the *size of purchases*: many government contracts - especially for defence-related purchasing - are huge. In the US, 2% of the Department of Defense contracts represent approximately 90% of dollar value of contracts awarded. Further, the public sector exercises significant *leverage* over its suppliers: in many industries (such as defence, and in some countries, healthcare) the public sector acts as the only or the single most important customer, and so has huge influence over the supply base. In addition, the government has a *unique power* to set the commercial terms of engagement, by, in principle, changing the law (or, for example, levying taxes) to its advantage. In defence, public procurement pays unusual attention to the degree of *security* in the commercial relationship.

Other differences are that public procurement is undertaken in an environment of *legal restrictions* and detailed scrutiny of its *compliance with regulation*, with mechanisms in place to govern to ensure that the *solicitation of vendors* proceeds in a fair way. This means that procurement is undertaken with considerable attention to *procedural detail*. The bureaucratic implications of this are potentially exacerbated by a general *diffusion of authority* in public sector organisations. Lastly, public procurement may be used as an *instrument of government social and industrial policy*.

Countries have taken a variety of approaches to the greening of public procurement, but many are now formulating or implementing policies and developing institutions to act in this area. In the United States, for example, the Clinton Administration has implemented orders that favour the use of recycled paper products by the government and its subcontractors (Rabasca, 1993). All 50 US states have implemented some form of green procurement regime (Marron, 1996; Raymond, 1992). In the UK, Angela Eagle, of the Department of Environment, Transport and the Regions, has committed the Labour Government to ensuring that it is "among the leaders in the area of green procurement" (Eagle, 1997). Cinq-Mars (1997) gives brief progress reports on the state of green government procurement in several countries, and cites the recommendation of the OECD (from 20th February 1996), which stipulated "the establishment and implementation of policies for the procurement of environmentally-sound products and services for use within governments". Some UK local authorities have incorporated environmental purchasing as one element in the Agenda 21 programme that has emerged from the Rio Summit (ACA/ADC/AMA, 1996); some have pursued the idea of adapted versions of the EMAS environmental management standard (CAG Consultants, 1993; Davis, 1995; DOE, 1995).

KEY DIFFERENCES

Our research has entailed working closely with a number of large organisations in the private and public sector, and in tracing the development (and in some cases, effective demise) of green supply initiatives (Green *et al.*, 1996, 1998). Two key differences have emerged between public and private sectors, namely:

the effect of regulation on procurement practice and

the use of green supply approaches for other than immediately commercial purposes.

The analysis of both these differences, however, has led to an appreciation of important similarities between the two sectors, and within these, some indication of what might be critical factors in establishing successful initiatives.

To a large degree, private organisations are permitted to invoke whatever criteria they like, and use what control procedures they deem appropriate, to govern the outflow of money to suppliers. They do, of course, have to demonstrate to their owners - via the auditors - that frauds have not been perpetrated and that arrangements have been made to the advantage of the company, but the precise form of commercial arrangements is open to considerable flexibility. The public sector, on the other hand, operates under the constraint of having to be seen to behave rationally and fairly, as good and reliable custodians of public money (Thomas, 1919; Turpin, 1989). This means there is generally a greater degree of traceability and structured procedure in public sector procedure, with the underlying motivation that potential suppliers are treated fairly, and that the (significant) scope for corruption is curtailed. This has meant that in most public sector contexts, the most obvious comparison with the private sector is of greater reliance on formal procedures and routinised mechanisms (such as sealed-bid tendering) and, in consequence, more extensive bureaucratic machinery. It is important to stress that the logic for this is not just to ensure fairness, but that fairness is *seen* to be done (McC Campbell and Rood, 1997).

This degree of regulation has two contradictory effects on the development of public sector green supply. The first is that it becomes relatively easy for green criteria to be incorporated into an already criteria-based procurement process; suppliers who already have to jump through procedural hoops have just one more hoop with which to deal. One public authority in our study has followed this route by issuing an edict that all its suppliers (for a particular category of service) achieve either EMAS or ISO14000 by a particular date, or else be excluded from this work. The difficulty, however, is that public bodies often have difficulty in enforcing non-monetary criteria of this kind; the fear of having to explain a non-cost based purchasing decision means that purchasers are under considerable pressure to soften these criteria in practice, and fall back on price or demonstrable cost. This tension has come to the surface recently in pronouncements from senior ministers and officials in the UK government; government purchasing will incorporate green criteria, but there is no intention to pay any sort of 'green premium'; in other words, the government will buy green, but only when green is the cheapest (see ENDS Report, 1998).

This issue needs to be seen in the broader context that public procurement is often an activity that is seeking to do several jobs at the same time. A good example of this is defence procurement, in which the survival of indigenous industries is often made a priority in buying decisions. Many public bodies (including many European governments) have espoused a version of the Porter Hypothesis (Porter and van der Linde, 1995a, 1995b), which argues that setting high environmental standards will improve the environmental standing of the local supply base. Opponents of this view argue that clouding the pursuit of the best value with (any) other issues will inevitably have negative effects in the long run: an ailing national weapons company may be kept afloat in the short term, but the action will encourage poor management and uncompetitiveness in the longer term. In other words, skewing the operation of the market may be killing with kindness. A further area of doubt about the efficacy of green public procurement as a tool of policy is that it is easy for the government to get the detail of its action wrong, and so have an unintentionally negative effect. Fuller *et al.* (1996) mention this in regard to need for the US Environmental Protection Agency (EPA) to introduce a 'Common Sense' initiative in response to anti-pollution measures that transpired to have dysfunctional effects. Bers (1994) describes problems with US public procurement's impact on recycling systems, where well-intentioned interventions have caused problems for the economic mechanisms that otherwise govern 'flow control' of recycled products. An argument in response to this is that, even though they will make mistakes, governments are obliged to intervene as in most cases market may not be adequate to 'close the loop' (see Cramer, 1996).

Marron (1997) presents a more complicated and more theoretical argument that cautions against green purchasing by government. Using microeconomic analysis, he demonstrates that, in some situations, governments' decisions to buy green goods may have an adverse effect on the environment. This counter-intuitive result arises when a shift in government preferences from 'brown' to 'green' goods results in a downward pressure in the price in brown goods, which in turn increases the sales of brown goods to non-government customers. In this way, the total number of goods sold goes up, and this overall increase more than compensates for substitution of brown for green by the government. This rather curious argument is obviously dependent on both a rather limiting set of assumptions, and relies on confidence in equilibrium analysis in explaining economic behaviour.

KEY SIMILARITIES

Despite these differences, some authors (e.g. Sheth *et al.*, 1983; Dobler *et al.*, 1990) have stressed the similarity of public and private purchasing, as both seek to support operations, buy competitively and wisely, maintain minimum inventories, develop reliable sources and hire and train competent personnel. In our investigations, we have found that there are two key features which stand out in organisations who are exploring or striving towards green supply.

The first of these is the difficulty in establishing links between the appropriate members of staff and groups within an organisation who need to interact before environmental issues can be sensibly incorporated into procurement decisions. In public sector bodies, for example, it appears to be common for procurement staff to be largely in the dark about the detail of the uses to which their purchases are put, and difficult to establish a credible position from which to challenge users' preconceptions. An example of this is the healthcare sector, in which it appears to be difficult to engage clinical staff in procurement-related discussions, as there is an embedded set of expectations that any innovation will be related to old-fashioned 'cheese-paring'. In the private sector, this issue often manifests itself as a gap between marketeers and purchasers, who find it difficult to examine the marketing opportunities that might arise from modified procurement strategies.

The second issue is that we have found organisations that are able to sustain momentum in this area are those organisations that can align green supply with another, broader corporate objective. The best example of this in our study is a local authority that has been able to integrate green supply as part of its overall missions concerning local environmental improvement and local economic development. This appears to be the public sector equivalent of a Bodyshop or B&Q approach, in which procurement becomes part of the overall differentiators in marketing terms.

CONCLUSIONS

This paper has reviewed some of the issues that arise in the emergence of green supply in public and private sectors. While there are important differences, our research suggests some important similarities. For both sectors, our work suggests that green supply practices need to be implemented with regard to organisational structure and strategy; where this is not so, it seems likely that initiatives will flounder.

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