



A4S

CFO LEADERSHIP NETWORK

APPLYING INCENTIVIZATION LEVERS TO SOCIAL PROCUREMENT

Case study: City of Vancouver



WHAT?

The City of Vancouver is a seaport city in Canada with a population of over 630,000. Annually, we award approximately CA\$200 million in annual procurement contracts.

In 2019, as part of our Healthy City Strategy, we put in place a Social Value Procurement Framework. Our target was for 50% of our contracts – both by value and by number – to be awarded to social or diverse businesses within three years. Ultimately, the goal was to embed social procurement into how we do business, building on our earlier work to do the same for environmental considerations.

Our procurement department is part of the finance function, and it led our work on social procurement, with support from finance colleagues. To design the right levers to incentivize action in our value chain and drive the most social impact, we needed to understand our value chain first. Finance provided key data and analysis to help us achieve this. The team also helped us to set our targets and set up a dashboard for ongoing monitoring of our progress.

We are now approaching the end of our three-year target period and we have advanced considerably towards the targets we set. Then the goal will be to reach the 50% target and maintain the level there.



Chart A6 from the [Annual Procurement Report 2021](#)



WHY

Vancouver is a culturally, ethnically and linguistically diverse city. It is located on the traditional, unceded territories of the **x̣m̄θk̄ȳəm** (Musqueam Indian Band), **Skwx wú7mesh** (Squamish Nation), and **səlilwətał** (Tsleil-Waututh Nation) Peoples, who have lived on these lands since time immemorial.

Through social procurement, we wanted to ensure a supplier base which represented the diversity we see in the community. This ties to various other goals and strategies, including the city's **equity framework**.

Environmental sustainability has been a focus of our organization for many years, and we have made a lot of progress in that area. Under our Healthy City Strategy, though, we knew we needed to look at social aspects of sustainability too.

Our first work in this area was a programme on the living wage. We then saw that an opportunity existed to go further and use procurement to help create a more sustainable and inclusive city. Research indicated that social procurement could have a multiplier effect, generating CA\$3 for every CA\$1 spent. This prompted us to see how we could use our procurement dollars to drive social impact.



HOW

We implemented our Social Value Procurement Framework through a combination of direct financial incentives, providing information to our stakeholders, and influencing and engaging with our value chain. First, we needed to establish a strong foundation for this work with research, analysis and value chain mapping. It was important to make sure that our approach was suited to our local context as we developed the framework and set priorities.

We know that we are investing in the future, and that the outcomes will appear over the longer term. We are excited by the transformative potential of social procurement and are confident that our investments in social and diverse businesses will enhance social value. It is harder to set a direct metric for this, especially in a shorter timeframe, but the key thing for us has been to identify the outcomes we want to see and be strategic about achieving them.

BUILDING STRONG FOUNDATIONS

Support for the business case

At the beginning of this process, we commissioned Ernst & Young (EY) for two pieces of work. The first was a maturity benchmark, including a Political, Economic, Social, Technological and Legal (PESTEL) analysis. This helped us to understand our current level of maturity in different areas and where the potential gaps and opportunities were.

The second piece, a materiality assessment, examined where we are spending money and how to prioritize social procurement spending categories to achieve the most impact. Finance supplied data on our expenditure, including contract and invoice data, so we could establish a baseline. Through the materiality assessment, we found that lower-value procurements (less than CA\$75,000) presented the best opportunity for contracting with Indigenous, social or diverse businesses. We used this knowledge to vary our approach by the procurement threshold.

Other initial research that laid the groundwork for the framework was a jurisdictional scan through a research programme with the University of British Columbia. A scholar from the University supported us in reviewing how organizations in other countries were approaching social procurement and the potential benefits.

From this research, we developed the business case. We learned from our work with the University of British Columbia that evidence existed for social procurement to produce an economic ripple effect. This became the premise of our business case and our social procurement programme.

Once we had the business case in place, we hired a manager of sustainable procurement to help us implement the project. We undertook a major analysis of our relevant strategies, including the Healthy City Strategy, our city of reconciliation action plan and other initiatives aimed at supporting new immigrants and other under-represented populations. We wanted our Social Value Procurement Framework to align with our existing strategies and plans.

SEPP Maturity Model



This maturity model was developed by EY in 2016 to help determine CoV's current and desired future states relative to practices demonstrated by peers across the maturity spectrum. Current and future state positioning was determined based on:

- Benchmarking against peers
- Voice of the business
- Documentation review

Key:

- ▶ Activity in place at CoV
- ▶ Activity partially in place at CoV
- ▶ Activity not in place at CoV

Where CoV is now

Where CoV wants to be

Inactive

- ▶ No sustainability considerations in supply chain or procurement
- ▶ Limited disclosures on company website or in annual report

Early stage

- ▶ Some high-level disclosure of supply chain Sustainability programmes and overarching procurement policies
- ▶ Code of Conduct in place
- ▶ No risk assessment
- ▶ Limited programs to measure and reduce impact

Developing

- ▶ Some disclosures on supply chain impacts
- ▶ Risk assessment to identify impact areas and critical categories
- ▶ Some engagement with stakeholders and suppliers for supply chain Sustainability
- ▶ Developing "Impact" metrics and data management systems
- ▶ Some programs in place (e.g., energy, water and waste reduction) with formal measurements

Leaders

- ▶ Well-developed risk assessment process
- ▶ Sustainability requirements in supplier management lifecycle
- ▶ Sustainability criteria assessed at "Bid Committee" level
- ▶ End-users owning sustainability criteria and the impact measurement
- ▶ Advanced systems to manage data and impact measurements
- ▶ Robust sustainability programs to support the company in meeting targets

Differentiator

- ▶ SC Sustainability principles clearly linked to business strategy
- ▶ Triple bottom line approach to capital allocation
- ▶ Modified procurement processes to measure and reduce environmental and social impacts along the product value chain
- ▶ Robust supplier engagement processes (e.g. scorecards, gamification, collaboration etc.)
- ▶ Formal controls and processes for impact data management
- ▶ Enterprise-wide governance framework
- ▶ Ambitious targets that address critical issues





BUILDING STRONG FOUNDATIONS

Mapping the value chain

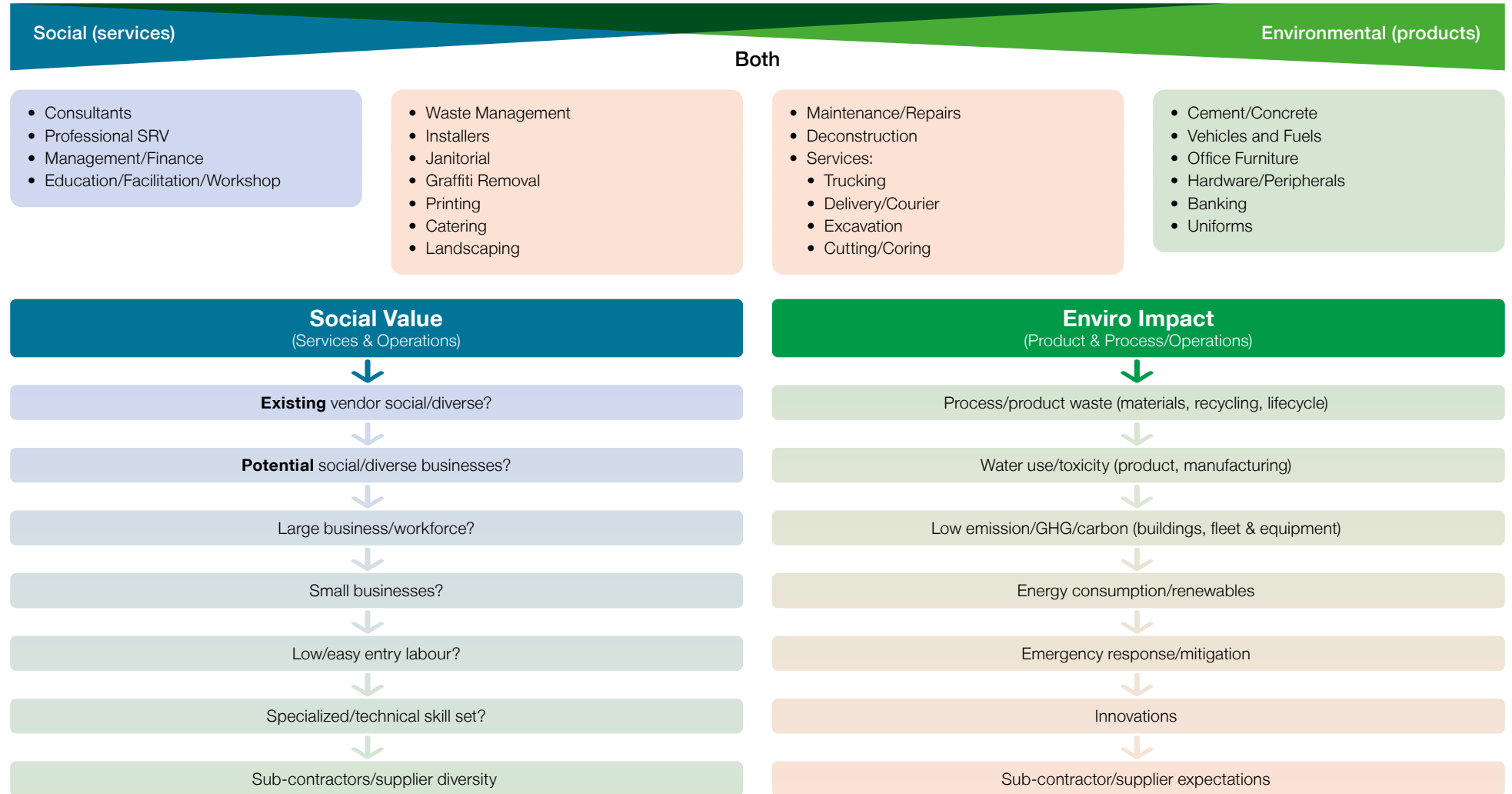
Procurement and finance teams worked together on our value chain mapping. We identified sectors that held the strongest possibilities for building participation from under-represented organizations; we then looked at our existing vendors and whether we were already working with under-represented businesses in these key sectors.

The next step was to see how our vendor breakdown compared to our population breakdown. This was supported by our existing population data on people of colour, Indigenous populations and newcomers to the city.

Finally, we combined our vendor mapping with the other research that we had done. By drawing on our understanding of the community we served, we had a clearer picture of how we could use social procurement as a tool to advance our strategies and goals. For example, the not-for-profit and social enterprise sectors in the City of Vancouver are small, so a social procurement model that focused solely on social enterprise would not be appropriate to our local context or help us to achieve broader social value.

We used all of this information to design the incentivization levers for our Social Value Procurement Framework.

SUSTAINABLE AND ETHICAL PROCUREMENT CHECKLIST





INCENTIVIZING ACTION

Tools and strategies

For efficiency, we took our existing procurement tools and documentation as a starting point. The procurement team updated templates and work plans to fit the Social Value Procurement Framework.

Using our vendor mapping and research on vendor diversity by sector, we created a matrix for our buyers and contracting specialists to use. The matrix includes guidance on questions to ask vendors, which vary based on the type of procurement and the total budget. Setting specific target percentages was not a successful strategy in the past, and allowed for some missed opportunities, so we wanted to take this more flexible approach. Now, as part of our standard procurement processes, we are gathering information on social value and diversity as well as making sure our standard procurement requirements are met.

Finally, we developed and sent out an online questionnaire to vendors. On the questionnaire, organizations were asked to self-identify whether they were social or diverse businesses. We built a database to track vendors' responses. Looking at the database alongside our spending data has enabled us to directly highlight relevant opportunities for engaging with social and diverse vendors.

The finance team's input has been central to developing these tools as well as targets and metrics for our social procurement programme. The team also plays an important role in identifying relevant data, such as contract numbers and value, to be collected and reported to assist in making the right decisions for each procurement. This data then feeds into a reporting dashboard that we use to track progress against our targets.



INCENTIVIZING ACTION

Governance and reporting

An essential component of advancing implementation and change management was getting regular feedback and sharing the data that was being collected. Communicating what was being collected and why we were collecting it strengthened buy-in and ownership.

A review of procurements and results was captured by the Sustainable and Ethical Procurement Manager and shared monthly with the Chief Procurement Officer, CFO and supply chain staff. This information was also readily available to other staff if they asked for it. On a quarterly basis, department-specific data was shared in one-on-one meetings with senior directors. Data and updates were also provided to the City Leadership Team semi-annually, in addition to the Annual Procurement Report which is made public through City Council each year.

We have put in place strong governance for implementing social procurement. The City Manager and general managers agreed to a city-wide target, and the CFO and GM of ACCS (Healthy City Strategy) are directly accountable as executive sponsors. Implementation and management are the responsibility of the Chief Procurement Officer and the Sustainable and Ethical Procurement Manager, who both report to the CFO.

Direct financial levers

For us, direct financial levers are about how we are able to use our procurement dollars to provide additional benefit or social outcomes, beyond getting the goods or services that we need. This is a way of investing in the community that creates a ripple effect over the long term.

There is intentionally a lot of flexibility in our framework so that we can approach each contract on a procurement-by-procurement basis. For each procurement, we determine how we can actually create the most social impact. We design our rates and weight the questions on vendor questionnaires accordingly. The weightings will change depending on the specific circumstances and what we think the key opportunities are.

Typically, we emphasize social sustainability for lower procurement thresholds. This is where we see the greatest possibilities for social and diverse vendors given their current capacity. We recognize, though, that social and diverse vendors will still want to participate in other procurements, and we still pursue social value in medium-sized and larger procurements using other levers.



INCENTIVIZING ACTION

Influence

Most of the social and diverse vendors in our city are smaller organizations. These vendors generally do not have the independent capacity to win our high-value contracts – they are more likely to be subcontractors or partners to larger, well-established vendors.

While some of the onus is on us to foster connections, our team is small and our capacity to do this is limited. A key message for social and diverse vendors has been the need for them to be proactive in seeking out conversations and relationships with large vendors – and vice versa.

Awarding contracts to large companies that are partnering with smaller social or diverse organizations has been an important driver of change. We have used our influence to promote these collaborative opportunities, engaging broadly across our vendor network. Large vendors are now recognizing the benefits of working alongside social and diverse organizations in the communities that they serve, and in doing so they are also amplifying our message.

Beyond our direct work, we have shared our experience with other municipalities and public sector organizations. We see this as part of our leadership role. It is a way for us to create a far greater ripple effect than we can achieve alone.

Information and knowledge sharing

To create this change in the marketplace, we needed to make sure that our vendors understood our approach to social procurement and the opportunities available. Within our organization, too, we had to bring our staff with us. Both internally and externally, it was important to have key messages which established a foundational understanding of our terminology, set expectations and clarified our implementation process.

We gave vendors some background about what we were doing and what would be expected of them. We applied a range of strategies for engaging different stakeholder groups, taking into account our available resources.

We held internal training for procurement teams and other business units about social procurement, the changes that they would be seeing and how we expected these changes to create impact in the community. As part of this work, the manager of sustainable procurement ran lunchtime learning sessions and presentations across the organization.



NEXT STEPS

We will shortly be launching a new e-sourcing system. This will be integrated with our enterprise resource planning system. Following the launch, we will be able to do public procurements through the e-sourcing application. Before this, our systems for receiving proposals, evaluating them and exchanging information had been very manual.

Vendors will be invited to register and maintain their information, so we can see the goods and services they offer and whether they have self-identified as a social or diverse organization. In turn, we will be able to capture and store information on a more systematic basis, and it will be simpler for us to view and report on our progress.



TOP TIPS

DO NOT WAIT FOR PERFECT

The worst thing to do is nothing. Make a start, and know that you do not need all the answers from the outset. Ask your vendors questions, engage with staff and begin to signal to the market that this is something that is important to the organization.

FOCUS ON SPECIFIC AREAS

Social procurement is a huge and evolving space, and it is easy to feel overwhelmed. So focus on a small number of areas – say, three. That could be three populations, types of business or preferred outcomes. Then build out from there.

ALIGN WITH YOUR STRATEGIES

When developing the business case, it helps to be able to show how social procurement aligns with your existing strategies and organizational goals. This alignment should feed through into how you develop the social procurement programme and its targets.

SET A GOAL AND TARGETS

Start with a clear, bold goal, supported by specific targets. As you progress, continue to review those targets to check your progress and see whether these are still the right targets. If they are not, consider the implications of changing them.

MEASURE WHAT YOU CAN

Many social benefits and outcomes are long-term and are therefore unlikely to be realized after any specific contract. Once you start to measure your progress, you may find that you and your stakeholders are surprised by how much is already being done. But you have to start quantifying first.



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