



BUILDING BACK BETTER

A new lens on (social) value
in public sector procurement

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in partnership with Action Sustainability

actionsustainability 

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INTRODUCTION

BUILDING BACK BETTER MEANS A NEW LENS ON VALUE

Over the past two decades, public sector procurement has been very much geared towards delivering Value for Money, or VFM as popularly known since the 2003/4 Gershon Review and as such public procurement processes have been designed to enable this. These processes receive criticism from time to time but nobody can doubt that they are ultimately intended to lead procurement and suppliers through a clear and compliant process of bidding against a specification of requirements, whereby at the end value can be measured and compared.

The comparison of value (between supplier proposals) is usually achieved by comparing tangibles, like cost, alongside evidence, like references and experiences (quality), and balancing this against the perceived applicability of intended approaches.

Whilst not perfect, much effort is made to reduce variability and to ensure that the differing responses received can be compared in a way that accurately compares value, and therefore value for money.

And it works. Processes, when followed, are most often fair, if sometimes cumbersome and lacking in flexibility or creativity - at least from a supplier's perspective.



THERE ARE LONGSTANDING DEBATES ABOUT VALUE

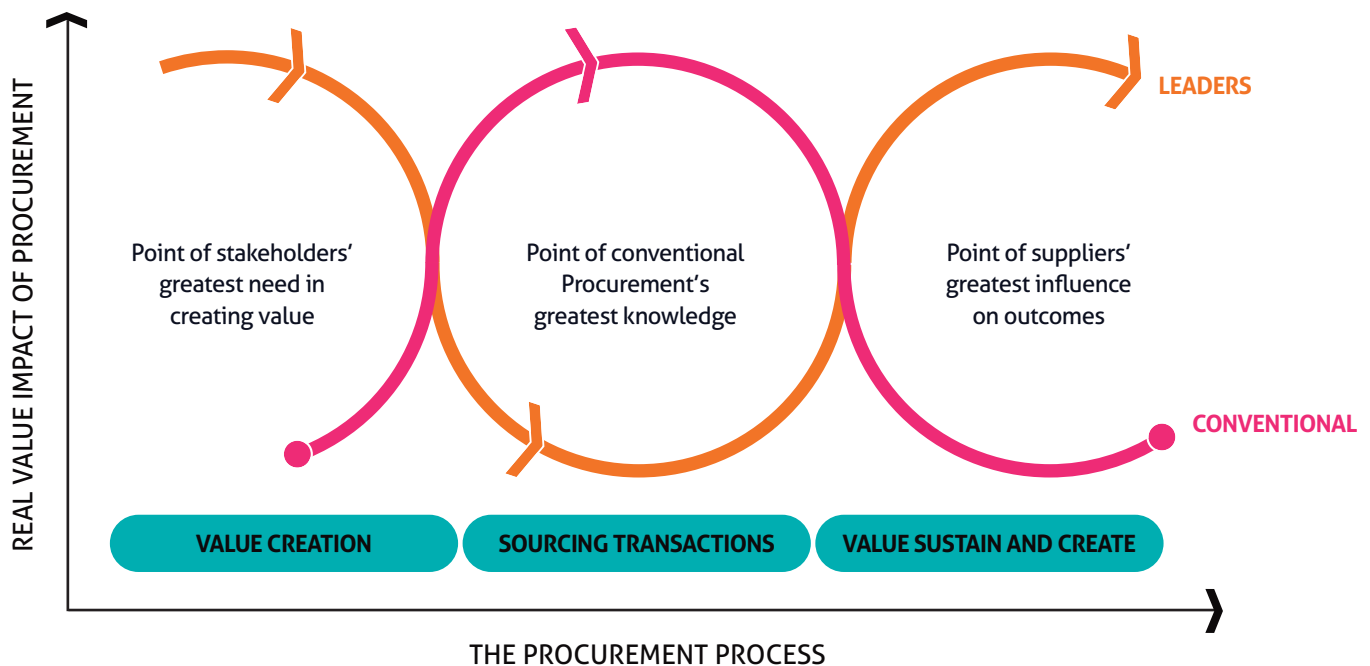
The better equipped, skilled and resourced a commercial function becomes, the more thinking is able to evolve about how to best influence value. Three main themes have resurfaced at various times;

01 VALUE CREATION - Tenders are typically run against a set specification of requirements. The ability to set a specification that reflects the best value the market can deliver is arguably where the most value can be created. This requires knowledge of needs and markets, as well as pre-procurement collaborative engagement with suppliers.

02 VALUE DELIVERY (through the sourcing transaction) - Tenders are not a story writing competition, they have to be able to inspire suppliers. They also have to enable commercial teams to compare the value that suppliers propose in delivering to the specification.

03 VALUE RETENTION - Contracts can on occasion either leak value post-award or not deliver the value intended during the actual procurement. There are reasons why this can happen on both buyer and supplier side, the problem being if that perceived value (for which the contract is awarded) doesn't turn out to be the achieved value, it can even bring the original award into question.

At Proxima, we have created the following view which has been taken on by many, including Government as an illustration of where value is best created, and contrasting this against where most commercial teams spent their time. The goal was to show that the biggest human impact on value was where we typically saw commercial teams spending the least amount of time; engaging with suppliers, writing market-relevant specifications, and managing contracts and contract value.



THE NEW VALUE DEBATE

VFM has a traditional focus on creating tangibles that related to a comparable cost. But is it time to turn our heads towards a new value debate which moves beyond cost. Why? Well, firstly because cost might be becoming less predictable, but also because in the aim of building back better, cost becomes just one of the criteria we need to think about.

Most procurement professionals in post today are accustomed to working in deflationary markets. However, as inflation continues to affect several key global supply markets, that is changing fast as suppliers rebalance against pandemic and economic pressures. In some supply chains, supply shortages have created "sellers markets", prices are volatile and increasing, driving short-term buying patterns and behaviours.

For VFM purposes there are two key takeaways;

- Firstly, if you are used to measuring savings as the key measure of success, then you might be in for a challenging time. But that doesn't mean there isn't value to be found.
- Secondly, in a scenario whereby we seek to build back better, the key measures of value are changing.

As responsible commercial professionals, we keep a focus on price, but now we balance that with alternate ways in which we can create value for our people, our communities, and our planet.

And that means looking at value differently - a new (social) value model

We live in a world where sustainability is rapidly becoming embedded in everything we do. Across both the public and private sectors, environmental, social, and economic factors are now a fundamental part of many of the decisions that we make.

In the private sector, this has played out in the astronomical rise of ESG (Environmental, Social and Governance) as a corporate priority. Scrutiny from customers and shareholders mounts on businesses and they now need to demonstrate that ESG flows through their corporate DNA. In the public sector, these new sustainable priorities are more frequently encapsulated in the concept of both 'social value' and 'carbon reduction' - both addressed through separate Policy Procurement Notices (PPNs); 0620, and 0621 respectively.

NEW VALUE MODEL RELEVANT PPN'S TO EXPLORE

PPN 0620

Taking Account of Social Value in the Award of Central Government Contracts, issued September 2020.

Key themes:

- COVID-19 recovery
- Tackling economic inequality
- Fighting Climate Change
- Equal opportunity
- Wellbeing

PPN 0621

Taking Account of Carbon Reduction Plans in the procurement of major government contracts, issued June 2020.

Key themes:

- Baseline Emissions Footprint
- Current Emissions Reporting
- Emissions reduction targets
- Carbon Reduction Projects

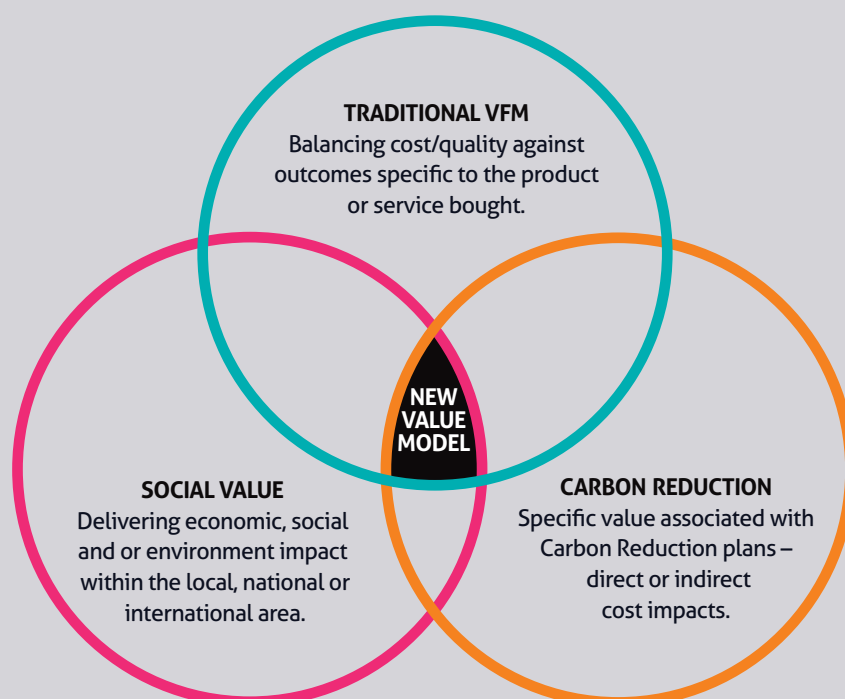
Social value is changing the face of public sector procurement, and the supply base is being recognised as a pivotal way of extending social impact beyond organisational boundaries and into the communities and societies in which organisations operate. As a result, social value is fast becoming the priority for every procurement team.

The intent shown by many to date will be followed by many more with the impending introduction of the Procurement Bill this year, which will ingrain social value in procurement as part of the Government's promise to Build Back Better.

As a result, supplier selection that could previously be based solely on the "most economically advantageous tender (MEAT)" is now opened up to a wider and often a more intangible set of measurables through the subtle but significant change to "most advantaged tender (MAT)"². This means rethinking the core of the procurement process; how specifications are **created**, sourcing undertaken, and suppliers managed.

For professionals that have "done it one way" for a number of years, this is raising difficult questions. What does social value really mean? And how do you measure something that is constantly evolving? Getting more into the detail this might mean questions like how can suppliers best deliver a positive impact on local communities? Or how can procurement teams with limited resource ensure that suppliers are sticking to environmental (or other) targets?

In conversation with leading sustainability consultancy Action Sustainability, we outline some of the cultural steps that procurement teams can take now.



SETTING STRATEGY AND BUILDING A NEW FRAMEWORK FOR VALUE

While few procurement professionals have questioned the rise of social value as a local and national priority, there are certainly questions arising over how to get started. It's relatively new, certainly different, and there are few reference points, making it challenging to build the initial strategic approach and create a framework for action.

That said, the public sector is setting the standard on social value procurement. Local authorities in particular are leading the way, shifting the dial from solely economically advantageous decisions to those which deliver additional environmental and social benefits. The desire to create local economic and social impact is not only laudable, but it is also clearly influencing supplier selection, as intended.

The Procurement Bill introduced in the Queen's speech provided more colour on this, advising public sector procurement teams to move from selecting suppliers based on the Most Economically Advantageous Tender (MEAT) to Most Advantageous Tender (MAT). The removal of the "E" whilst small is significant, moving the focus from price alone, to broader impact.

The immediate question? How do you measure impact? This is just one of the obstacles that procurement teams will need to overcome.

Getting started with strategy means overcoming obstacles

Creating a social value framework means going back to basics and rethinking what value means to your organisation and the wider community, as well as how suppliers play a part in delivering it. In plain terms, this means putting the traditional cost/ quality/ speed/ risk equation on one side of the page and writing a new list on the other that might consider variables like education, jobs, mental health, and environment on the other.

For procurement teams, quantifying what value means will enable them to build out the strategy to best deliver it. But delivering it consistently will mean going deep into operational processes, reports, and strategies, as well as training and recruiting talent. Many organisations will find that they are simply not set up to deliver this transformation alongside traditional business as usual activity. Doing more, with less will be a common challenge faced. Expect to engage external support to do some of the initial heavy lifting, making the change happen, and embedding new thinking into future BAU.

Social value can also be complex to understand because it is infinite in nature and may cover multiple areas. Buyers need to be ready to enter into conversations pitching cost against environmental impact or supplier diversity, or decarbonisation, or mental health and well-being in the local community. These are some of the new, impactful value definitions that must be well understood by procurement teams. In addition to government guidelines, there are lots of useful resources available to those who are learning about the subject, or creating strategy. ISO20400, for instance is a standard developed over four years by experts from 40+ countries which has been used effectively since 2017 to provide guidance and support around sustainable procurement. There is a paradigm shift occurring. In the public sector in particular, where teams are traditionally used to defining outcomes pre-tender, they must now move into discovery. They must ask suppliers at the outset how they can drive positive social impact and what that their positive social impact can look like. This requires a fundamental shift in mindset and focus.

Getting started with projects means taking simple steps

Whilst it seems complex, there are some key steps that every team needs to take.

01 AGREE SPECIFIC THEMES: Every organisation is different, so your social value themes need to be specific and relatable to your organisation's wider strategy. This means connecting internally on how commercial strategies can deliver organisational strategies. The two interlink and internal collaboration is key before engaging suppliers.

These themes will enable you to be clear in what you are trying to achieve, and to communicate this effectively up and down the supply chain. It will also enable you to weave specific criteria or innovation needs into contracts for tender.

02 SET ACHIEVABLE OUTCOMES: These need to be proportional and measurable against the project. For larger public sector contracts, for example, suppliers should be expected to deliver far-reaching social benefits that go beyond or balance with economic value.

However, if the tender is only small, organisations will need to balance commercial objectives with social ones. Too many requirements will drive the cost up and could drive smaller suppliers out of the process.

03 INTEGRATE WITH EXISTING PROCESSES:

Setting up a new procurement process for social value can be resource and time heavy, so by integrating the social value thinking into current ways of working, becomes much more achievable.

This could include reviewing requirements for potential barriers to entry for micro, small and medium enterprises, consciously thinking about supplier diversity during supplier selection, explicitly evaluation a social value question to a tendering process, and much more.

04 BUILD AND REUSE YOUR TOOLKITS: To further support implementation across the organisation, toolkits can be a useful way of providing practical guidance on how to include social value at each stage of the procurement process.

Practical guidance could be providing sample questions aligned to outcomes, guidance on how to develop social value KPIs, and how to evaluate social value offerings from suppliers. This will also save time and resources in the long term.

With these processes in place, the intangible idea of social value can be broken down into measurables and form the basis of any procurement teams' processes.





2 | WORKING WITH SUPPLIERS TO EMBED SOCIAL VALUE

As procurement teams transition into, and find their feet within, these new ways of working, collaboration is the watchword. For procurement to deliver genuinely impactful social value, teams need to select suppliers with the same values at their core and ensure that they are pulling in the same direction toward the same overarching objectives.

This means knowing which suppliers have strong sustainability credentials, but also knowing where it might be appropriate to support the development of other suppliers, who have the aspiration but perhaps not yet the credentials. Whilst this is an ethical imperative, and ensures that there is a wider pool of competent and competitive suppliers, it also highlights some of the complexities facing buyers more used to a traditional value model.

Collaboration mindset to unlock more value

Procurement teams have often, but not always fairly, been criticized for a “let and forget” culture when it comes to tenders. However, in building back better, this needs to change.

Key supplier contracts are often multi-year,

and the expected social value, which may have many aspects to it, is also going to be delivered over time. Procurement teams need not only to understand that when assessing and selecting suppliers, but may also need to play a more active role in the delivery of the value itself.

This could be in monitoring and measuring impact, or in coordinating cross party collaboration to pave the way for expected value and incrementally improve. Think about education programmes, or environmental progress for example where different groups will come together and the benefits materialize over time, in proportion to the effort put in.

Commercial teams will need to play a more active role in the management of internal and external resources in the delivery of services. This will go beyond traditional risk and performance management and is an important cultural and procedural shift. It may also move into the world of intangibles; something alien to the fundamentals of the procurement process.

Only with collaboration and the input of suppliers can procurement teams create programmes which continually deliver genuine social value impact throughout the contract.

Creating the right teams for success

Procurement professionals are not experts in every part of the commercial process, nor will they ever be. They lean on domain experts for precise specification needs, or on Finance for complex financial modelling, and on lawyers for legal support. Similarly, they will need to bring in domain specialists in consideration of some of the more specialist elements of social value.

In the new world, effective procurement is also about mobilizing the right blend of sustainability knowledge and skills to compliment other available capabilities. Some of this capacity will be internal, some external, but it's time for commercial teams to build that trusted support network around them.

This starts at the inception of a commercial strategy itself, working with internal sustainability teams to align commercial strategy to the organisation's social value objectives. This will ensure the effective communication of goals to suppliers and not leave room for misinterpretation of the overarching social value objectives in the long term, optimizing outcomes and eliminating waste.

This internal collaboration needs to be ingrained in teams from the beginning of each critical project too, ensuring that expert insight is used where need.

Using systems, processes, and tools for collaboration

Operating at scale means embedding systems, processes, and tools to ensure that the right things are being done, by the right people, and achieving the right outcomes.

The majority of the focus will rightly be on suppliers here, but it is important not to neglect the importance of looking at internal processes, strategies, analytics, and reports and considering where change needs to be



made. There are some basic operating model adjustments to be made in addition to training of people. But fundamentally, they will benefit enormously from this new toolkit that makes it easier for them.

Externally, there is an explosion of technology available to support commercial professionals, and a lot of it is increasingly pointed at the sustainability space; accrediting suppliers, making orders, managing projects, and reporting throughout contracts. The market is crowded and confusing, with new offerings appearing and failed ones disappearing every day. Buyers will be faced with "broad functionality" platforms and more niche tooling for things like decarbonisation, for example.

When buying technology, it's important to zoom in on the problem you are looking to solve, and how you will best get adoption of said technology. With this in mind, it's important to work with stakeholders and suppliers to implement appropriate and effective systems and processes. The best outcome doesn't always mean the best technology, particularly without affecting implementation and support to users and suppliers.

3 | MEASURING NEW TYPES OF VALUE

Delivering outcomes is at the heart of social value. For procurement teams, it's important to be able to frame outcomes and measure at two key phases – when the contract is being awarded, and in the ongoing measurement and tracking of supplier performance against commitments made.

In the contract award process, the emerging challenge for the procurement professionals is how to balance social value against other key decision criteria like price, quality, speed, and innovation. The new guidelines in the Procurement Bill make a start, allocating a percentage of available “marks” to social value, however, the reality is that the allocation is not the problem, it is the mix and the method.

The truth is that it will vary by project. In time guidance will be available advising procurement teams on the sorts of value to prioritise when buying certain types of goods and services. However, for now, for many, it's down to commercial professionals to assess the situation and make a judgement before entering into a formal procurement process.

Assessing a moving target

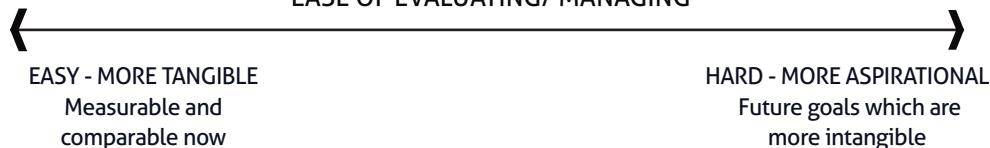
It is not just the allocation of marks that is a challenge. By its very nature social value is an ongoing commitment and a space that is fast moving. Buyers may be faced with suppliers that have contrasting start points and end points within the same contract term. For instance, a supplier may score worse at the point of award (measurable), but have more ambition over the contract period (aspirational).

Commercial teams have to balance their assessments, make decisions in the public interest and post-contract ensure that suppliers perform. When making a selection decision, a buyer will likely be assigning scores on multiple dimensions.

TANGIBLE AND INTANGIBLE EVALUATION CONSIDERATIONS



EASE OF EVALUATING/ MANAGING



Ensuring that the decision made remains the right decision

Once the contract is awarded, there is then a continual process of assessing how the supplier is delivering against their commercial and social value commitments. Whilst this is in essence similar to conventional Supplier Performance, or Supplier Relationship Management, it should be remembered that neither of these two disciplines are particularly embedded into commercial operating models. Measuring the ongoing economic, social and environmental impact of suppliers will be necessary, and for many it will be something new.

Procurement teams undertaking this for the first time must decide what the metrics are that they will use to determine whether they are on track and what the contract touchpoints are. Teams should also think about the process for remedying any underperformance – what tools do you have at your disposal to get transparency and visibility?

When thinking about what happens post award, it's useful to revisit the collaboration point made earlier. In many cases, multiple parties will need to work together to ensure that commitments are met and the best outcomes are achieved. Commercial teams will need to understand these dependencies and ensure that they are being met. Just like success, a contract failure can have many owners.

Visibility and transparency really are key. And that means getting your arms around the data on a continuous basis post contract award and throughout the lifetime of contract.

The importance of data

Measuring progress and outcomes means data. In the case of social value, there will be a lot of data, and a lot of this data will be new to procurement teams. There will be effort associated with the collection, sorting, and reporting of said data, pointing to a technology opportunity, but also a need to have the skills to interpret and act upon what it highlights.

The importance of social value initiatives and the supplier's contribution to them in building back better should not be underestimated, and commercial teams will need to invest in the systems and skills to handle the data. They will also need to prioritise, data is everywhere and resources need to focus on where it matters most.

Taking carbon as an example, it would be virtually impossible to keep track of the vast intricacies and details of every element of every supplier's carbon footprint. To effectively measure and mitigate this area of environmental impact, businesses cannot get bogged down in the minutiae and must instead look at the high-impact areas.

This means not misdirecting resources in measuring the carbon footprint of the insignificant, and instead focusing resources and effort on areas with a significant carbon footprint. If a team is working with suppliers of concrete, steel, and plastics, for example, it needs to focus its reporting attention on these suppliers, proactively engage them and ensure they have a continual feed of accurate data. This will allow procurement teams to create the necessary intelligence to understand where they stand, and benchmarks on which it can improve year-on-year.



IN SUMMARY

Procurement has long been asking for two things; “a seat at the table”, and to be measured on value beyond savings. The Government’s promise to Build Back Better offers both - social value will be embedded into every local and national strategy and every commercial decision made. Further, more focussed and ambitious carbon reduction will be a strategic imperative for all organisations and public bodies.

The guidelines already provided by legislation will gain impetus through the continuing evolution of the climate conversation (pre and post COP26) as well as the on-going conversation and debate around ongoing equity and inclusion.

For procurement teams, this is a tremendous opportunity. But such is the speed of change, it is essential they begin to act now to put the necessary frameworks and teams in place to effectively integrate these new demands within their work.

While the measurables and impact of social value may be a different and more intangible thing to measure than a purely economic focus, by implementing robust frameworks, procurement teams can begin to embed social value into their organisations and communities and begin the process of building back better from the inside out.

About Proxima

Today, suppliers are delivering large parts of our public services. For UK Government, they represent a significant cost line, a great source of innovation and productivity, and an increasing source of risk.

At Proxima we work with our clients to optimise how they buy and what they buy, ensuring that commercial functions are fit for the future, that each pound spent is productive, purposeful and delivers value for money.

We proudly operate as a UK SME, delivering consultancy in procurement, supply chain and supply chain sustainability for some of the most recognisable organisations across the public and private sector, influencing billions on their behalf annually.

About Action Sustainability

Action Sustainability are global thought leaders, consultants, software developers and service providers in sustainable business and supply chain management, with a mission to “inspire sustainable business”.

