

# ResponsibilityWorks

## Outcomes of the 2<sup>nd</sup> Annual ResponsibilityWorks Industry & Government Roundtable July 20, 2011

### THE CHALLENGE

Incorporate corporate responsibility into government purchasing without disadvantaging small businesses, disrupting the procurement process, or costing the government more money.

### RECOMMENDATION SUMMARY

The table below summarizes the issues and consensus recommendations of the Roundtable.

Issue	Consensus Recommendation
What aspects of CR should be taken into account?	Governance, Ethics, Energy Efficiency, Human Rights, Employee Relations
What type of approach to use: pass/fail, gradient rating scale, other?	Weighted, gradient scales; but devil is in details
Who should evaluate - government or a 3rd party?	3 <sup>rd</sup> party
Should evaluation be standardized across government or optional/tailored by agency?	Optional growing to standardized
Where to pilot it?	GSA, single-mission agencies

### BACKGROUND

Administrator Dan Gordon, head of OMB's Office of Federal Procurement Policy (OFPP), challenged roundtable participants from across government, industry, non-profit/NGOs, and academia to provide recommendations on how best to account for corporate responsibility in government purchasing in a way that does not disadvantage small businesses, cause disruption to the procurement process, or cost the government more money without an offsetting increase in quality or other selection factor(s).

Specific dimensions Administrator Gordon asked the group to consider included:

- What aspects of corporate responsibility should be taken into consideration?
- What type of approach should be used: pass/fail, a gradient rating-scale, or other?
- Who should make these evaluations— government or third parties?
- Should this evaluation be standardized across government or optional/tailored by agency?
- Ideas for where best to pilot this

Below is a summary of the ideas presented as a result of the roundtable brainstorming session, which will help inform the work of the ResponsibilityWorks Steering Committee. This will be provided to OFPP as well as potential agency partners. Our next steps include:

- Develop pilot programs that meet the mission requirements of agencies,
- Weight criteria in a way that drives better outcomes, and
- Build on the momentum of existing initiatives such as the small business Green House Gas pilot already underway at GSA.

We will also work together to meet the specific challenge laid out by Administrator Gordon to use FAPIIS to shine a light on the positive impact government contractors have on society. With our partners we will create a vision and compelling case for change that results in the public sector leading the way on corporate responsibility, sustainability, and transparency.

### **DETAILED RECOMMENDATIONS**

#### **What aspects of corporate responsibility should be taken into consideration?**

The CROA considers seven areas of Corporate Responsibility: Governance, Ethics, Sustainability, Human Rights, Employee Relations, Philanthropy, and Financial Performance. Legislation currently being drafted in the Pennsylvania State House mirrors this approach, requiring agencies to have bidders complete a standardized questionnaire around six areas: Corporate Governance, Employee Relations, Energy Efficiency, Financial Performance, Human Rights, and Philanthropy.

While ultimately, the final approach could be incorporated into the FAR, we don't recommend that immediately. The FAR provides a good vehicle for expressing general principles that individual agencies further define for themselves. By using the FAR to do so the government would clearly signal the level of importance it places on CR while allowing individual agencies flexibility in implementation.

Before that can happen, though, the program should begin with an "opt-in" stage (more on this below). The program should be developed using a multi-stakeholder working group and be grounded in industry best practices and international guidelines and where possible draw on state and local government as "laboratories" for successful experimentation.

#### **What type of approach should be used: pass/fail, a gradient rating scale, or other?**

Participants generally agreed that a pass/fail approach – where a contractor is taken out of consideration if they do not pass – will not work. Pass/fail approaches may be unfair to certain stakeholder groups. Besides, the intent is to facilitate responsible business practices, not make them a hurdle to doing business.

Gradient measures make the most sense, but attention would need to be paid to how the components get weighted. Considerations:

- Could not rely solely on quantitative metrics; would also require qualitative aspects
- Provide transparency into the weightings system to drive desired behaviors
- Consider using separate standards for small businesses that are more manageable for them, and then require more of large companies that have additional resources

A number of international state and local governments have applied a gradient system to:

- Have suppliers complete self assessments on how well they meet established criteria, providing transparency into their own efforts as well those of their supply chain
- Prequalify contractors before they can bid on public projects where agencies are instructed to use a uniform and objective system for rating bidders
- Consider responsibility evaluation factors – both positive (e.g., provision of healthcare) and negative (e.g., safety violations) – along with price, reputation, technical qualifications, and past performance in making the purchase decision.

[For specific examples, see the ResponsibilityWorks Call to Action](#)

Suggest using existing mechanisms:

- Use FAPIIS to disclose this information
  - Shine a light on positive data (similar to past performance)
  - Part of the integrated acquisition environment to be moved under System for Awards Management (SAM), single point of entry for vendor information in government
- Use the FAR to provide overall guidance, lay out the principles

Look at what related gradient ratings are already in place for examples of what could work:

- Dunn & Bradstreet evaluates corporations on meeting criteria in CR areas
- The Capability Maturity Model (CMM) is established, where companies already invest in these certifications, and it uses a gradient rating
- Look at existing third-party criteria since already in use (e.g. LEED Certification)

### Alternative Approach

Instead of ratings systems, effort could be made to educate procurement and requiring officials to incorporate these kinds of factors into their requirements and business processes (more on this below). Such an approach allows this to be addressed at a program level:

- Directly incorporate CR-type criteria into the requirements in the solicitation
  - E.g: “How would your product or service help us operate more sustainably or provide products/services that help our customers operate more sustainably?” or “Our goal is to have a zero environmental footprint, how will your proposal help us meet that?”

- Build in specific sustainability requirements as appropriate
- Encourage or require companies to develop CR plans in the same way they have to have small business sub-contracting or risk mitigation plans
- Use mechanisms already in use for other purposes, e.g., accelerate payments to companies that meet these kinds of requirements as is already done for small businesses

### Implementation & Enforcement

Ensuring real success will require educating the government supply chain – not just the acquisition workforce itself but the mission community driving the requirements and the contractors. It also requires an effective enforcement regime.

#### *Education*

Program managers driving the buying decisions will need to understand how including CR factors will better serve their mission. Contracting officers will need to understand how to evaluate CR and perform the necessary due diligence. Businesses will need to learn how to incorporate CR into how they do business and see a return on these investments.

#### *Evaluation & Enforcement*

There will need to be clear and transparent ways of evaluating CR and consequences for non-performance. Right now some agencies evaluate CR-related data but their current approaches pose some challenges for broader implementation, e.g., USAID puts CR requirements into their RFPs for companies doing work for them internationally but using self-certification, unverified or monitored by an outside source. Third party monitoring and verification of data would provide transparency and a more effective enforcement mechanism.

One approach: Incorporate this data into the past performance system to indicate how companies have done in meeting agency responsibility goals.

### **Who should make these evaluations—government or a third party?**

General consensus centered on third-party evaluations.

#### *Organizational considerations*

- Performing the evaluation does not appear to be inherently governmental, although this would need to be confirmed once the criteria are identified
- A government entity (e.g., OFPP) could partner with third parties on developing the approach
- Regardless of whether the evaluation is done by government or third party, the evaluating organization(s) should have no interest in the purchasing decision

### *Practical considerations*

Corporate entities would pay a third-party to be evaluated on a periodic basis (e.g., annually):

- Would work similar to how third parties evaluate “women-owned” or “minority-owned” business status
- Zero cost to government
- Companies would be engaged in providing the necessary data
- Small businesses may have a subset of criteria they need to meet so as not an undue burden

Ratings could sit under a specific agency:

- E.g. SBA and DoD are already providing rating/auditing services
- May require ongoing agency expertise to inform data elements, how they are defined and determined, and the appropriate weightings
- Could leverage public-private partnerships

### **Should this evaluation be standardized across government or optional/tailored by agency?**

By standardizing across government companies would not have to deal with multiple standards. A top-down program, however, may not be as successful as agency-by-agency. Therefore we recommend a gradual, bottoms-up approach with minimum standards set centrally (e.g., by OFPP or the FAR Council).

- Set principles across government, tailor criteria/weightings by agency
  - Allows for agencies to account for key aspects (e.g. water, fuel) in their metrics based on relevancy to their mission and work
- Find ways to establish this evaluation as an overlay/lens on existing data
  - There are already so many criteria that need to be taken into consideration, interpret the data companies are already providing, don't add more
  - Requires education/awareness of how to interpret this information/data
- Take responsibility evaluation into consideration in the same way as price, best value, etc – integrated into the procurement decision

### **Ideas for where best to pilot this**

GSA stood out as the best candidate because this is already part of their mission and they have a number of related pilots:

- [GSA's Federal Supplier \(Small Business\) Green House Gas Inventory Pilot](#)

- GSA’s Statement of Objectives for Carbon Footprint Tool Maintenance & Support (Task Order ID: FD4711GSA101) released on July 27<sup>th</sup>, a procurement that is one of four pilot programs to use sustainability of the offeror and the solution as an evaluation factor

In addition to GSA, we should also look to smaller or single-mission agencies where the criteria/weightings may be easier to establish. Alternatively or perhaps in addition, identify a single program at a mid-size or larger agency where this could be piloted from the program perspective (with criteria or evaluation questions included in the RFP).

## **NEXT STEPS**

Step 1: Interview key executives from government, contractors, and industry groups to incorporate their feedback into these recommendations.

Step 2: Finalize these recommendations, present to OFPP, and incorporate their feedback. Obtain support to proceed to pilot stage.

Step 3: Determine if/how to incorporate CR data directly into FAPIIS

Step 4: Develop pilot programs that meet the mission requirements of agencies

Step 5: Engage in transparent, multi-stakeholder approach to weight criteria in a way that drives better outcomes and build on the momentum of existing initiatives like the small business Green House Gas pilot already underway at GSA.