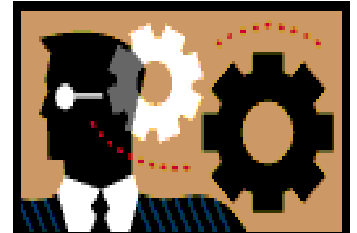




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Greening the Machine

CXO's can discover how to maximise the opportunities in the area where ethics meet business strategy – corporate social responsibility (CSR)

A guide for CEO's, CFO's and CPO's on why procurement is a key capability in developing advantage via corporate social responsibility

What's in it for you? Improved risk and reputation management in your supply chain

Reading time: 15 minutes

Introduction:



Peer pressure, tougher legislation, a rise in global sourcing combined with increased awareness and concern from consumers and other stakeholders, has served to drive CSR increasingly centre stage on the corporate agenda. CSR is now both a top and bottom line issue and sustainable procurement practices can serve as a critical weapon to help CEO's reduce cost, grow the business and protect the organisation from reputational risk.

Under intense media scrutiny, corporate behaviour drives reputation, so given the large portion of corporate value that is "intangible" in nature, reputation is extremely important to shareholders. The business case for CSR practices cannot therefore be separated from the environment in which a company operates, - in short '*using green to stay in the black*'. The challenge as always, is to manage CSR threats and opportunities better than your competitors, and increasingly it is not a question of



whether a business should have a CSR strategy, but **'how'** to operationalise it and embed sustainable principals throughout the entire value chain.

USING GREEN TO STAY IN THE BLACK

Reputation management is at the core of CSR and those companies that have built a robust supply chain, with a focus on CSR enjoy a considerably higher rate of return than their competitors.

This is because the economics of CSR is similar to that of *'perceived quality'* – to command a higher margin. Therefore, any additional CSR costs may be cancelled out by consumers accepting to pay an additional premium or through prices being positively affected by the additional efficiency that CSR can bring about.

By addressing their concerns, consumers (see Table 1) would be willing to pay extra in the knowledge that the products they bought had not been produced by slave labour, had respected the environment, that the technology to produce them had been acquired without corruption payments, and that the human rights of its employees and the local community had been protected etc. For example ['Body Shop'](#).

LINKING CSR TO BUSINESS STRATEGY – LEADING VIA REPUTATION

Stakeholder trust and relationships are the foundations of any enterprise. Leading companies such as [Starbucks](#) are demonstrating that value can be created through strong relationships with key stakeholder groups most relevant to their business. When businesses are out of touch with their stakeholders the result is always long term

Table 1:

CSR Consumer Concerns:

Consumers are increasingly concerned about a broad range of issues related to CSR . Here are some examples:

Economic interests

- quality products & value for money
- business accountability & transparency
- shareholder return on investment
- opportunities for jobs
- economic development
- technological progress
- fair international trading relationships

Environmental problems

- global warming & climate change
- environmentally friendly products & services
- energy-efficient products & buildings
- reuse, recycling & waste management
- transportation of people & goods
- endangered species & habitat protection

Social concerns

- nutrition & health issues
- human rights & gender
- fair labour practices
- community involvement of businesses
- ethical treatment of animals

Source: [ic.gc.ca](#)



loss of value due to reputation loss, this is particularly critical for organisations with a strong brand equity. [Arthur Andersen co](#) ,fell almost entirely due to the damage to its reputation after Enron’s scandal in 2002.

Whilst procurement leaders routinely assess insource-outsourcing strategies, hedge against currencies, use futures markets to hedge against price fluctuations, and locate critical infrastructure off site, the means to manage reputation risk is rather less developed. CSR is one such strategy.

CSR supports alignment of business strategy with key stakeholders, which can serve to accelerate growth and reduce business uncertainty. It also provides a unifying framework to weigh the ethical impact of business decisions upon stakeholders against the business value in each stakeholder group.

A robust CSR strategy therefore not only makes good business sense, the reputation enhancement it drives, can in some cases make the difference between survival or collapse should the worse happen, and procurement and the supply chain are a critical component. The concept of ‘*doing good and preventing harm*’ makes business sense when viewed in the context of recent CSR failures. See Table 2:

Corporate Reputation:

Toyota – 2009/2010

Reputation can be a fragile thing. Toyota, who became the largest automobile manufacturer through its reputation for reliability and value, has suffered as allegations of faulty accelerators and cover-ups of these problems have come to light. This can be seen vividly in the resale market where even Toyota vehicles unaffected by the recalls declined in value, predicted ultimately to be some 4-5%.

Mattel – 2007

CEO, Robert Eckert, faced the largest toy recall in history, due to high levels of lead paint. A recall would be costly; however the long-run impact on its profitability ultimately depends on the cause that the public and investors ascribed to the problem. If they saw the problem as negligence in managing its Chinese suppliers, there would be serious, long-term consequences. If, however, it were seen as an “honest mistake”—something that could happen to even a diligent firm—the damage would be much less.

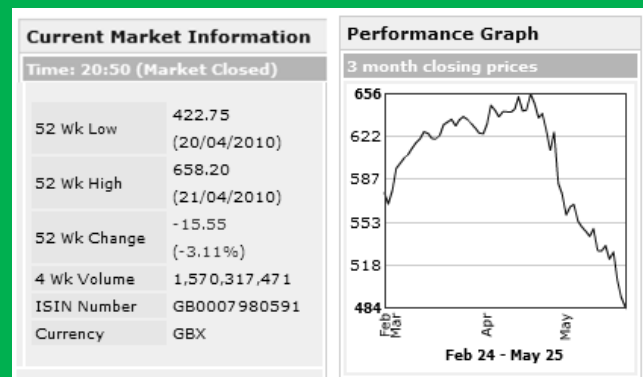
Table 2

Impact of Oil Spill on BP share price -

BP share price dives on oil spill concerns

Tue May 4, 2010 12:42PM PT |

Shares in British energy firm BP slumped to a seven-month low on Tuesday as investors fretted about the soaring economic and environmental cost of a gigantic oil spill in the Gulf of Mexico....





PROCUREMENTS ROLE IN CSR

The overarching goal of sustainable procurement is to manage the competing stakeholder demands when making purchasing decisions. This stakeholder based approach provides a strong framework for CPO's to align the supply chain to key stakeholder groups by implementing a strong CSR strategy. In doing so, procurement can make a major contribution to protecting and enhancing the organisations brand reputation, by developing linkages with sustainable suppliers to make the supply chain a source of 'reputational advantage' over the competition.

“The overarching goal of sustainable procurement is to manage the impact on its stakeholders when making purchasing decisions ”

Given that most of the drivers for CSR impact upon procurement strategies, the CPO should rightly be at the centre of any CSR strategy. So how do supply management leaders drive change on this issue? A few tasks to consider, based on the actions of the pioneers are:

- Understand your organisations exposure to CSR risk and the drivers for CSR
- Establish governance around CSR via an executive steering committee
- Develop category & supplier strategies around CSR
- Develop monitoring and reporting capabilities around CSR issues

Knowing what is important to the organisations business strategy goes a long way in helping to identify necessary tradeoffs. Opportunities exist at all stages of the procurement process.

Drivers

Globalisation, regulation, increasing concern on human rights and the environment are all driving the CSR procurement agenda. For procurement these drivers impact four main capabilities:

- risk management
- life cycle cost optimisation
- performance improvement and
- innovation and new product development

Each capability in turn impacts purchasing decisions across products, services, and processes. Leadership must then consolidate them to form a sustainable procurement strategy across all CSR dimensions.

Visit the **Buying Magician Blog**: [CSR Capability Part 1: Protecting Corporate Reputation](#)





Engaging with Suppliers

An organisations CSR performance can be determined largely by its suppliers' performance. Working with suppliers in all procurement stages is therefore a key factor in the success of sustainable procurement. Only by thinking beyond the limits of your own company and optimizing the entire supply chain can organisations satisfy the most stringent customer sustainability standards:

“the strategic sourcing process is a key tool in driving sustainability throughout the supply chain ”

Sourcing Process

From spend analysis, reviewing the specification, ensuring RFP's contain CSR requirements, through to evaluating and negotiating bids based on CSR cost/benefit criteria, the strategic sourcing process is a key tool in driving sustainability throughout the supply chain. These criteria need to be tracked both internally and externally to ensure the targeted benefits and risk mitigation are achieved.

Relationship Management

Managing a wide network of suppliers is a key element of maintaining sustainable procurement. Standards, goals and expectations should be communicated and objectives aligned:

▪ Codes of Conduct

Increasingly, leading organisations are issuing codes of conduct to their suppliers in order to spread their own values to the supply base. The most important consideration is to ensure that a code of conduct reflects the issues that are of importance to the organisation. For example, social inclusion, human rights, the environment, or corruption. So first it needs to be relevant to your business and consistent with its values.

▪ Education

- ✓ Proactive outreach - Co-operation, co-ordination, and collaboration.
- ✓ Developing environmental procurement policies and specifications
- ✓ Awareness campaigns of buyer requirements
- ✓ Helping suppliers with audits and assessments
- ✓ Helping with access to tools and information
- ✓ Mentoring and training suppliers



Audits

Supplier audits are a vital component for ensuring your supply base is compliant with your CSR values. Audits should take place on each of the CSR dimensions to cover social accountability, environmental sustainability and the economic impact of supplier capabilities.

Exit Strategies

Businesses typically spend far more time getting into contracts than on planning how to get out when things go wrong. That can leave buyers trapped when a supplier disappears, or a series of 'code of conduct' breaches forces you to terminate the contract.

In crafting an exit strategy think about:

- Where would you go?
- Who owns what?
- What would you need that only your current provider has?
- Is it documented?
- How to keep the relationship on good terms?

In the event you need to cancel the contract you want the supplier to be motivated to treat you professionally, and terms that specifically help you negotiate a smooth transition. If you don't do that, you risk making an incompatible supplier choice, a long term partner.

CONCLUSION

CSR is applicable to all companies. For those that implement sustainable procurement strategies, tangible value can be created through increased overall cost efficiency, enhanced reputation and market share, and reduced environmental risks and liabilities. A sustainable supply chain therefore contributes to a company's overall reputation among customers, investors, employees, and other stakeholders. Especially when procurement cooperates with suppliers and customers to generate new ideas. In short, those that do not have CSR on their agenda today are likely to face important problems tomorrow.

FOR MORE INFORMATION

Purchasing Practice Inc can work with your organisation to develop a strategic procurement capability that will add value and positively affect your top and bottom line. www.purchasingpractice.com

“Businesses typically spend far more time getting into contracts than on planning how to get out when things go wrong ”





purchasingpractice
Corporate procurement made simple

Purchasing Practice –Corporate Procurement made Simple



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

We can help your organization “make change happen” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Spend Analysis: We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

Opportunity Assessment: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Mergers & Acquisitions: We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

Private Equity: Working across your portfolio of companies we will drive value from procurement across business units

Interim Procurement Solutions: We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at info@purchasingpractice.com to schedule a consultation.

www.purchasingpractice.com