



Taking the lead

A guide to more responsible procurement practices

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Foreword

In a world where everything is connected, understanding the impact of our sourcing decisions matters. While the concept of sustainable sourcing is not a new one, the increase of global sourcing opportunities has brought the current gaps in procurement practice more to the foreground. As custodians in the 'external' face of any organisation, it is crucial that procurement professionals begin to address this challenge if their business is to remain competitive and continue to secure the trust of their clients and suppliers.

Better governance of procurement and more transparency are required to support this. Equally, procurement actions and targets must be integrated and aligned with wider organisational objectives. We must be aware of, and accountable for, the effect of our actions both directly in terms of what we do and indirectly in terms of what happens in the supply chain on our behalf. This has significant implications in terms of our level of knowledge and how we approach and manage commercial relationships.

If the procurement profession is to seize these new opportunities, as well as avoid the risks of globalisation, it must take a wider, more responsible look around.

The Chartered Institute of Purchasing and Supply, along with Traidcraft, hope that this document will act as a real catalyst for change and as a tool to help the profession move forward. It's a vision for the future and one which we hope you will help to make a reality.

Ron Jarman
CIPS President

ABOUT THE AUTHORS

Chartered Institute of Purchasing and Supply

CIPS is an international organisation, based in the UK, serving the purchasing and supply profession. Dedicated to promoting good practice, CIPS provides a wide range of services for the benefit of members and the wider business community.

Traidcraft Exchange

Traidcraft Exchange is the UK's only development charity specialising in making trade work for the poor. In collaboration with local partners it works to create opportunities for those in poverty to harness the benefits of trade, helping them to develop sustainable livelihoods and offering them hope for a better future.

The Chartered Institute of Purchasing and Supply (CIPS) and Traidcraft are part of the Responsible Purchasing Initiative (RPI). The RPI works with purchasers and sourcing experts to learn from and improve how sourcing from developing countries contributes to sustainable development and to develop good practice. For more information visit www.responsible-purchasing.org

Traidcraft Exchange commissioned Graham Collins to write this report. Graham is a Director of procurement consultancy ProQuest Consulting Ltd. Previously, he held roles as Supplier CSR Programme Director and Global Procurement Capability Director at Diageo, 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.

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Executive Summary

The European Union (EU) benefits enormously from the openness of its markets, the flow of goods and services and economic migration. Growth has been positive for 59 successive quarters, 'more than any developed nation, and corporate profitability is at an all-time high.

*¹Source Ernst & Young
Item Club Report –
May 2007*

However, economic success and the transfer of wealth through increasingly globalised supply chains bring no guarantee that its ultimate distribution will be fair and equitable or that it will impact positively on those in greatest need.

Even within the EU itself, where standards are generally high and the management of suppliers and supply chains well developed, vulnerable groups, individuals and suppliers are still open to exploitation. Our use of natural resources and the environmental impact of our actions is currently unsustainable.

Increasing external scrutiny and investor and consumer awareness, and changing expectations on the other hand, and shaping the political and corporate landscape. Acting responsibly by taking full account of social, economic and environmental considerations is now firmly centre stage.

Why is procurement in the spotlight?

Trading relationships and the behaviour of buying organisations influence the flow and allocation of economic resources and have a very significant impact, whether direct or indirect on poverty, social and environmental conditions and the development of country economies.

The key question is to what extent buying organisations, particularly in an increasingly globalised marketplace, are exposing themselves organisation to risk by not understanding their impact and inadvertently accentuating inequality or damaging fragile social, economic and environmental resources. Purchasing professionals are directly responsible for the selection of their suppliers and whether the relationships they develop with these suppliers results in exploitation or in the improvement of social, labour⁰ and environmental conditions to agreed standards. Purchasing organisations need to set out the social, labour and environmental conditions they expect to be in place at their suppliers' sites of production and agree with relevant supplier-facing staff how they should work with their suppliers to communicate, collaborate and enable them to achieve these standards.

It is for the purchasing organisation to select and develop the social, labour and environmental standards they expect of their supply base. As a minimum, a purchasing organisation would be expected to source from suppliers meeting the law of the country of production as well as enable the achievement of minimum internationally agreed labour standards, as set out by the International Labour Organisation.

At a time of relentless competitive pressure to deliver higher shareholder returns and reduce prices for customers, the temptation might be to pass inappropriate risks onto suppliers. As such integration of these considerations presents buying organisations with a very real challenge as well as an opportunity to realise commercial benefits and make a positive social, economic or environmental difference.

Time to act: for those managing procurement, the need for action has never been greater. The prize is a substantial one.

For those leading organisations, it is time to make procurement practices central to strategic thinking and to manage and scrutinise them in line with their importance and the scale of opportunity and risk they present. This publication presents recommendations on how to organise procurement practices to support social, labour and environmental standards in the supply chains serving you.

Whether you are a CEO, CFO or Head of Procurement, we recommend you begin to realise our vision for more responsible procurement by benchmarking your organisation's capability against our ten Fair Exchange procurement principles and where there are gaps, work to adopt as many of them as you can.



Why change

	Risk			Reward		
Driving Forces – Components of Business case	Loss of Control and Failure to Deliver Greater supply chain complexity increases the need for clearer accountabilities and secure execution, particularly when working globally or through intermediate suppliers. Poorly selected suppliers may not deliver products or services on time and to correct specification.	Increased Vulnerability The legislative, regulatory and the consumer environment is tightening and competitive pressure is building. A considered and pro-active stance will make your organisation less vulnerable and reduce the possibility of knee jerk reaction to events you do not control.	Loss of Stakeholder Trust Consumers and other stakeholders are becoming more demanding, not only expecting your organisation to “say what it does” but also to “do what it says”. Losing trust by not following words with actions can happen in minutes but a reputation may take years to rebuild. Trust is the most important asset you have.	Competitive Advantage The supply chain is a key source of value creation and supply management a critical enabler. Good procurement works across the supply chain to align resources behind key business imperatives. It is a source of competitive advantage.	Commitment People and suppliers make choices about who they prefer to work for and how much commitment they give. Responsible buying practices create an opportunity to attract and retain the best and most committed suppliers and staff, leading to business savings and innovation.	Responsible Trading Relationships Secure the benefits of trade, particularly with developing countries, safe in the knowledge that your organisation is acting responsibly and making the most positive impact it can with its money to people’s lives. Equally, staff appreciate working for a company that ‘cares’.
Responsible Sourcing and Purchasing Practices						
External and internal restraining forces	Inertia A lack of pressure, leadership or willingness to change.	Trends and Power Imbalances Trends in buying practices, combined with economic and power imbalances may inhibit partnership working with suppliers needed to address social, labour and environmental concerns associated with purchasing decisions.		Capacity The lack of capacity (skills, commitment or resources) to change. Good practice social, labour and environmental performance lags behind move to global sourcing & procurement expertise is still developing.	Confusion – external and internal Responsibilities for social, labour and environmental performance is shared by buyer, supplier, and public authorities. A lack of internal shared vision and accountability may occur if the demand for “more responsible procurement” practices develops without the benefit of a coherent organisational framework, is unclear or not grounded in the culture of the organisation.	



Why change

What forces stimulate change and what is restraining implementation of responsible purchasing practices?

² The research was undertaken during 2007 and brought together the input of buyers, suppliers and experienced supply chain practitioners supplemented desk based research. Examples are used to illustrate dimensions of the subject and are not meant to imply any view about the performance of the organisation or its procurement practices in general. Nor should it be inferred by the reader. Thanks to those who contributed and expressed their views so openly.

Acknowledgements;
(in alphabetical order)
Acona Research, Alfa Laval, Barclays, Body Shop, Brakes, BT, English Farming and Food Partnership, The Ethical Trading Initiative, Flamingo Holdings, Gap Inc., Insight Investment, L'Oréal, R.C. Treant & Co. Ltd, SAB Miller.

³ <http://www.army.mil/escc/cm/model2.htm>

There is a strong commercial case for acting more responsibly. Responsible procurement is essential to the core business of a company, since no business can sell its goods or services unless suppliers deliver those goods and services on time, to the agreed specification and cost.

Research for this publication involved procurement directors, category and buying managers who cited compelling reasons for change.²

As with all transformation programmes, implementation is a journey, as Figure 1³ illustrates. The task is to lead progressively through a concerted programme of information, education and actions to gain the commitment needed and ultimately, to internalise the change, at which point it can be considered to be "business as usual."

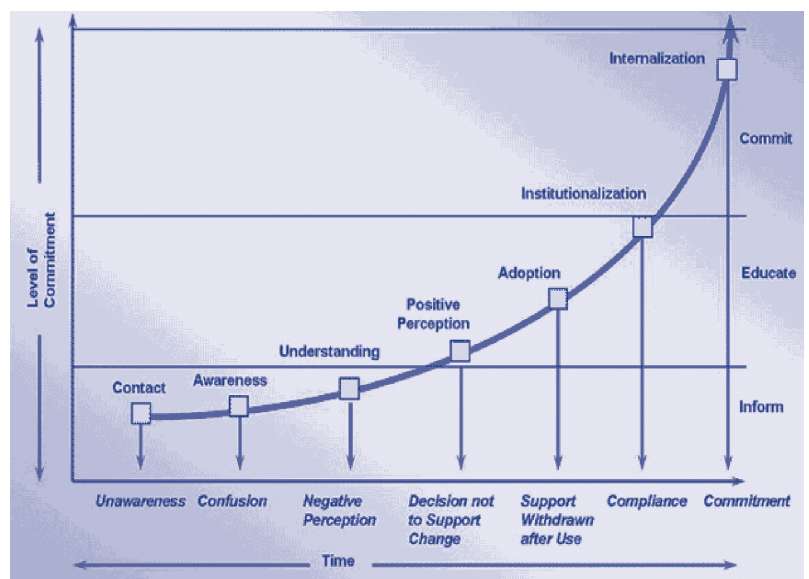
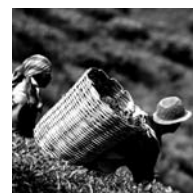


Figure 1 Adapted from ODR, Inc

Economic logic drives supplier development for SAB Miller

Our South African origins and our experience of operating in emerging markets have helped us to understand how our economic success improves the lives of people living in poverty. We believe that emerging markets need to move away from aid dependence towards encouraging home-grown enterprise and opening up opportunities for investment. Economic success creates employment, generates wealth and, in our case, fosters stronger local supply chains and a market for our products. (SAB Miller, Sustainable Development Report, 2007)



A platform for success

Analysis of the research identified six key success factors to achieving more responsible purchasing. These were common to all of the cases examined and the feedback given. Together, we believe they hold the key to delivering better social, economic and environmental outcomes through procurement practices and will help to achieve a fairer and more equitable distribution of the proceeds of trade throughout the supply chain.

Whilst recognising the complexity of individual buying decisions and supply chains, our findings suggest that these six success factors have broad, cross-sector application. We hope they will encourage debate and careful consideration.

The key success factors for an organisation to manage responsible purchasing are:

1. Leadership and accountability.
2. Knowledge and the consequences of buying actions.
3. Managing conflicting priorities.
4. Thinking and acting beyond short term horizons.
5. Managing relationships in the supply chain.
6. Responsible use of power in the supply chain.

Findings of an ATK/ISM Survey of 25 Fortune 100 Companies

- CEOs and the Boardrooms have discovered sustainability as a “top line” opportunity to enhance brand promises
- The supply chain as a key source of value creation becomes the litmus test for the “promise” and supply management is the enabler
- Being “green and ethical” will no longer be an option, it will be necessary for all participants in the supply chain
- Most firms lack both the formal direction and processes to fulfil sustainability commitments
- Within the next 12 months many companies will significantly change how they engage with their suppliers on this issue
- Today, many lack a comprehensive and robust way to track their own and suppliers sustainability performance

Source: Procurement Consultancy AT Kearney & The US Institute of Supply Management January 2007

This paper analyses each of these key success factors in terms of the following:

1. What the best are trying to achieve.
2. Why our findings indicate this is important.
3. What acting responsibly delivers.
4. What characterises the most successful.

...achieve a fairer and more equitable distribution of the proceeds of trade throughout the supply chain...



1. Leadership and accountability

CEOs and senior management have taken ownership of responsible purchasing and made it an integral part of procurement practices.

What the best are trying to achieve

- To integrate responsible sourcing practices into mainstream procurement processes as quickly as possible.
- To work on a priority basis to understand their impact and the impact of those they work with in the supply chain and to take action to change and improve where we can do better.

Why our findings indicate this is important

- Procurement is a complex multifunctional process. It requires strong co-ordination and leadership to implement change.
- The emergence of social, labour and environmental performance considerations in procurement is comparatively new and implementation is challenging, especially in long and complex supply chains.
- Those who indirectly affect outcomes, for example product development, logistics, marketing and finance departments, have to be fully engaged in policy development and implementation and be aware of their potential influence and impact on the delivery of successful outcomes.

- Accountability for the various tasks and activities involved in developing and implementing policies and standards has to be clearly assigned to stakeholders and individuals.
- Policy conflicts and changes to existing working practices have to be reconciled and overcome or progress will be frustrated.

What acting responsibly delivers

- Buyers are more likely to take the lead implementing responsible sourcing practices.
- There will be single accountability for reconciling differing organisational priorities and delivering them through sourcing actions.
- Cross-functional activity will be co-ordinated more effectively.
- The organisation's vision and standards are more likely to be reflected in sourcing strategies and actions.
- The implementation of higher social, labour and environmental standards will become core buying considerations.
- Better outcomes will be delivered more quickly.
- More effective leadership and accountability will win hearts as well as minds in the buying community and beyond by sending clear and strong messages and by aligning words and actions.

What characterises the most successful

- Executive sponsorship. Visible commitment.
- Procurement as a recognised professional discipline.
- Employees with the right level of skill and seniority lead this agenda across the organisation and its supply chains.
- Social, labour and environmental performance is embedded within the organisation's core procurement process and not managed as a separate activity.
- Procurement is held to account for delivering social, labour and environmental performance improvement in the external supply chain.



Case study 1

BT CSR leadership success - from the top down⁵

In 2006, BT's chief procurement officer had overall responsibility for CSR supply-chain programmes and reported to a BT Board member. Locally, BT buyers implement CSR programmes supported by procurement CSR managers, product stewardship and waste experts, product managers and a CSR virtual team of representatives from across BT procurement.

Setting high environmental, supplier diversity and human rights standards and stretching improvement targets have resulted in significant progress, something that was recognised by BT winning the 2006 Chartered Institute of Purchasing and Supply "Best contribution to corporate responsibility" award. The judges commented that BT had made "an exceptional entry in a difficult area, demonstrating that continual improvement and consistent support, visibility and ownership from the top can lead to changes."

The awards judges said the winning entry from BT stood apart from the other candidates because its CSR programme was led from the top of procurement. Its CPO was also the company's champion of the CSR steering group and was supported by a head of CSR strategy and policy for procurement, who enabled purchasing to improve its links with similar programmes across the group.

BT also hopes that its active engagement of supply chain partners and the sharing of best practice through conferences and seminars and face-to-face discussion with targeted suppliers will help create a "ripple effect" across the group's £6.9bn global supply chain.

⁵<http://www.btplc.com/Societyandenvironment/>

⁶Treant plc is a global, independent ingredients supplier to the flavour and fragrance industries.
<http://www.treant.com/>

Case study 2

R C Treant⁶ & Co Ltd show visionary leadership that makes sound commercial sense resulting in lasting benefits to local suppliers and communities.

Treant takes great pride in the longevity of their supplier relationships and they are proud to be able to trace one of their suppliers back over 80 years.

The supplier is Segoma village at the foot of the Usambara Mountains in Tanzania. It lies within an old estate once owned by a German, Mr Von Brandis, who planted bitter orange trees there in the 1930s. It is bitter orange oil that they are still buying today.

Commenting on the long-lasting relationship Treant's senior purchasing & business development manager Daemmon Reeve says: "It makes good sense commercially, as this is possibly the only source of hand-pressed bitter orange oil in the world. Other suppliers produce bitter orange oil using machines, which we also

buy, but this oil is different. We market the hand-pressed Segoma oil at a premium to the customer and pay a premium to the producers for its uniqueness. Segoma village gain a reliable and fair income, something that prevents them becoming a subsistence economy." He adds: "Buying natural products means that short-term thinking is dangerous. When a crop fails (and they do) because of extreme weather, for example, a long-term relationship helps us to secure the available material. It also allows us to maintain continuity of supply at times when our competitors may not be able to. Our role in the supply chain is to enable customers to keep putting their products (in this case a wide variety of consumer products that use the bitter orange oil as an ingredient) on the shelves 365 days per year. They do not want to hear about devastating hurricanes in Florida wiping out 70% of the world's grapefruit oil supply for example."



2. Knowledge and the consequences of buying actions

Procurement professionals are expected to think about the impacts of their decisions and to work jointly with suppliers to overcome problems.

What the best are trying to achieve

- To understand the impact of what they do.
- To use knowledge as a source of competitive advantage
- To be alert to events in the supply chain which might indicate a need to improve or that tell them other standards and aspirations may be at risk.

Why our findings indicate this is important

- The buying organisation may not be aware of the consequences of its sourcing practices.
- Traditional management information systems may be inadequate.
- The trend towards the transfer of operational management to others (e.g. tier-one suppliers, category managers, outsource providers or agents) reduces transparency and distances the buying organisation from the market and what is happening in its own supply chain.
- If supply chain complexity increases at the same time as transparency decreases, the risks are magnified.
- Traditional risk management techniques do not adequately capture the impact the organisation itself poses to vulnerable social, economic or environmental resources in the buyer's supply chain.

- A lack of knowledge capture inhibits the organisation's ability to learn and develop better techniques and practices.

What acting responsibly delivers

- Knowledge and greater awareness reduce operational, financial and reputational risk. There will be fewer "fires" to fight.
- Knowledge increases the scale and positive impact of cost savings and other supply chain benefits and improves the likelihood that they can be realised.
- It helps the buying organisation identify and protect vulnerable resources or skills in the supply chain.
- It benefits all procurement activity and is a source of competitive advantage.

What characterises the most successful

- A high degree of market and supply chain knowledge.
- Segmented management of sourcing and the supply chain by category, product portfolio or geography.
- Training of buyers and colleagues in other supplier-facing departments is to company-agreed standards as well as exhibiting best practice principles.

- Commercial awareness of the cost breakdown of products and the distribution of cost in the supply chain.
- Clear and explicit discussion between supplier and buyer on the agreed prices and the cost of compliance.
- Extensive feedback, learning and information-sharing across the supply chain and from external stakeholders (including NGOs, local government and trade unions) and colleagues, is used to revise policies and practices as appropriate to achieve the supply chain standards expected.
- Recognising the role of the external stakeholder in achieving desired standards, for example, ensuring that workers at suppliers' sites receive information on their labour rights.
- Effective and relationship management practices internally and externally.



Case study 3

Barclays accepts responsibility for the living standards of contract workers and sees a real and positive impact on contract staff turnover one year on.⁷

Barclays introduced a “fair wage” programme following work with Trade Union Amicus. Jon Couret, head of facilities management at Barclays in April 2006, said: “Although our direct contract is with our contractors, who in turn directly employ and pay our cleaners, we recognise that ultimately it is we who are responsible for improving their standard of living.” Sean Haley, managing director of Atkins Asset Management, added “This is good news for the cleaners, Barclays and its customers. The fair wage programme will have a huge, positive impact on thousands of lower paid workers across the UK.” Atkins Asset Management manages Barclays suppliers and will

oversee the rollout of the package. It will be working closely with Barclays cleaning suppliers Mitie, Lancaster and Aim Hygiene, which work in different regions of the UK. Bringing the story up to date Couret says: “We believe that this initiative has been a good investment for Barclays. It provides our third-party employees with a fair and well-rounded remuneration package, and helps the contractors delivering services to Barclays to retain their best employees. Our cleaning contractor, Mitie, has a staff turnover rate of around 5%, significantly lower than the industry average” (Barclays, April 2006/August 2007)

⁷<http://www.newsroom.barclays.com/>

⁸Women Working Worldwide an NGO
http://www.gapinc.com/public/documents/www_study.pdf

Case study 4

Gap commissions external NGO⁸ research to help it understand and improve the impact of its procurement practices.

Inefficient purchasing practices are endemic throughout the apparel industry. In its study for GAP, Working Women Worldwide (WWW) pointed out that the situation is not unique to Gap Inc, and that most other brands and retailers face similar issues. WWW praised Gap Inc. for its commitment to compliance, and the high priority Gap Inc. places on longer-term relationships and good communication with garment factories. WWW's research highlighted three main problems within the current pipeline process. **First**, unforeseen delays can create situations in which factories do not have enough time to complete production orders. For example, fabric may arrive later than planned due to the use of an inefficient fabric mill or bottlenecks with local transportation or customs officials. If a factory does not receive timely approval on sample garments from Gap's San Francisco office or local labs that test for product safety, it may also have to delay the start of production, which in turn may make completing an order on time. In addition, factories must wait

to ship finished garments until the Quality Assurance team has completed its final checks, so if the team is not immediately available, shipments may be delayed. **Second**, changes to production orders—ranging from alterations to the design of a garment to the way garments are packaged or shipped—can be difficult for factories to manage when they occur after production has begun. Significant changes to the desired quantity of garments may also be challenging to handle if they occur with little or no advance warning. **Third**, the use of flow production as well as the seasonal nature of the garment industry can lead to a sub-optimal utilization of some factories' production capacity. In flow production, an order is manufactured in batches staggered over a period of time. During peak seasons or flows, some factories may have more production than they can handle, while during low seasons or flows, they may not have enough. This variation in the production cycle can make it challenging for factories to maintain a stable level of working hours.





3. Managing conflicting priorities

Managers acknowledge the potential for different departments in the organisation to put responsible purchasing under pressure and give purchasers the ability to prioritise in line with the overall objectives of responsibility.

What the best are trying to achieve

- To ensure that progress in implementing better sourcing practices is not jeopardised by other pressures and that their collective actions are consistent in terms of their impact on the supply chain and the standards they aspire to achieve.

Why our findings indicate this is important

- Procurement resources are spread thinly and, with limited capacity, operational issues will prevail. Despite good intentions at an executive level necessary change will not be implemented.
- Conflicting priorities or the disjointed actions and communication of those who are managing the supply chain impair its performance significantly. This is particularly acute when sourcing from low-cost countries where unclear communication can result in heightened confusion due to language and cross-cultural issues.

- Suppliers have to respond to demand patterns that are more unstable and more difficult to predict than they actually are.
- Conflicting priorities put the most vulnerable external supply chain resources at greater risk.

What acting responsibly delivers

- Clarity about standards expected in the supply chain, enabled by purchasing practices, will lead to:
- Better customer service. Suppliers have a greater opportunity to plan and match capacity and resources to support demand. Suppliers can plan with confidence knowing that the purchasing company will not change its mind or demand conflicting deliverables.
- A more stable supply chain workforce reducing the need to employ short term contract or temporary labour that is potentially less skilled and more vulnerable to exploitation.

What characterises the most successful

- The standards expected in the supply chain and the method of working with suppliers to achieve these standards, are agreed with suppliers, and shared cross-functionally.
- To achieve social, labour and environmental standards expected in the supply chain, measurement and reward systems are aligned cross-functionally to help eliminate conflicting behaviours. For example, the purchasing company has a good track record of sticking to an agreed critical path.
- Lead times and delivery dates are agreed with the supplier, taking into account the need to achieve social, labour and environmental standards.
- Risk and vulnerability impact assessments are used to help improve decision-making and to mitigate the negative consequences arising from priority conflicts internal to the buying organisation.
- The purchasing company learns from the analysis of root cause issues if conflicts do occur.



Case study 5

External supply chain problems often arise from within the buying organisation: Insight Investment/Acona Research Finding “Buying Your Way into Trouble”⁹

Many companies report that they find critical path management difficult. Although this varies between sectors, it seems fairly typical that slippages, particularly in the early stages of the process, lead to orders being placed late. Since final delivery dates can rarely be moved, this results in the supplier's production time being dramatically squeezed. This situation can lead to suppliers hiring in short-term labour, working excessive hours, enforcing mandatory overtime and/or outsourcing. All of these practices can reduce ethical and quality standards and increase risk to the retailer. This research has revealed a number of factors that lead to late order placement and late production;

- **Inefficient decision-making:** getting internal sign-off for buying decisions can be a lengthy procedure particularly when many individuals and/or committees are involved. Key individuals often travel extensively, and if a decision slips by a few days, it may then be weeks before the responsible person is back in the UK. This can be especially difficult where creative design decisions are involved and can be further exacerbated by new and inexperienced buyers. The problems are often then repeated with decisions regarding packaging design.
- **Holding back decisions:** buyers often deliberately defer a decision until the last possible minute in order to understand better what their competitors might do and to reflect exactly current consumer demands, either in terms of volume or product specification. This manifests as a constant drive for “perfection.” Participants quote many examples of final samples of products being subject to revisions, even after production is underway or (in one case) entirely complete.
- **Focusing on only certain dates in the critical path:** some of the deadlines in the critical path are truly immovable – typically the shipping date for overseas products and the instore launch. Others are typically seen as internal milestones that can be safely disregarded. This can lead to a compression of the final

stages of the critical path. The extension of critical paths, which seems to be increasingly common, may compound this effect. Retailers report starting range reviews fifteen months or more before the product is due in store, perhaps leading to a perception that there is plenty of time to spare, and consequent slippage in the early stages of the process.

- **Poor communication between buyers and suppliers:** accurately communicating a precise product specification can be challenging. This is particularly so in the case of 25 fashion items and clothing, where the design needs to be followed exactly and when the designer may change their mind during the communication process. The desire to say “yes” means that suppliers often do not ask for the clarification they need. The result is often that a very high number of samples are produced before the final product is agreed. These problems can be acute in countries such as China, where it is culturally inappropriate to refuse a request from a customer, but the agreement that Western buyers think they have secured may be impossible to achieve.
- **Poor information sharing about the critical path:** most companies attempt to share some information about the critical path with suppliers, but this is often fairly rudimentary, thus making it difficult for the supplier to plan production. Sharing this information in a way that is useful for factory managers in other cultures is a further challenge.
- **Lack of trust between buyers and suppliers:** the greater distance between buyers and suppliers seems to lead to deteriorating levels of trust between them. One example quoted was that overseas suppliers are reluctant to order components until they have a formal order from the buyer. In contrast, buyers explained that tried and tested local suppliers may take a risk and start preparing for production if informally told that they will get the order, thus giving them more time.

⁹[http://www.acona.com/rogaland/stavanger/AconaWCM.nsf/7387F0C6E4D46E95C1257295006E0384/\\$FILE/Buying+your+way+into+trouble.pdf](http://www.acona.com/rogaland/stavanger/AconaWCM.nsf/7387F0C6E4D46E95C1257295006E0384/$FILE/Buying+your+way+into+trouble.pdf)

¹⁰<http://www.osat.umich.edu/research/industry/OEM.doc>; OEM Parts Purchasing: Shifting Strategies; The Office for the Study of Automotive Transportation, University of Michigan Transportation Research Institute UMTRI 00-48; Michael S. Flynn, Kara F. Alkire, David Graham January, 2001.

¹¹Bernie van Niekerk in “How one procurement manager's vision shook the auto-industry”, *Smart Procurement*.

Case study 6

General Motor's (GM) combative approach to cut costs with its suppliers resulted in long-term detriment to GM's supplier relationships.

GM traditionally used multiple vendors for the same component and had been reluctant to offer long-term contracts. GM's poor financial performance in the early 1990s led to a draconian series of cost-cutting measures spearheaded by purchasing czar José Ignacio López. GM adopted a notoriously combative approach with its suppliers, demanding double-digit price reductions in many instances. It also broke the tradition of renewing one-year contracts with long-term vendors, instead often awarding the business to the lowest bidder. On several occasions, it is alleged, after a supplier helped GM develop a new part – while absorbing part of the development cost – GM then divulged the proprietary designs to

competitors, searching for the best production prices. In the short-term, GM did achieve significant savings in annual materials, but it is widely acknowledged that this was at the expense of GM's long-term supplier relationships.¹⁰ “On the one hand, Mr López was an excellent example of the massive difference that procurement can make to the organisation. He came to GM at just the right time. It was rumoured that at one point in 1991 GM came within 16 hours of not meeting its payroll! ... On the other hand he is also credited with potentially causing irreparable harm to the long-term supplier relationships that are key to GM's future competitiveness.”¹¹



4. Thinking and acting beyond short-term horizons

Managers and procurement professionals should set long-term targets that reflect the values of the organisation.

¹²Awareness and management of the wider supply market, including potential suppliers and substitutes

What the best are trying to achieve

- To ensure there is a clear framework for each expenditure area within which the best sourcing solutions can be developed to address business priorities now and in the future.
- To consider thoroughly and to embed social, labour and environmental performance requirements and to chart a direction over time that has the support of the business as a whole.

Why our findings indicate this is important

- The implementation of more responsible sourcing practices requires concerted action over a long period.
- With only short-term horizons, buyers may focus on immediate deliverables (cost, inventory, speed of response) at the expense of more strategic objectives, such as innovation, that support the organisation's medium and longer-term goals.
- A longer perspective will allow other stakeholders and suppliers to shape events and co-ordinate their own actions in support of them. This will lead to better and more lasting results.

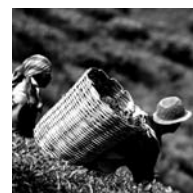
- Unplanned actions create risk, because others in the supply chain are not able to anticipate or plan for their consequences. This particularly affects the most vulnerable resources like labour where short-term marketing promotions can increase the use of casual workers who are not properly protected by employment contracts.
- Buyers need to act consistently if they are to effect change.
- Without context, short-term tactical actions damage trust and confidence.

What acting responsibly delivers

- More considered and consistent actions will deliver more lasting results.
- Sourcing strategies will benefit from the consideration and input of others.
- Better co-ordination will result in less waste and better performance from a more efficient supply chain.
- Increased supplier involvement and dialogue will create an opportunity to capture extra value and supply chain innovation that otherwise might be lost.

What the most successful demonstrate

- Sourcing strategies exist for key expenditure areas.
- Independent scrutiny and endorsement of sourcing strategies to help build trust and confidence.
- Supplier relationship and market management¹² practices do not exist separately and are linked to the future objectives of the sourcing strategy.
- Strong team and cross functional working.
- Strong connectivity between internal and external relationships.
- Good communication of supply chain performance against the desired social, labour and environmental standards and problem issues, to facilitate collaborative problem solving.
- Periodic external and independent periodic reviews of sourcing strategy effectiveness.



Case Study 7

L'Oréal's purchasers are responsible for working with suppliers to ensure suppliers meet responsible trade standards, improve working conditions and share information so that suppliers receive consistent messages from L'Oréal staff.

Sourcing the raw materials sourcing for L'Oréal to manufacture and sell 4.5 billion units under 19 brands valued at 15.8 billion Euros per year is challenging. L'Oréal has been working to make the purchasing of raw materials and packaging for use in its 40 international factories more consistent. Social and environmental responsibilities have been integrated into L'Oréal's responsible sourcing principles in recognition of value creation opportunities as well as the need to manage risk.

All suppliers are assessed against the same Key Performance Indicators, including social responsibility, in recognition that the choice of suppliers and how procurement is undertaken is L'Oréal's responsibility. L'Oréal has followed the same step-by-step process with all its suppliers since 2002. This is as follows:

- An ethical commitment letter is signed by the supplier
- A "semi-announced" audit of working conditions for the supplier site, paid for by L'Oréal. The supplier is notified of a 30-day window in which an audit will occur. The same audit report and corrective action plan is sent to the supplier and to L'Oréal to form the basis of a discussion.
- A corrective action plan is developed and responsibility for following this up lies with the supplier, supported by the L'Oréal purchaser, recognising that there might be an inter-relationship between L'Oréal's orders (as well as other buyers) and working conditions at the supplier site.

These three documents are shared on an internal extranet platform so that the L'Oréal purchasers, factory managers, and technical team all have access to the same information and can reinforce the same message when discussing issues with the supplier. L'Oréal produced 94 % of its finished goods using local plants and

local distribution warehouses. All have been audited, wherever located, with the same process so that the L'Oréal team can share their own experience of being audited and resulting improvements shared with suppliers.

After the audit L'Oréal commits to the following:

- to continue sourcing from the supplier (in recognition that honesty is essential to solving issues, and also, that de-listing does not help workers.) except if there is non collaboration by the supplier
- a follow-up audit undertaken at the supplier's expense (recognising shared responsibility of improving working practices and to encourage improvements to be put in place).

Purchasers at L'Oréal are seen as the key point of contact for the supplier and are responsible for working with the supplier to implement the corrective action plan. L'Oréal recognises that confused and mixed messages which drive "falsification" by suppliers are counter-productive. Where an audit uncovers a major problem, the purchaser has the authorisation from L'Oréal to stop sourcing the product until the issue is resolved with the supplier – even if this means L'Oréal may go short of product, until an issue is resolved. This is to underline to the supplier how serious L'Oréal views good social compliance.

L'Oréal sees the inclusion of social responsibility within the role of purchasers as a way of increasing the job satisfaction of their purchasers. To support the buyer and underline the importance of this area, training materials are being developed and L'Oréal has stated it is a disciplinary offence for a buyer to purposefully avoid addressing problematic working conditions or to present a false image to L'Oréal about a supplier.

¹³Soil Association Report
www.soilassociation.org

¹⁴Farmer number 26,
http://www.competition-commission.org.uk/inquiries/ref2006/grocery/tbird_party_submissions_farmers.htm

Case study 8

Short term actions can potentially undermine long-term strategic objectives and damage trust and relationships in the supply chain^{13 14}

An organic pig farmer has put in an anonymous submission to the Competition Commission concerning Tesco's price-squeezing of bacon he was supplying via Helen Browning's Eastbrook Farm brand. Having converted to organic production to supply Tesco through Eastbrook, six months into the arrangement, the farmer found "everything had changed." He was faced with two options: either accepting a reduction in the price by almost half, or accepting the same price for a small percentage of his stock and marketing the remaining pigs elsewhere. The farmer lays the blame firmly at the supermarket giant's door, which suddenly cut back on UK-reared organic bacon, whilst increasing its uptake of cheaper imported German organic bacon, which does not meet the same stringent criteria as the UK. Tesco offered lower prices and volumes to Eastbrook, which had no choice but to pass these on to its suppliers.

the Eastbrook's owner and Soil Association Food & Farming Director, Helen Browning was asked by Farming Today, whether she'd been "naïve"? "Perhaps," she responded, but she pointed out that she had acted in good faith based on an agreement with Tesco to supply a certain volume for a certain period of time and understood that "Tesco had been clear that they wanted to build a UK foundation [for their organic bacon supply]." A change of buyer due to illness appears to have been critical to the change in the arrangement. An arrangement that, as is common with all farmer/producer deals with the major supermarkets, did not exist in the form of a written contract. "It is extremely unusual to get a written contract," commented Helen Browning. "Supermarkets tend to push the risks back down the supply-chain. It is a lesson in the politics of power, of the ability of things to go wrong, and the need for the whole supply chain to have constructive and risk-sharing agreements."



5. Managing relationships in the supply chain

Procurement officials are encouraged to stay with their suppliers and to build secure relationships that offer a win-win to both buyer and supplier.

What the best are trying to achieve

- To recognise and value relationships.
- To manage them individually and collectively over time to maximise their contribution to the organisation.
- To ensure that where the relationship is between other parties in the supply chain insist on good practice to the extent where possible.

Why our findings indicate this is important

- Suppliers are part of the supply chain network: their outputs and how they interact with others is crucial to the success of the supply chain as a whole.
- Well-managed relationships significantly reduce risk.
- Supplier confidence, co-ordination and trust will be damaged if relationships are not managed effectively. Without trust, social, labour and environmental considerations are unlikely to have credibility.
- Access to market knowledge, learning and innovation may be lost.
- Poor relationship-management practices across the supply chain impede the flow of information, decrease transparency and limit the influence of the buying organisation.

- Risk increases if the commercial relationship between organisations and between an organisation and its employees is not expressed clearly in writing. It makes it more likely that the weaker party's interest will not be protected and that exploitation will occur. The opportunity for the exploitation of the most vulnerable relationship party is also significantly increased.

What acting responsibly delivers

- More intimate relationships deliver lower costs and better supply chain performance.
- Well-managed relationships strengthen the flow of information and knowledge and become a source of innovation.
- Suppliers are more likely to act as "ambassadors" of good practice on the buyer's behalf within the supply chain, thereby increasing the buyer's reach and potential impact.
- Skills and knowledge are more likely to be transferred between the buyer and the seller improving productivity, if relationships are well-founded.
- Compliance and control costs will fall by winning "hearts and minds" and building a stronger association between the seller and the buyer.
- The level of exposure and risk to vulnerable resources will be reduced.

demonstrate

- Relationship management frameworks that bring together all internal stakeholders so that the buying organisation speaks and acts "with a single voice".
- Relationships segmented by their importance so that they are managed consistently with the right level of resource and seniority.
- Co-operative working to achieve joint improvement targets, building trust and confidence through actions.
- Significant improvements at supplier's sites are achieved within a reasonable timeframe.
- Suppliers are encouraged to identify solutions with local stakeholders to meet standards in a locally appropriate and sustainable manner.
- Linking of sourcing strategies, supplier relationship management and supplier development to ensure actions are consistent and directed towards delivering longer term objectives. Training on standards is offered to suppliers as appropriate.

What the most successful



¹⁵www.flamingoboldings.com

¹⁶http://www.sabmiller.com/sabmiller.com/en_gby/Our+responsibility/Reports/Sustainable+Development+Report+2007.htm

Case study 9

Flamingo Holdings, through its Homegrown subsidiary in Kenya, is a major supplier of fruit and fresh flowers to UK high street retailers. As a tier 1 supplier, based in the UK, it is well positioned to implement high standards across the wider supply chain on behalf of UK buyers¹⁵

The social responsibility policy of Homegrown is central to the workings of the company, and is in robust shape, as witnessed by Diana Auret, who has been involved with social audits on the company's farms. Diana Auret, Social Auditor: "I am impressed with all of Homegrown's units because management has understood the value of having their workers as partners in the whole process

towards complying with the principles. In other words, worker's rights have become a key issue for them as have other work-related issues. There is also a feeling that this relationship is two way – that management is open, not only to complaints but to suggestions on how things can actually be done in a simpler manner or more efficiently".

Case study 10

The Power of 'Win-Win' – SAB Building Supplier Capability in Africa, SAB Miller Sustainable Development Report 2007¹⁶

One of SAB Miller's key focus areas in their supply chain is working with farmers to improve the quality of raw materials and improve their well-being. They won a major award for their project working with 2,000 small-scale and commercial sorghum farmers in Zambia to provide raw materials for Eagle, a quality, affordable beer. Begun in Uganda, this has been a successful initiative, which has led to the project being extended to their operations in Zimbabwe and

Tanzania. The relationship with the sorghum farmers has led to other sustainable development benefits. Uganda led HIV/Aids peer training for the farmers, with NGO support, has been piloted in the west of the country. This is due to be extended to cover 17 other districts in the core sorghum-growing areas. This is helping to protect the indigenous workforce and its future economic productivity.



6. Responsible use of power in the supply

Good procurement professionals are aware of the power they exercise and use it responsibly to avoid abuses in the supply chain.

What the best are trying to achieve

- To recognise that exercising power can have positive as well as negative consequences.
- To make sure that power is exercised responsibly and that all reasonable steps are taken to identify and enhance social, economic and environmental performance in the supply chain that might be vulnerable to its effects.

Why our findings indicate this is important

- Use of explicit or implicit power can result from “top down” pressure, the effects of which can be transmitted through the supply chain to other parties.
- Use of power in asymmetric situations creates vulnerability and the risk of exploitation. This exploitation can have social, economic and environmental consequences.
- Governance in this area is limited and the effects are complex and often manifest themselves elsewhere in the supply chain.
- The consequences are not necessarily clear to the buyer.

- The use of power influences the relationships between organisations and potentially between an organisation and its employees and farmers.
- The use of power is a widely used technique, underpinning many buying strategies.
- The irresponsible use of power or its effects elsewhere in the supply chain, may not be mitigated by standard methods of protection, e.g. contracts or compliance with standards and legal or regulatory frameworks.

What acting responsibly delivers

- Reduction in risk by better management and awareness of the negative consequence of power and its effect on asymmetric relationships.
- Better protection of vulnerable resources, particularly those most at risk from exploitation by those with most power.
- The greater use of alternative and perhaps more innovative influencing strategies.
- Reduced risk of quality or supply disruption.
- Less chance of legal or regulatory intervention.
- Better supplier relationships.

What the most successful demonstrate

- Effective oversight and governance of sourcing strategies and supply chains.
- An understanding of how power and influence are being used.
- An understanding of the end-to-end supply chain and points of vulnerability.
- Using power to achieve social, labour and environmental standards, through good supplier relationships.
- Effective supply chain feedback, control and audit frameworks to assess the impact of buying decisions, to initiate new ways of working and to learn from non-compliant events. Specific projects are set up to deal with intractable problems.
- Strong risk management practices.



Case study 11

Alfa Laval, being a significant customer of its suppliers, initiated improvements in working conditions at suppliers with hazardous processes and has supported capital improvements with a loan.¹⁷

¹⁷<http://www.alfalaval.com/> - http://www.alfalaval.com/digitalassets/2/file44529_0_BP_Summary_Progress_Report_2006.pdf

Alfa Laval provides equipment, systems and services to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals for customers in more than 80 countries. Alfa Laval aims to be a major customer, representing 10–20% of the supplier's turnover. Alfa Laval has been moving manufacturing and component sourcing to countries with low labour costs over the last few years with an emphasis on India and China. Alfa Laval's purchasing management in India have developed a method to help suppliers to improve their workers' health, safety and working conditions. Alfa Laval has categorised its 500 suppliers in India and focused on effort improving working conditions amongst the 97 suppliers rated as "high risk." These suppliers use inherently dangerous processes and/or have limited

management experience or understanding of how to implement the companies business principles. They needed input and help from Alfa Laval management in order to implement Alfa Laval's business principles.

Several of these suppliers are relatively new companies and Alfa Laval represents their first significant client. The managers of some of the suppliers were eager to learn and improve, and are likely to become leading suppliers.

Alfa Laval's implementation of its business principles process brought the Indian Alfa Laval management's attention to supplier criteria that previously were not rated as highly as price, delivery precision and product quality.

Case study 12

Brakes' comprehensive integration of social responsibility issues into procurement.

Brakes is the leading supplier of chilled, ambient and frozen foods and non-food products to caterers across the UK. Like many other food service companies it sources food from around the world to offer customers a wide range of innovative products and to increase year-round availability. It wanted to engage with its suppliers on social responsibility issues beyond "lip service" that is currently being paid to ethical trading in some sectors, and it also saw the potential for quality and productivity improvements through closer involvement with its suppliers. As a supplier to blue chip companies who require peace of mind it could, with appropriate attention to social responsibility, make this a point of difference.

Brakes has decided to take a two-pronged approach to build up its experience in this area and refine its approach. One approach is to make ethical trading central to Brakes' trading philosophy, which involves building up the expertise of all supplier facing staff on ethical trading so that they take a common approach to interfacing with suppliers on this issue. These employees have been trained to detect ethical issues whilst on site visits and use ethical trading as part of the supplier selection process.

The second approach is to carry out third-party audits on a limited number of "high risk" suppliers based on whether the supplier produces Brakes-label product, their level of turnover with Brakes, ethical profile of the country and the product. A pilot study was carried out in Bangladesh during the summer of 2007 which led to a programme of improvements developed by the commercial team and the supplier working closely with the third-party auditor, Impactt.

Brakes and Impactt identified that improvements could be made to the availability of drinking water and accommodation which is provided to workers at the factory. As a key customer of this company, Brakes' interest in working conditions has stimulated a discussion between the supplier's senior management and factory management. A follow-up visit will take place in April 2008. In the meantime, third-party audits are being carried out on further selected suppliers.

With both approaches, Brakes recognises that as a long-term customer of its suppliers, it has an opportunity to use this relationship to explore, constructively, how to improve working conditions. Brakes is alert to the concern that a superficial approach to asking suppliers to conform to a code of conduct can backfire and actually worsen working conditions. The responsibility for working conditions at supplier sites lies with its suppliers and purchasing relationships can enable or disable good working conditions.



Responsible Procurement Principles

FOR CHIEF EXECUTIVES, CHIEF PURCHASING OFFICERS AND CHIEF FINANCIAL OFFICERS

Principle	Why?
1 Embed responsible procurement statements in senior executive job descriptions and cascade them to direct reports. Include social, labour and environmental practices in competency frameworks and performance reviews.	Responsible procurement practices flow from the top down. Commitment needs to be unambiguous throughout the organisation. These procurement practices should not be compromised in the delivery of other work objectives. Setting personal improvement targets and goals underlines their importance.
2 Adopt a “Balanced Scorecard” approach when setting objectives and rewarding those involved in procurement.	Make sure that the buyers know that they have to deliver across a range of other imperatives as well as cost. Those who influence procurement outcomes indirectly should share complementary objectives. Measure and review progress. Adopt a similar process with external suppliers.

FOR BUYERS AND BUYING ORGANISATIONS

Principle	Why?
3 Make buyers accountable for delivering social, labour and environmental performance/standards alongside other business imperatives. Buyers are responsible for working with suppliers to achieve agreed standards in a manner which is corporately agreed and supports the achievement of expected standards.	Without accountability, confusion and ineffective implementation is likely. Single accountability makes it clear that buyers are responsible for leading the implementation of more responsible practices and for reconciling these with other sourcing priorities. Existing employees and colleagues communicating with the supplier should support the buyer.
4 Build robust sourcing strategies for important category areas, particularly where complex or high-risk supply chains exist.	A sourcing strategy requires cross-functional input and is an opportunity to gain stakeholder support for all the business imperatives it seeks to address. It brings focus to the key priorities and mitigates against short-term tactical action which can often have unexpected negative consequences elsewhere in the supply chain.
5 Subject sourcing strategies to independent review.	Sourcing strategies are important for the future success of the organisation and its reputation. Independent challenge and endorsement provide a stronger mandate for change and improve the organisation's accountability for procurement actions.
6 Give suppliers a “voice” within your organisation and listen to what they say. They are part of your strategic thinking.	Suppliers can provide important input to policy development and execution and play a role in the governance of procurement itself. Suppliers are key stakeholders in the organisation itself and their voice and input should be formally sought and acted upon.



Based on our findings we have identified 10 “Responsible Procurement Principles” which, if adopted, will act to accelerate the implementation journey. Unlike the success factors, which set apart the organisation, the ten Procurement Principles are intended for the various individuals who make up the supply chain, including senior management, buyers and suppliers.

FOR SUPPLIERS AND SUPPLY CHAINS		
Principle		Why?
7	Insist on contracts between organisations in the supply chain and between employees, whether formal or casual and the organisation they work for. Include social, labour and environmental standards in all contracts.	Contracts protect and promote the interests of individuals and organisations by creating an agreed basis for trade, clear performance expectations and better communication. Contracts do not have to limit operational flexibility.
8	Identify vulnerable social, economic and environmental points in the supply chain. Implement measures to monitor and protect them.	Unlike risk, which looks at the potential impact on the organisation, vulnerability assessment can be used to look at the potential impact the organisation and its supply chain has on the external world. Make this a formal process and subject it to independent, preferably external scrutiny.
9	Manage relationships professionally.	<p>Customers and suppliers represent the organisation’s primary connection to the external world and though relationships have different characteristics they all need some degree of management attention.</p> <p>Segment relationships and focus more resources and stronger levels of internal co-ordination on the more complex ones. Relationship management is a necessary consequence of doing business and a key part of implementing change that should not be ignored.</p> <p>Suppliers also need to be encouraged to embed the same level of professionalism in their own supplier dealings. Cascade good practice to them.</p>
10	Encourage collective worker representation as a way of protecting individuals from exploitation.	<p>Individual workers are particularly vulnerable to exploitation, especially those who are employed on a temporary or casual basis. Worker representation should be encouraged as responsible good practice.</p> <p>If necessary, take steps to enable individuals to ‘whistle blow’ confidentially when breaches of employment or workplace practices have been observed or experienced. It provides them with a “safety valve of last resort.”</p> <p>If workers are not able to present their priority concerns to the employer, then problematic practices can develop and continue unchecked, resulting in reputational accidents waiting to happen, which will expose buyers and other supply chain partners.</p>



Vocabulary and definition of terms used

¹⁹www.ilo.org

²⁰UK Sustainable Procurement Task Force

Asymmetric relationship

An unequal relationship in terms of scale, dominance of market, particular sector, percentage of turnover or control of access to markets.

Corporate Social Responsibility (CSR)

A private sector policy where the company chooses to address its environmental social and economic impacts. www.csr.gov.uk

International Labour Organisation (ILO)¹⁹

The ILO, founded in 1919, is the specialised United Nations agency which adopts and promotes internationally recognised standards on workers' rights. The ILO's 1998 Declaration on Fundamental Principles and Rights at Work sets out eight core ILO Conventions whose principles are binding on all ILO member states. They cover freedom of association and the right to collective bargaining; the elimination of forced and child labour; and the elimination of discrimination in employment. www.ilo.org

The UK government supports the development of the Ethical Trading Initiative, which focuses on the labour standards, which are based on the ILO core conventions. <http://www.ethicaltrade.org/>

Responsible procurement

Used in this document to describe procurement practices that combine commercial considerations with social, labour and environmental performance.

Risk

Something that will prevent the achievement of a desired result or an objective, a combination of impact and probability.

Risk management

A systematic approach to the assessment and prioritisation of risk and the mitigation of its potential effects.

Supply chain

A network of organisations, people, activities, information and resources involved in moving a product or service in a physical or virtual manner from supplier to customer. Supply chain activities transform raw materials, components, resources, knowledge and intellectual property into a finished product or service to satisfy a customer need.

Vulnerability

A point of weakness: social, economic or environmental resources subject to potential exploitation.

Supplier relationship management (SRM)

A structured process by which external supplier relationships are categorised and managed in order to deliver maximum value. For relationships that are more complex SRM involves extensive internal and external co-ordination.

Sustainable procurement²⁰

A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating benefits, not only to the organisation, but also to society and the economy, whilst minimising damage to the environment.



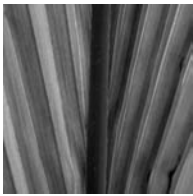
Leadership and accountability

LEADERSHIP AND ACCOUNTABILITY				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To integrate responsible sourcing practices into our mainstream procurement processes as quickly as possible. To work on a priority basis to understand our impact and the impact of those we work with in the supply chain and take action to change and improve where we can do better.”</p>	<ul style="list-style-type: none"> • Strong co-ordination and leadership is needed to implement change since purchasing is a multifunctional process and consideration of social, labour and environmental performance in procurement is challenging, especially in long, complex supply chains. • Social, labour and environmental performance needs to be embedded within the organisations’ core procurement process and not managed as separately, ensuring that those who indirectly affect outcomes, for example product development, logistics, marketing and finance are fully engaged. • Accountability for developing and implementing policies and standards have to be clearly assigned. • Changes to existing working practices must be managed to overcome problems. 	<ul style="list-style-type: none"> • Buyers lead in sourcing responsibly. • Clear accountability helps reconcile differing priorities and fulfil them in sourcing. • Cross functional co-ordination is effective. • Standards are clearly reflected in practices. • Social, labour and environmental standards are core buying issues. • Business and social, labour and environmental performance improves more quickly. • Sending clear and strong messages backed by actions will win support in the buying community 	<ul style="list-style-type: none"> • Executive sponsorship. Visible commitment. • Procurement as a recognised professional discipline. • Resources with the right level of skill and seniority to lead this agenda across the organisation and its supply chains. • Procurement held to account for delivering social, labour and environmental performance improvement in the external supply chain. 	<ul style="list-style-type: none"> • BT • Treatt plc



Knowledge and the consequences of buying actions

KNOWLEDGE AND THE CONSEQUENCES OF BUYING ACTIONS				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To deeply understand the impact of what we do. To use knowledge as a source of competitive advantage and to be alert to events in the supply chain which might indicate a need to improve or that tell us that our standards and aspirations may be at risk.”</p>	<ul style="list-style-type: none"> • The buying organisation may not be aware of the consequences of its sourcing practices. • Traditional management information systems may be inadequate. • The trend towards the transfer of operational management to others (e.g. tier one suppliers, category managers, outsource providers or agents) reduces transparency and distances the buying organisation from the market and its own supply chain. • Simultaneous increases in supply chain complexity magnify risks. • Traditional risk management techniques do not adequately address the social, economic or environmental threats the organisation itself poses through its supply chains. • A lack of knowledge inhibits the organisation's ability to learn and develop better techniques and practices. 	<ul style="list-style-type: none"> • Knowledge and greater awareness <ul style="list-style-type: none"> • reduces operational, financial and reputational risk. • increases the likelihood, scale, impact of cost savings and other supply chain benefits • helps the buying organisation identify and protect vulnerable parts of the supply chain. • benefits all procurement and is a source of competitive advantage. • harnesses purchasers' and colleagues' commitment to responsible purchasing. 	<ul style="list-style-type: none"> • Diverse management of the supply chain by category, product or geography. • Training for employees in supplier facing departments is based on company agreed standards and best practice. • Awareness of the distribution of cost in the supply chain. • Explicit discussion between supplier and buyer on prices and compliance costs. • Feedback, learning and information sharing across the supply chain and with external stakeholders (including NGOs, government and trade unions) is used to revise practices to achieve high standards. • Recognise the role of external stakeholders in achieving desired standards. e.g. ensure that workers at supplier sites are educated about their rights. 	<ul style="list-style-type: none"> • Barclays • Gap • Auditing does not shield buying organisations from reputational damage.



Managing conflicting priorities what the best are trying to achieve

MANAGING CONFLICTING PRIORITIES WHAT THE BEST ARE TRYING TO ACHIEVE				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To ensure that progress implementing better sourcing practices is not jeopardised by other pressures and that our collective actions are consistent in terms of their impact on the supply chain and the standards we aspire to achieve”</p>	<ul style="list-style-type: none">• Procurement resources are scarce and thus operational issues predominate. Despite good intentions at an executive level necessary change will not be implemented.• Conflicting priorities or the disjointed actions and communication of those who are managing the supply chain significantly impair its performance, particularly when sourcing across linguistic and cultural divides.• Suppliers have to respond to changing demand patterns which purchasers could plan better.• Conflicting priorities put the most vulnerable external supply chain resources at greater risk.	<ul style="list-style-type: none">• Clarity of standards expected in supply chain, enabled by purchasing practices mean that:<ul style="list-style-type: none">• Suppliers can plan with confidence that purchasing company will not change orders and thus match capacity and resources to demand.• More stable demand reduces the need for short term contract or temporary labour that is potentially less skilled and more exploitable.	<ul style="list-style-type: none">• Standards and the method of working with suppliers to achieve them, are shared throughout the supply chain.• Measurement and reward systems for achieving standards are consistent to eliminate conflicting actions.• Lead times, pricing, delivery and payment dates are agreed with the supplier allowing for social, labour and environmental needs.• Risk and vulnerability assessments improve decision making and mitigate the negative effects of internal conflicts.• Pro-active learning by analysing root-causes if conflicts do occur.	<ul style="list-style-type: none">• L’Oréal• External Supply Chain Problems Often Arise from Within the Buying Organisation : Insight Investment/Acona Research Finding “Buying Your Way Into Trouble”



Thinking and acting beyond short term horizons

THINKING AND ACTING BEYOND SHORT TERM HORIZONS				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To ensure there is a clear framework for each expenditure area within which the best sourcing solutions can be developed to address business priorities now and in the future. To thoroughly consider and embed social, labour and environmental performance requirements and chart a direction over time that has the support of the business as a whole.”</p>	<ul style="list-style-type: none"> Implementing responsible sourcing practices requires concerted, consistent action over a long period. With only short term horizons, buyers may focus on immediate deliverables (cost, inventory, speed of response) at the expense of strategic objectives, like innovation that support the organisation's longer term goals. A longer perspective allows other stakeholders and suppliers to co-ordinate their actions accordingly. This creates more lasting and better results e.g. suppliers can make investments knowing that they can recoup their funds through ongoing sales over a stated time period. Sudden actions create risk, because others in the supply chain cannot anticipate them. This affects vulnerable resources, such as labour, as sudden increases in demand require casual workers unprotected by contracts. This damages trust and confidence. 	<ul style="list-style-type: none"> More considered and consistent actions will deliver more lasting results. Sourcing strategies will benefit from the consideration and input of others. Better co-ordination will result in less waste and better performance from a more efficient supply chain. Increased supplier involvement and dialogue will create an opportunity to capture extra value and supply chain innovation that otherwise might be lost. 	<ul style="list-style-type: none"> Sourcing strategies exist for key expenditure areas. There is independent scrutiny and endorsement of sourcing strategies and their effectiveness to help build trust and confidence. Supplier relationship need to be linked to the future objectives of the sourcing strategy. Strong connectivity between internal and external relationships. Communicate supply chain performance against the desired social, labour and environmental standards and problem issues, to facilitate collaborative problem solving. 	<ul style="list-style-type: none"> Organic pig supplier to Tesco General Motors



Managing relationships in the supply chain

MANAGING RELATIONSHIPS IN THE SUPPLY CHAIN				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To recognise and value relationships. To manage them individually and collectively over time to maximise their contribution to our organisation. To ensure that where the relationship is between others in the supply chain we influence good practice to the extent we possibly can.”</p>	<ul style="list-style-type: none"> • Suppliers’ outputs and relations with others are crucial to the success of the whole supply chain. Select appropriate size and capability of suppliers to meet business needs. Inappropriate supplier selection or significant changes to order may result in unreasonable pressure on workers to meet higher demands than envisioned. • Supplier confidence, co-ordination and trust will be damaged if relationships are not managed effectively, meaning social, labour and environmental standards are less likely to be met. • Access to market knowledge, learning and innovation may be lost. • Poor relationship management practices across the supply chain impede the flow of information and limit the influence of the buyer. • A lack of clear contractual agreements between organisations or between an organisation and its employees increases the risk of exploitation of the weakest party. 	<ul style="list-style-type: none"> • Closer relationships deliver lower costs and better supply chain performance. • Well managed relationships strengthen the flow of information and knowledge. This fosters innovation and improves productivity. • Suppliers are more likely to repeat good practice on the buyer’s behalf within the supply chain, thereby increasing the buyer’s reach and impact. • The level of exposure and risk to vulnerable resources will be reduced. 	<ul style="list-style-type: none"> • Relationship management frameworks that co-ordinate the actions, messages and targets of all internal stakeholders and build trust. • Relationships managed consistently at the right level of seniority. • Significant improvements at supplier’s sites are achieved within a reasonable period. • Suppliers encouraged to work with local stakeholders to meet standards in a locally appropriate and sustainable manner. • Linking sourcing strategies, supplier relationship management and supplier development to ensure those actions are directed towards delivering longer term objectives. Training on standards is offered to suppliers as appropriate. 	<ul style="list-style-type: none"> • Flamingo • SAB Miller



Responsible use of power in the supply chain

RESPONSIBLE USE OF POWER IN THE SUPPLY CHAIN				
Success factors for managing responsible purchasing	Why our findings indicate this is important	What acting responsibly delivers	Effect of responsible purchasing practices	Case studies and relevant references
<p>What the best are trying to achieve</p> <p>“To recognise that exercising power can have positive as well as negative consequences. To make sure that power is exercised responsibly and that all reasonable steps are taken to identify and enhance social, economic and environmental performance in the supply chain that might be vulnerable to its effects.”</p>	<ul style="list-style-type: none"> • Use of power in asymmetric situations creates vulnerability and the risk of exploitation. • Governance in this area is limited and the effects are complex and often manifest themselves elsewhere in the supply chain so the consequences are not necessarily clear to the buyer. • It is a widely used technique underpinning many buying strategies. • Protection from the irresponsible use of power or its effects elsewhere in the supply chain may not be mitigated by standard methods of protection, e.g. contracts or compliance with standards, legal or regulatory frameworks. 	<ul style="list-style-type: none"> • Reducing risk by better management and awareness of the negative effects of power in asymmetrical relationships. • Better protection of vulnerable resources. • Greater use of other, more innovative influencing strategies. • Reduced risk of quality or supply disruption. • Less chance of legal or regulatory intervention. • Better supplier relationships 	<ul style="list-style-type: none"> • Effective governance of sourcing strategies and supply chains. Understanding of how power is used. • Understanding of the whole supply chain and points of vulnerability. • Using power to achieve social, labour and environmental standards, through good relationships. • Effective supply chain feedback, control and audit frameworks to assess the impact of practices, initiate new ways of working and learn from conflict. Specific projects to deal with intractable problems. • Strong risk management practices. 	<ul style="list-style-type: none"> • Brakes • Alfa Laval • Suppliers invest more in innovation for customers they have a good working relationship with than for major customers which have a lower 'Working Relations Index' score • Competition Commission

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