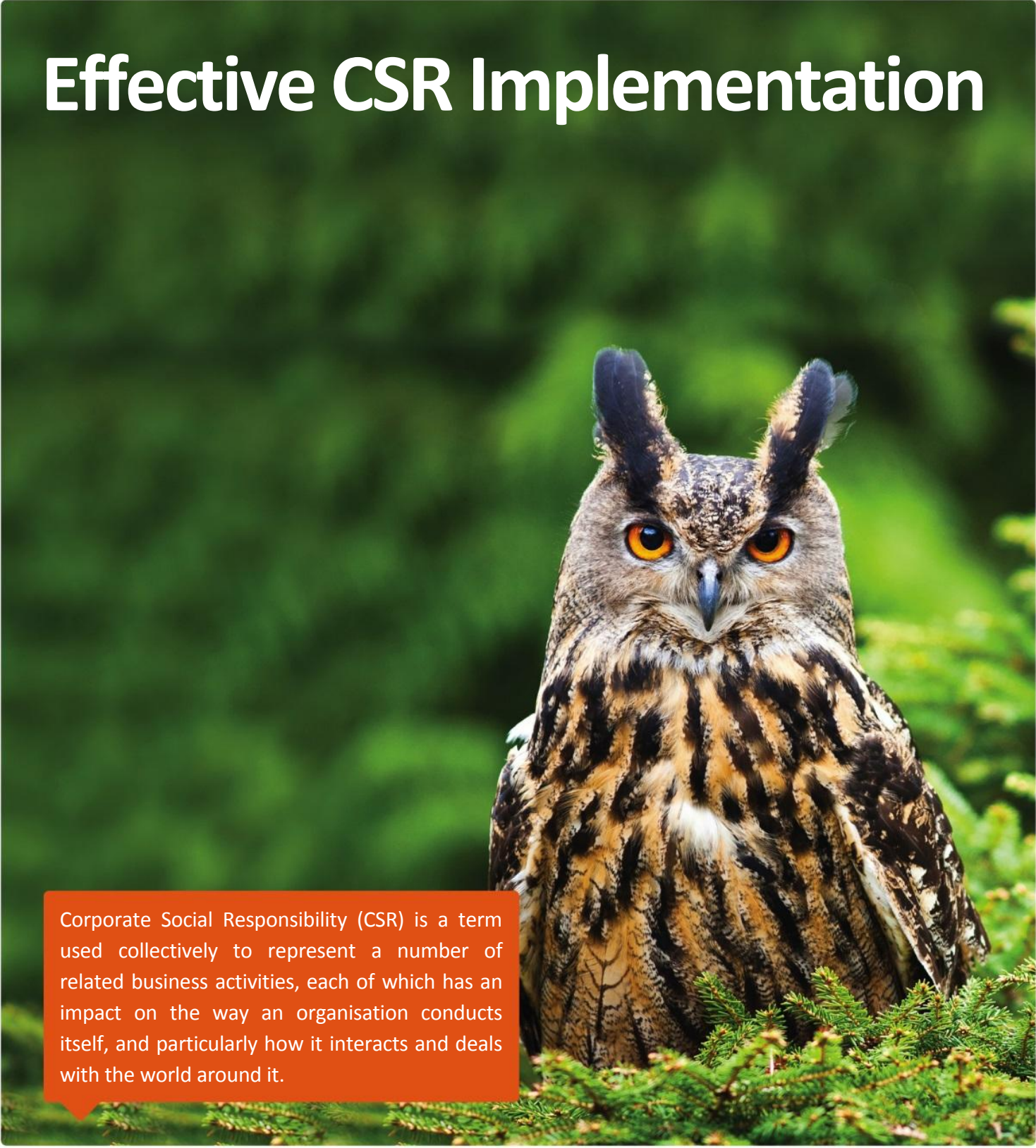CIPS
KNOWLEDGE

Effective CSR Implementation

Corporate Social Responsibility (CSR) is a term used collectively to represent a number of related business activities, each of which has an impact on the way an organisation conducts itself, and particularly how it interacts and deals with the world around it.

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Leading global excellence in procurement and supply

Effective CSR Implementation

Introduction

Corporate Social Responsibility (CSR) is a term used collectively to represent a number of related business activities, each of which has an impact on the way an organisation conducts itself, and particularly how it interacts and deals with the world around it. The main components of CSR are covered by the headings of Business Standards, including Corporate Governance, Social Standards, Environmental Standards, and Animal Welfare Standards[1]. CSR places a unique obligation on those whose responsibilities have external influence, not least those responsible for managing the procurement process, external suppliers and supply chains.

The CSR agenda has gathered pace over recent years and, more recently, the contribution of suppliers and supply chains in delivering improvement and extending the influence of good CSR practice has been recognised. However, as an emerging subject, some aspects of CSR have developed more rapidly than others, for example environmental awareness started to gather momentum in the mid-1980s, whilst others, such as supplier diversity, have emerged more recently. This fragmentation has often led to confusion and difficulty in terms of practical application in the workplace. However, there is no doubt that the pressure for better CSR performance is here to stay. This pressure is being fuelled by;

- Higher awareness, expectations, and scrutiny from stakeholders, particularly investors and consumers.
- Tighter legislative requirements and a demand for greater transparency (FOI[2], BR[3], SOX[4]).
- Competitive pressure and the globalisation of markets and trade.
- An increasing reliance on external suppliers and supply chains.

Whilst the desire to improve CSR impact is real, and well intentioned, the practical issues around implementation are often overlooked.

For procurement practitioners in particular, the wide-ranging nature of its scope and its potential impact often lead to confusion, conflicting requirements and barriers inside and outside the organisation which prevent progress from being made. Whilst some of these are real, many result from internal issues that are capable of being resolved.

This guide highlights how some of the conflicts and barriers arise and how they can be avoided or overcome.

Scope of CSR

CSR is still an emerging subject and whilst it is still developing in some respects, its scope in terms of procurement and supply chain is largely clear. It covers standards in the following four areas;

- Business Standards
- Social Standards
- Environmental Standards
- Animal Welfare Standards

For the purpose of this guide the main components of each area are highlighted in more detail below. This is not meant to be exhaustive, but it does give a clear indication of its breadth and potential impact.

Business Standards

- Corporate governance - management competency, organisational structure, the effectiveness of controls and management systems, business sustainability.
- Ethical practices - personal conduct, conflict of interests, disclosure of sensitive or confidential information, misrepresentation, payment of incentives or inducements, giving or receipt of gifts or hospitality.
- Legal compliance - the law, contractual obligations.

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[1] Animal Welfare is less commonly recognised but important in some sectors and included for the purpose of this guide.

[2] UK Freedom of Information Act http://www.foi.gov.uk/

[3] Business Review - in line with the provisions of the 2003 EU Accounts Modernisation Directive

[4] US Sarbanes Oxley Act 2002

- Abuse of power - dominance of relationships, potential distortion of the market or competition.
- Competitiveness – collusion, diminution of free/fair competition, free access to markets.
- Supplier diversity – policies relating to supply market diversity or diversity reduction, explicit or implicit bias against particular types or size of enterprise[5]
- Fair dealings – fulfilment of contractual obligations (such as paying on time).

Social Standards

- Employment conditions - level of pay, working hours, treatment of employees under 18 years, freedom of association, use of bonded labour, protection from harassment, contractual terms of employment.
- Health and Safety - working environment, safety at work, training & protection of employees, reporting & control systems.
- Discrimination - bias in terms of age, religious belief, sexual orientation, gender, race or disability.

Environmental Standards

- Environmental impact - emissions, waste products, use of energy, the effect of DNA modified species on the natural environment, loss of natural habitat or eco-systems
- Use of scarce natural resources
- Use or production of dangerous or hazardous substances.
- Depletion of resources, for example chemicals derived from oil, or resources being used faster than the natural process of replenishment (such as fish stocks in the North Sea, or tropical hardwood deforestation).
- Diversity - typically bio-diversity, the depletion of species either directly or through loss of habitat.

Animal Welfare Standards

- Conditions, the husbandry and welfare of animals, including how they are housed, fed, managed, transported and ultimately prepared for use.
- Treatment, any inhumane treatment, purpose or action that is taken which may cause distress or injury (for example, animal testing).

Organisational Responses to CSR

As well as creating a shared understanding of what CSR comprises, each organisation has to consider how it will be affected by the impact of CSR standards and the implementation approach. There are three main areas that need consideration;

- Its own operations (for example, factory emissions, health and safety practices, control systems).
- Its customers and suppliers and the supply chains they operate within.
- The lifecycle impact of the products and services they buy and/or produce. In framing a response to CSR, each organisation will need to establish a set of key principles that will help guide those involved with implementation. As well as practical considerations these principles[6] are shaped by the character and culture of the organisation, its market position and its broader business objectives. These typically cover;
- The extent to which CSR is considered holistically as part of the organisation's broader, strategic objectives and goals.
- Whether its standards should go beyond the minimum requirement of the law and local standards in each market they are buying from or selling to. For example, Hewlett Packard adopts its Standards of Business Conduct[7] across its 150,000 people in 170 countries.

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[5] For example Social Enterprises, Small to Medium Sized Enterprises (SME's), Minority Owned Businesses

[6] This list is not meant to be exhaustive

[7] http://www.hp.com/hpinfo/globalcitizenship/csr/sbcbrochure.pdf

- The extent to which the organisation should work proactively to deliver positive CSR impacts beyond the scope of its direct operation, for example by sponsoring local community initiatives.
- Whether the organisation should take action to correct any embedded CSR distortion or bias, for example, by promoting the interests of under-represented groups.
- Whether the organisation should choose to promote or associate good 'corporate citizenship' with the organisation as a whole or with its brands or products for example Waitrose[8] supermarket in the UK.
- Whether the organisation should adopt a 'defensive' approach by prioritising its CSR risks and maintaining parity with market norms and expectations.
- Whether the organisation should adopt the same CSR standards in its own business, as that which it applies to its suppliers and customers.
- Prioritising those aspects of CSR that are of particular relevance or concern to the organisation, and what priority it gives to assessing and managing their impact. For example, McDonalds "Responsible Purchasing Policy" begins with a focus on Animal Welfare[9].
- In developing these principles, and others, each organisation constructs a response to CSR challenges that is unique. However, every CSR policy and deployment plan will have significant internal, as well as external dimensions and require intensive cross-functional coordination.

The impact of these choices will significantly impact how CSR in procurement is implemented, how CSR activities relate to others, and the priority they have. Ultimately this is also reflected in the progress that procurement can make towards implementing better CSR standards and practices.

CIPS Position

The CIPS position on CSR Implementation is intended primarily for purchasing and supply management professionals, but it applies equally to everyone who has responsibility for managing or influencing the supply of goods or services from an external source.

The purchasing and supply management professional has a responsibility to gain a thorough understanding of CSR issues in relation to what is being purchased, to promote CSR awareness across all stakeholders, and to take action to reduce supply chain CSR impacts to the maximum extent possible. CIPS believe that P&SM professionals should:

- Establish priorities on the basis of the potential CSR impact of the products and services they buy, rather than on the basis of expenditure.
- Adopt a 'Code of Ethical Behaviour' and apply this across the procurement function and all of those involved in wider sourcing process.
- Improve CSR awareness and performance by establishing a minimum set of standards they expect to see adopted by suppliers.
- Champion 'easy to do business with' policies in their organisations, acting as the 'voice of the supplier'.
- Ensure that policies and processes do not inadvertently disadvantage smaller suppliers or those representing minority interests or sectors.
- Examine sourcing strategies and supplier reduction targets to see if they discourage diversity in the wider market place or exclude potentially advantageous smaller suppliers.
- Improve the standard and consistency of relationship management by segmenting suppliers carefully, so that the level of engagement and interaction is consistent and appropriate to the nature and complexity of the relationship.
- Adopt more rigorous external monitoring, so that CSR issues, corporate governance, and compliance issues are considered before suppliers are selected and then monitored, thereafter.


[8] http://www.waitrose.com/about/thewaitrosefoundation.asp
[9] http://www.mcdonalds.com/corp/values/socialrespons/market.html

Barriers to Implementation and Sources of Conflict
Introduction

This section is designed to help P&SM professionals recognise some of the obvious barriers to successful implementation and the potential root causes. In doing so, practitioners can begin to identify actions they can take to overcome them.

Like any change, CSR implementation is dependent on the presence of a number of key enablers. The absence of one or more of these leads to some common symptoms that are readily identified. In this section we use the simple model[10] (Figure 1) to examine these in detail.

Figure 1 – Enablers of Change
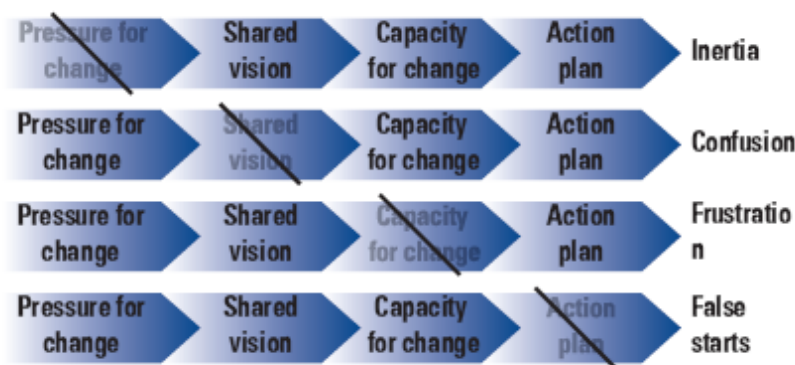
Inertia

Inertia results from a lack of pressure or willingness to change. Perhaps this is because there is no pressure from the outside world or because it exists but is not recognised or is resisted. The pressure for change within an organisation normally comes from the 'top down', from the leaders who have become convinced of the need to change. Ideally change is made proactively, in advance of the need to do it –but often it is made after a weakness has been exposed.

Enabler1: Creating Awareness and Understanding
Likely Implementation Barriers

- The organisation is 'disconnected' from changes in the market– that is, changes are occurring but these demands are not being recognised fully or connected with CSR.
- There is pull/push from some stakeholders but not all.
  There is no connection between CSR and existing initiatives (for example, waste minimisation, energy use reduction, control of hazardous substances).
- The organisation believes that CSR is a management 'fad' that will pass.
- The organisation considers that it is already advanced in terms of CSR and that no further action is required.

Enabler2: Building a Coordinated Response to CSR Challenges
Likely Implementation Barriers The organisation has other priorities.

- There is an assumption that CSR initiatives will be addressed functionally as they arise
- There may not be a clear view of the benefits or doubt that they can be realised
- The organisation may be unaware of the cost of doing nothing.

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[10] Based on the model used by Ian Taylor, CIPS Marketing & Procurement Conference 2005

Confusion

Confusion results from a lack of shared vision and accountability. This most commonly occurs if CSR develops without the benefit of a coherent framework, or without cross-functional input. Of course, it will also happen if the motivation for developing better CSR practices is unclear or not deeply grounded in the culture of the organisation.

Enabler3: Developing Cross-functional Understanding
Likely Implementation Barriers

- There are gaps in an organisation's body of CSR knowledge or information.
- There are gaps in strategy, policies or standards or insufficient cross-functional input.
- There are gaps in management structures or accountabilities are fragmented.
- Standards conflict or are too open to interpretation.
- There is a lack of consensus about CSR or what needs to be done.

Barriers to Implementation and Sources of Conflict

Enabler4: Defining the Role of Procurement
Likely Implementation Barriers

- The procurement function does not have influence or responsibility for all procurement
- The CSR impact of related functions is not considered, for example the impact of Planning, Finance, HR and Legal on suppliers and the supply chain or the impact of Marketing, Sales, New Product Development or R&D –on the specification of the product or service and its design.
- Procurement lacks influence or credibility in respect of CSR.

Enabler 5: Creating Policies, Standards and Shared Understanding
Likely Implementation Barriers

- Standards are not aligned or conflict with others (internal/external/peer group or industry).
- Common standards do not exist or are emerging.
- Ownership and accountability for the standards is not clear.
- Standards have been developed by others, have been imposed and are not realistic or practical or lack clarity.

Enabler 6: Building Confidence, Trust and Commitment
Likely Implementation Barriers

- The 'buy-in' and support of suppliers or operational managers is low or absent.
- There is a lack of trust/confidence in those championing CSR.
- There are conflicting messages, priorities or demands.
- The suppliers lack incentive to change or adopt new CSR standards.
- Costs and benefits are not distributed equitably (between supplier and buyer).
- The buyer lacks incentive to change/adopt new CSR standards.
- CSR is additional work or compliance burden with little value add to those involved.

Frustration

Frustration results from the lack of capacity to change. Capacity can be simply workload or result from a shortage of skills or resource bottlenecks. Because of the cross-functional nature of CSR implementation and the involvement of external suppliers, creating the capacity to change across

multiple resources is a particular challenge.

Enabler 7: Securing Available Resource
Likely Implementation Barriers

- Initiative overload, poor planning or anticipation, resource bottlenecks.
- CSR is given a low priority or its priority conflicts with others (such as cost savings).

Enabler 8: Creating a Shared Agenda and Priorities
Likely Implementation Barriers

- Individual roles and responsibilities conflict or overlap.
- Other functions have different priorities, timescales or constraints.
- Procurement has limited influence over the actions of others.

Enabler 9: Developing the Skills to Deliver
Likely Implementation Barriers

- A lack of training/subject awareness.
- It is not clear what new skills/techniques are required or where to get them from.
- Training budgets/resources are constrained, with limited or no access to external specialists or resources.
- It is a new subject; there is limited material, information/knowledge available.

Enabler 10: Adapting Procurement Ways of Working and Developing New Approaches
Likely Implementation Barriers

- There is a perception that CSR standards may lead to higher costs or potentially threaten existing relationships.
- Existing strategies do not take account of the impact of purchasing actions, the impact of the suppliers and the supply chains they operate within, or the impact of the products and services bought.
- Some aspects of CSR appear to conflict or challenge our traditional ways of working, for example:
    - Supplier reduction
    - Focus on lowest cost
    - Global sourcing
    - Supplier/supply diversity
    - Use of power in relationships
    - Fair dealings/paying suppliers on time
    - Assessing suppliers
    - Supplier evaluation and compliance
    - Managing risk
    - Prioritising risk based on CSR impact.
- Current suppliers/supply chains lack transparency.
- There is limited knowledge and information on which to make informed decisions.
- Suppliers don't trust procurement's intentions in respect of CSR.

False starts

False starts result from a lack of adequate implementation planning. This could be because the subject is difficult to plan or predict, or because the implications and issues that arise once work begins are unexpected and stall the implementation process. Commonly, weaknesses across the other enablers also show themselves in an inability to hold a coherent program of actions together.

Enabler 11: Establish Clear Accountability
Likely Implementation Barriers

- The need to involve other stakeholders is not fully recognised.
- CSR is more complex than originally thought.
- It is not clear who is doing or responsible for what.

Enabler 12: Effective Planning
Likely Implementation Barriers

• As an emerging subject it is difficult to plan and resource.
• CSR implementation is not project managed.
• Targets are set in isolation and/or are too ambitious.
• Other work pressures prevent progress.
• Progress is not measured or communicated.

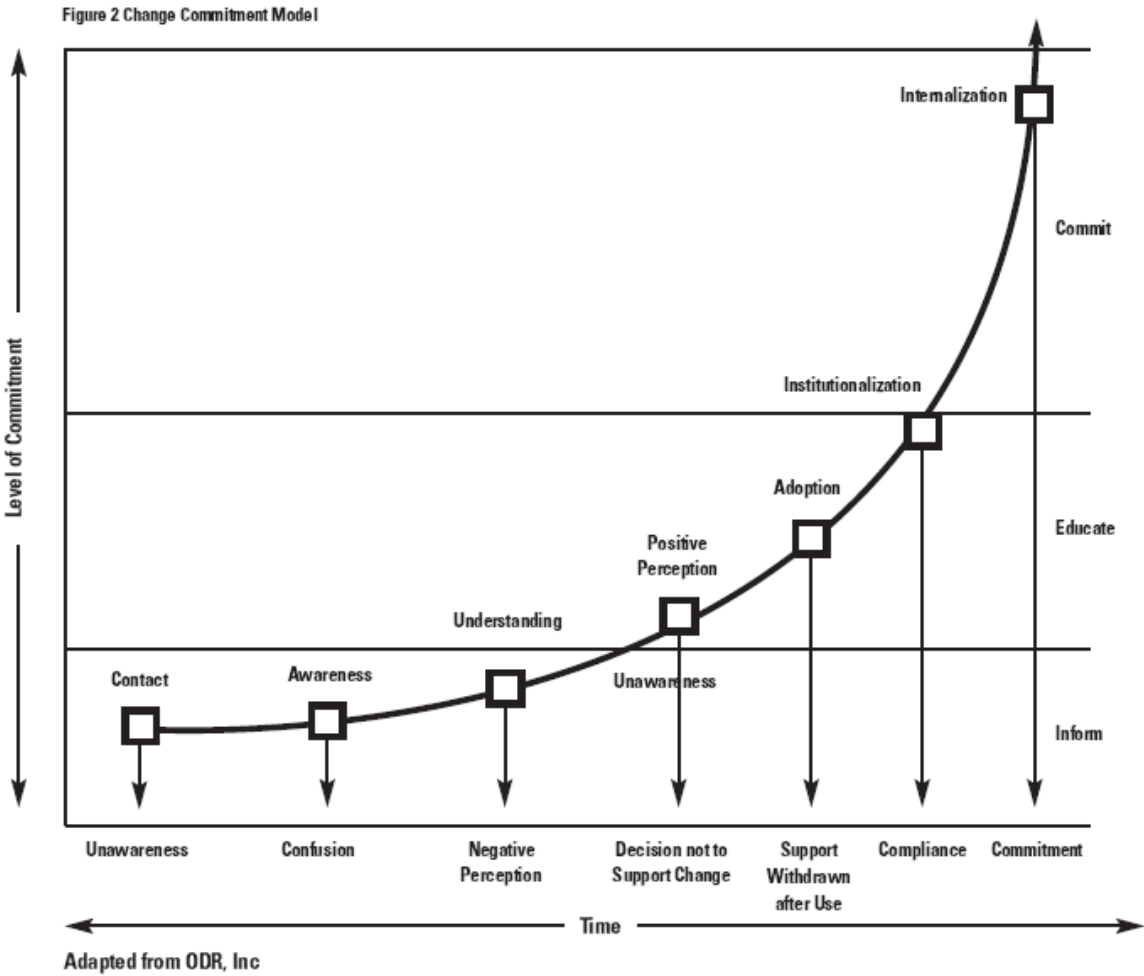**Enabler 13: Resolving Conflicts**
Likely Implementation Barriers

• Lack of experience or expertise.
• No process for resolving issues or conflicts

Overcoming Barriers and Resolving conflicts
Introduction

As we have seen there are numerous reasons why CSR implementation may be frustrated or fail if one or more of the key change enablers is missing or impaired. As for other change programs, implementation is a journey, as Figure 3[11] illustrates. The task for the P&SM professional is to lead progressively through a concerted program of information, education to gain the commitment needed ultimately to internalise the change, at which point it can be considered to be 'business as usual'. In this section we outline some of the building blocks that will help make this happen.

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[11] http://www.army.mil/escc/cm/model2.htm

Figure 2 Change Commitment Model

Adapted from ODR, Inc

Overcoming Barriers and Resolving Conflicts
Management Structures

To effect a change as complex and diverse as CSR requires close attention, coordination and sponsorship from the top down. Throughout the leadership cascade accountability, roles and responsibilities should be attributed very clearly, so that the strategy and vision at the top level becomes specific objectives and tasks further down. This involves allocating CSR responsibilities to existing management structures and, in some cases, creating new structures to manage CSR implementation. The roles are typically as follows;

Main Board: vision and strategy, advocacy, high-level priorities and resources.
CSR Implementation Team: cross-functional representation (including procurement), development of standards, resources, prioritisation, high-level plan and objectives, communication, conflict resolution, obtaining functional commitment.

Procurement Leadership Team: implementation priorities, tools, techniques, training, functional planning, measurement and reporting, obtaining commitment. Buying Teams/Buyers; category/supplier action planning, impact assessment, supplier prioritisation, procurement strategies, supplier engagement, implementation, measurement and reporting, obtaining supplier commitment.

Suppliers: feedback, implementation planning, implementation, measurement and reporting.
Effective CSR Implementation Overcoming Barriers and Resolving Conflicts

Turning Strategy into Action
Strategy

At an organisational level a strategy for CSR gives procurement a legitimate case for action and incorporating CSR into its own strategies and plans. It also helps to provide a cross-functional framework and better coordination. In the absence of an organisation wide approach to CSR, procurement may well be able to make some progress and it should seek to incorporate CSR improvement objectives into its functional strategies and sourcing plans. However, there may be limits to what can be achieved and there is a risk that progress and credibility will be undermined by actions elsewhere in the organisation.

Policy

Policy positions and their associated standards covering the key areas of CSR detailed in this guide are an essential part of the wider engagement process, helping to make sure that everyone involved has an opportunity to input and consider the impact of CSR n their own functions. As we have seen this engagement should involve all of those who directly and indirectly influence the procurement process, supplier selection, the supply chain, or who have functional ownership of aspects of the policy within the organisation (for example HR ownership of Social Standards). Sorting out accountabilities is part of policy development and deployment and is an essential success ingredient. CIPS amongst others can provide access to example policies and frameworks or point to organisations that can assist. It obviously helps if the standards are based on international agreements, such as those created by the ILO[12] or United Nations[13] but your organisation may wish

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[12] International Labour Organisation - http://www.ilo.org/

to go further than these. Some trade organisations, such as that representing the Electronics Industry, have established common supplier standards[14]. Unfortunately, there is no single standard which encompasses all of the dimensions we have covered in this document.

Planning and Prioritisation

Most CSR initiatives fail because they are seen as an additional burden of work and not essential alongside other business priorities. Partly this results from not understanding the benefits case clearly, but also in not having realistic and practical plans. In terms of CSR, it is important that priorities are guided by potential CSR impact, rather than spend. Very often small changes can make a big difference and make good commercial sense, for example; reducing waste or increasing fuel efficiency will deliver cost savings, as well as environmental benefits. Prioritisation is also helped by making sure that SMART[15] improvement objectives are developed and agreed at Category and Buyer level and ideally with Suppliers.

Communication, Tools, Training, and Development

CSR implementation needs to be accompanied by a program of communication, education and, in some cases, specialist training. Very few of the concepts involved are difficult to grasp, but the practical aspects of implementation may require some new tools and ways of working. For example, tools to prioritise potential CSR risk or exposure, tools and techniques relating to whole life costing or environmental impact assessment. Changes to ways of working, for example, in terms of relationship management, supplier segmentation, or the impact of existing policies on supplier diversity, will need to be developed and accompanied by training. Suppliers are of course part of this process and full consideration should be given to including suppliers in communication and training programs and by making tools and techniques available to them as part of the wider effort to improve CSR in the supply chain. An open two-way dialogue will also encourage best practice sharing and innovation that can be applied more widely.

Supplier Relationship Management

Improving CSR impact beyond the boundary of the organisation is dependent on suppliers and the impact of the supply chains they operate within. The relationship between buyer and seller will significantly affect the CSR conversation, the degree of openness and willingness of the supplier to work with the buyer, and its own suppliers and supply chain partners. In this respect, the need for improved relationship management practices increases significantly. Because CSR related exposure is not directly related to spend – influence through threat or loss of business may be less effective and the buyer needs to consider more flexible approaches and relationship segmentation practices. Buyers and others involved in managing them should also work hard to communicate consistent messages in relation to CSR – a precursor to establishing credibility and trust. Traditional adversarial or arm's length relationships may not prove to be fruitful in terms of CSR improvement.

Sourcing Strategy

CSR should be a part of sourcing decisions and sourcing strategies. Typically this will be through the adoption of CSR standards for new suppliers – whilst at the same time working with existing suppliers to understand and improve their CSR impact. In most cases it will be beneficial to work together with the supplier to build CSR, capability rather than to achieve it by mandating compliance or by changing suppliers. Whilst this requires more effort and patience it is more likely to give lasting results. It also demonstrates commitment and will help to build trust and confidence. In some cases

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[13] United Nations Global Compact - http://www.unglobalcompact.org/

[14] Electronics Industry Code of Conduct - http://www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf

[15] SMART – acronym, objectives that are Specific, Measurable, Achievable, Realistic and Timed

the supplier may present such a high risk to the organisation, perhaps to its reputation, that the only option is to move the business. Care should be taken not to act precipitately and for the CSR consequences of the decision to be considered. The key message is to act responsibly.

Correcting Under Representation, Bias or Adverse Market Impact

In general terms, the procurement process should be designed to provide access to the best suppliers capable of meeting the requirements and standards each organisation has. However, it is likely that these processes, often for good reasons, have developed in such a way as to behave imperfectly and create distortions or bias. As a consequence, particular groups or types of supplier may be under-represented or excluded from fair consideration. For example, the complexity of tender documentation, contracts or insurance thresholds, may prevent smaller suppliers participating. Framework agreements may also 'lock out' capable suppliers for long periods, causing them to drop out of the market altogether, potentially diminishing competition over the medium to long term. Procurement practitioners have to examine the procurement process and their decisions in order to ensure that:

- CSR requirements and standards are embedded within the sourcing process.
- The internal and external CSR impact of sourcing decisions and strategies is assessed and taken account of.
- There is no discrimination against particular groups of suppliers or types of organisation.

Where groups or types of suppliers are underrepresented in relation to the market or to policy objectives, action can be taken to assist those involved to overcome any barriers - for example, by working with them to increase their capability or by positively discriminating in their favour, until such times as the distortion or bias is corrected. Since the goal is to have a level playing field this can only be justified on the basis that the buying organisation is being disadvantaged by the bias, for example by excluding capable suppliers and that such an arrangement is temporary.

Measurement and Communication

Measuring the Contribution of Procurement Broader considerations need to apply to our assessment of the value that P&SM professionals are delivering. As the approach to Whole Life Costing illustrates – CSR challenges us assess the total impact of what we buy and how we buy it, covering CSR impact before purchase, during conversion and use and after use. Against this background, traditional measures of purchasing performance such as 'cost savings' are too narrow and do not reflect a more balanced measure, taking account of broader outputs, such as the impact on profit, cash flow, reputation and increasingly for listed organisations, share price - as well as the external environmental and social impacts of better procurement. Some organisations are beginning to recognise this. The Nestle concept 'Creating Shared Value'[16] across its supply chain is one attempt:

Balanced Scorecard

CSR demands that P&SM professionals work more broadly to deliver value and contribute to the operational success of their organisations. Adoption of a balanced scorecard[17] helps P&SM professionals agree targets and monitor their performance across their key areas. Kaplan and Norton recommended broadening the scope of the measures to include a range of financial, customer and process measures, as well as measures associated with the growth and development

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[16] Presented by Nestle at the SRI event - New York March 7, 2006

[17] An article by Robert Kaplan and David Norton entitled "The Balanced Scorecard - Measures that Drive Performance" in the Harvard Business Review in 1992 sparked interest in the method, and led to their business bestseller, "The Balanced Scorecard: Translating Strategy into Action".

of its employees. Performance monitoring across these dimensions is intended not only to provide assurance that the business is on track to meet its goals, but also to position it to meet future demands. An example of a balanced scorecard for procurement might include;
• Contribution to Profit & Cash Flow
• Risk
• CSR
• Relationship Management
• Customer/Consumer Satisfaction
• Management and Development of People

A framework for Creating Shared value

	Agriculture and sourcing	Manufacturing and distribution	Products and consumers
Value chain impacts	**Purchasing practices** • Sourcing for quality and sustainability • Research and development for better yields	**Environmental, labour and safety practices** • Food safety through improved standards of operations • Labour practices for mutual benefit • Improved environmental standards	**New/renovated products for nutrition, health and wellness** • Research for consumer benefit • Labour practices for mutual benefit • Consumer nutrition, health and wellness
Building a context for growth	**Agricultural and supplier development** • Knowledge transfer and farm assistance • Partnerships for sustainable agriculture	**Better food safety standards and workforce development** • Risk managment for food safety • Creation of employment opportunities in the community	**Increase knowledge and awareness for healthy nutrition and lifestyles** • Knowledge and education for healthy nutrition and lifestyles
Value for Nestlé	Access to raw materials at specified quality and foreseeable price	Premium food manufacturer	Profitable growth from superior product benefits
Value for society	Higher food output using fewer resources	Higher food production standards	Wider access to food, and improved nutrition and health

Whole Life Costing

Life Cycle Costing (LCC), also called Whole Life Costing, is a technique to establish the total cost of ownership. It is a structured approach that addresses all the elements of this cost and can be used to produce a spend profile of the product or service over its anticipated life-span. It is an invaluable aid in making better CSR decisions in that it considers all cost factors, not just the inbound price paid. For example, a Royal Academy of Engineering report found that the typical costs for owning a building were in the ratio of 1 for construction costs versus 5 for its ongoing maintenance during its expected 30 year life.

Audit and Compliance

As with any initiative that is designed to improve standards, capability and compliance need to be checked from time to time so that P&SM professionals can be confident that the required standards are being met. Internally this is normally achieved by adapting existing audit, compliance and risk management systems for CSR related standards. For external supplier's, additional auditing is required. To reduce costs this can be done by self-assessment – but typically requires accredited auditors to assess the suppliers operations on the customer's behalf. Some accreditation agencies build a database of supplier findings on behalf of several customers helping to reduce audit costs. The recent CSR survey of common suppliers piloted by BP, Shell, Statoil and Norsk Hydro is another attempt to reduce the compliance burden. Similar compliance problems are faced when assessing the provenance of certain products or raw materials – such as wood products, where, for example,

the Forest Stewardship Council[18] provides assurance the wood is derived from approved sources. Compliance costs should be considered alongside the cost savings associated with low-cost country sourcing.

Resolving Conflicts

Particularly during the early stages of CSR development and implementation, conflicts and uncertainties will arise. These are much less likely if the ground has been well prepared and policies and standards developed and communicated after cross-functional input. However, where help is needed – an organisation should have clear structures for resolving and communicating the issue and rationale to all of those involved. This helps develop a body of knowledge and shared understanding. For non-competing/confidential issues advice can be also sought from professional or industry bodies.

Desired End State

CSR ultimately has to be embedded as part of an organisation's normal ways of working, just as for Example 'Quality' is embedded through policies and systems and measurement. This often requires special transitional arrangements to build the capability and create the momentum for change before it can become 'business as usual'. The length of this transition depends on the size and complexity of the organisation but can often take one or more years to complete.

Getting Started

Introduction

Although a holistic, organisation-wide CSR effort is recommended and in the long term will yield the cost impact, for reasons that we have highlighted it may not happen or it may happen too slowly.

With this constraint however, it is still possible for procurement to begin to make sustainable and important changes that will help improve the organisation's CSR impact and may well increase the level of awareness and commitment as well as building the credibility of the procurement function itself.

This section outlines some of the practical steps that procurement can take to start the change process.

The CSR impact of Procurement's own actions and behaviour

The first step is to consider what actions procurement can take to improve its own CSR credentials. This should include adopting a Code of Ethical Behaviour across the function and distributing this to all of those who are involved in the sourcing process. The procurement process itself needs to be transparent and consistently adopted and auditable, so the guidelines for procurement need to be clear, and written down, and familiar to all of those involved. Procurement can also make sure that its policies or processes do not inadvertently disadvantage smaller suppliers or those representing minority interests or particular sectors. Procurement can also make sure that payment terms are adhered to – and work to stress the importance this has on the organisation's reputation as a good corporate citizen. Procurement can also champion 'easy to do business with' policies acting as the "voice of the supplier" for example, by making contracts simpler and consistent or by dedicating a part of the external website to useful supplier information. There are also steps procurement can take to improve the standard and consistency of relationship management, by segmenting suppliers carefully so that the level of engagement and interaction is appropriate to the nature and complexity of the relationship. Further, procurement can examine its sourcing strategies and supplier reduction targets – to see if this is discouraging diversity in the wider market place or excluding potentially

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[18] http://www.fsc-uk.org/

advantageous, smaller suppliers. Procurement can also speak as an advocate of CSR and develop awareness by creating a set of minimum requirements they expect to see adopted by external suppliers. This may need internal approval – but many of the standards in terms of the ETI Base Code[19] and Code of Business Ethics[i20] or Environmental Management[21] are widely recognised. Such standards can be incorporated as requirements into future tenders for new business. Procurement can also develop assessment methodologies to help identify the areas of expenditure and suppliers that expose the organisation to CSR related risks (for example, textile products from some developing markets). Advocating membership of a professional body such as CIPS will also encourage the development of high professional standards.

The CSR impact of the product and services being bought

Buyers need to prioritise their efforts on the basis of the potential CSR impact of the products or services they buy rather than on the basis of expenditure. Often the first opportunity to improve CSR impact is by controlling waste or excessive levels of consumption. This also has an immediate cost benefit. It is also possible to look at areas where recycled materials can be introduced, since they generally consume fewer resources (energy and raw materials) than original product. Biodegradable products and raw materials will also have a lower environmental impact after they have been used. Further, where materials are made from natural resources, buyers can make sure that these are from sustainable or renewable sources, examples include paper, wood products, food or even electricity.

Buyers can also look at travel, car fleet or other energy intensive areas to make sure that maximum fuel efficiency measures are adopted. In terms of catering services – organic or Fair Trade product alternatives can be introduced. Buyers can also work closely with suppliers and Marketing or R&D to identify alternative specifications or manufacturing options that have better CSR impact – often these will save money as well.

The CSR impact of the suppliers you do business with Again, priority should be decided by potential CSR impact rather than expenditure. Consideration also has to be given to the supply chain beyond the immediate supplier, for example if the supplier consumes high levels of energy to provide the product or service being bought – then this would be an area of opportunity for discussion and potential improvement. CSR standards where they are adopted can also be used to screen new suppliers and to make sure that policies in relation to gifts and hospitality are clear. Procurement and supplier managers can also agree CSR improvement targets with suppliers as part of their development objectives. Buyers can also introduce more rigorous external supplier monitoring so that they are aware of any breach of the law or corporate governance that might indicate deterioration in the supplier's CSR position. Buyers should also make sure that there is a structured process for reviewing contract performance on both sides and make sure that obligations are being met and issues resolved.

Hints & Tips

Leading CSR is a real opportunity for Purchasing and Supply Chain Professionals to demonstrate their value across a broad spectrum of initiatives and make a difference to the organisation, its suppliers, products and the world around them. Below are some handy hints and tips that will help to maximise the positive impact you can bring:

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[19] Ethical Trading Initiative - http://www.ethicaltrade.org/Z/lib/bas e/code_en.shtml

[20] For example the CIPS Code - http://www.cips.org/Page.asp?CatID=31&PageID=116

[21] For example ISO 14000

- Getting CSR on the organisation's strategic agenda will give you a better chance of coordinating the various aspects of standards and policies you will need and of making sure the organisation as a whole is giving its support. However, if this doesn't materialise there are still practical things you can do to make a start – and these can save money, too.
- Establish CSR standards cross functionally, seek the input of others – use established standards or emerging frameworks if you can, but don't be afraid to go further if it suits your organisation. Remember that procurement and the CSR impact of procurement activity is influenced indirectly by the actions of others who may not be part of procurement. Make sure you connect with them as well.
- Work with others, including trade and professional bodies and share CSR information in a non-competitive way if you can.
- In establishing CSR priorities review products/services/suppliers for potential CSR impact and the opportunity or risk that they present.
- Involve suppliers in the analysis. If there is a potentially excellent supplier who is poor on a particular aspect of CSR then work to build capacity, rather than switch supplier. This builds trust and credibility.
- Consider CSR issues early. There is most scope when the business case is being prepared or when defining needs and specifications. Early action is more likely to be more successful.
- Use performance or functional specifications where appropriate to help deliver CSR outcomes and to encourage innovative solutions.
- Try to give a uniform message to suppliers and stakeholders and to create confidence give practical support and training to those involved.

Summary, further reading, useful websites
Summary

This Practice guide has provided P&SM professionals with a high-level view of CSR and some of the many issues that affect CSR implementation. Whilst it is a complex subject and has many dimensions it is one that presents P&SM professionals with a real opportunity to demonstrate the value that they can bring to their organisation, not only in terms of cost, but also in terms of reputation, improved risk management, business standards and supplier innovation. Notwithstanding these benefits, there is an opportunity to positively influence the environment and wider communities in which P&SM professionals operate.

Further Reading

CIPS' Executive Insight Guide on CSR 'The Ethical Decision'
CIPS' Executive Insight Guide on Corporate Social Leadership
CIPS' Executive Insight Guide on Corporate Governance
CIPS' Executive Insight Guide on Human Rights
CIPS Principles on CSR
CIPS Briefing on Supplier Diversity
CIPS Practice Guide on Supplier Diversity
CIPS Practice Guide on Sarbanes-Oxley
CIPS Practice Guide on CSR Codes and Standards
CIPS Practice Guide on Sustainability
CIPS Practice Guide on the Environment
CIPS publication 'The Practitioner- Environmental Purchasing in Practice'
UK Sustainable Development Strategy
Framework for Sustainable Development on the Government Estate
Sustainable Procurement Task Force
UN Global Compact – Practical Implementation Guide
ISO 26000 Social Responsibility Guidelines

Useful Websites

www.crème-dmu.org.uk

www.cre.gov.uk

www.nmsdcus.org

www.div2000.com

www.cips.org

www.societyandbusiness.gov.uk

www.ethicaltrade.org

www.euractiv.com

www.forumforthefuture.org.uk

www.nottingham.au.uk/business/iccsr

www.ilo.org

www.biodiversityandbusiness.org

www.eldis.org

Effective CSR Implementation

About the author

Graham Collins is a procurement consultant running his own consultancy practice ProQuest Consulting Ltd., building on an established career operating at senior levels within large plc's in the UK and abroad.

He is an active member of CIPS, providing thought leadership through working groups. He is a former member of the Editorial Board of Supply Management, the in-house magazine of CIPS and as committee member actively supports a program of high profile procurement activities for CIPS members in Central London.

Graham's business interest is focused entirely on the development and coaching of procurement performance at an organisational, team and individual level - drawing from his wide cross-sector experience and a range of proprietary procurement techniques and approaches Graham's work experience includes his roles as Supplier CSR Program Director and Global Procurement Capability Director at Diageo, procurement leadership and buying roles at Unilever, VP Sourcing Europe for JP Morgan and Head of Strategic Sourcing for the National Australia Bank – where he established a worldwide centre of procurement excellence.