



Emma Hunter, age 5

15 BUYING RESPONSIBLY

The attention of NGOs and the media means that companies have to match good intentions with deeds when it comes to acting – and buying – responsibly.

Corporate social responsibility, including responsible procurement, is now part of the business mainstream. Corporate words have to be matched by actions as NGOs and the media watch every corporate move. No organization is likely to be perfect, but how it responds to allegations or problems that reach the public domain will direct its course towards either success or a tarnished reputation.



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Corporate social responsibility (CSR) is a goal on most corporate agendas. CSR is *the* socially acceptable way to do business, but many companies are struggling with how to execute efforts cost effectively.

Responsible procurement, buying responsibly, is one of the key activities that companies need to execute in order to achieve their CSR goals. The challenge for many companies is where to begin, as initiatives like these seem overwhelming and resource consuming. However, if a company and its suppliers do not make sufficient progress, the consequences can be significant and include brand damage, financial risk and a reduced market position.

Also, as supply chains have become more global and complex, responsible procurement is becoming even more challenging and difficult. Responsible procurement requires careful planning and effective action not just touchy-feely sound bites.

Another player in forming the behavior of companies is the NGO (non-governmental non-profit organization). NGOs are the social watchdogs that hold corporations accountable for their actions and impose a high standard of responsibility for their public promises. While most collaborate with corporations on a variety of issues, they must remain neutral and objective if they are to correctly judge whether companies are practicing what they preach.

As social issues have increasingly become serious business issues, companies without operative actions behind their CSR statements will find that they are vulnerable – open to attack from NGOs, which hold the power to influence media and create negative press. Also, with the proliferation of the internet, flourishing blogs and social networking, this kind of negative press can reach huge numbers of customers and shareholders instantaneously. Often, it takes many years and a significant investment to recover from these attacks, as the bad press resonates on in the minds of customers. Like a convicted criminal, an organization with a tarnished reputation will always be held to a higher standard. Future expectations will always be overshadowed, since the cynical belief will be that you may not have fully reformed. In the following section, we will examine how

one company, E.ON UK, proactively tackled “responsible buying” before it became a big issue.

Responsible procurement at E.ON UK

E.ON UK has 20,000 employees and is part of the E.ON Group, the world’s largest investor-owned power and gas company, which is headquartered in Germany. E.ON UK was the only E.ON organization to have centralized procurement. Procurement bought goods and services to keep the business running on a day-to-day basis and for the future. In 2007, E.ON UK had 5,500 active suppliers with a spend of over £1 billion. What steps did E.ON take to embed responsible procurement in its supply chain?

Assessing the risk and creating urgency

Social responsibility was one of E.ON’s five core values. Since third-party spend* was a significant proportion of E.ON UK’s operational costs, it was of utmost importance to ensure that not only its suppliers but also its suppliers’ suppliers were adhering to socially responsible business practices. Prior to 2007, E.ON UK did not have a complete method to monitor whether its third-party suppliers were behaving in a socially responsible way. Although the initial procurement process did request certain relevant information, there was no standardized approach that was applied across all third-party supplier relationships.

This lack of consistency laid E.ON UK open to the possibility of exposure, particularly in terms of brand risk through potential negative publicity. Also, there was no agreed process for responding to suppliers that were acting in a socially irresponsible manner, particularly where tough market conditions (such as monopolies or duopolies) existed. A live threat that created further urgency was a website called E.Off, launched by Greenpeace and Friends of the Earth. With the knowledge that further attacks could gravely risk the company’s reputation, brand and financial position, socially responsible procurement became an even more critical mission. All of these issues were especially sensitive as the company was about to begin rebranding its energy products from Powergen to E.ON UK.

* Money spent on the company’s behalf by first- and second-tier suppliers.

Making it happen with real deliverables

Getting started and creating something executable was vital. E.ON UK decided it would be best to enlist the help of outside facilitators and focus a core group of people to make this happen. According to supply chain director Colin Davis:

The volume of output generated during the Booster week was totally staggering – who would have known that a team of eight people could deliver so much? We took a week out of our busy schedules to give ourselves the space and time together to do this justice, creating a step change in delivering a key 2006 procurement commitment. A feat that, if done while trying to do our daily jobs, would have taken years!*

Finding the activist inside for the mission

E.ON UK realized that procurement not only had an opportunity to make a difference but also an obligation to act in a socially responsible way. The first step was to find a dedicated individual who could take on the “responsible procurement” mission. Kayzi Ambridge was appointed to the role with the charter to drive the initiative through E.ON UK’s third-party relationships. She was also tasked to work with the wider team and to collaborate with colleagues in the other market units to align approaches to create some form of responsible procurement across the function.

In her new role, Kayzi viewed herself as E.ON UK’s internal “activist.” Her unflagging energy and optimism for responsible procurement were compelling and contagious. Pushing through the agreed deliverables from the Booster week, she knew she would have to appeal to people’s emotional sense of what was right and best for the business. This would be the most effective way to organically grow commitment to CSR and responsible procurement principles.

Defining direct and clear tactics

Kayzi’s efforts led to E.ON UK adopting a practical, all-encompassing approach to the implementation of responsible procurement. The program encompassed three key elements:

1. Embedding responsible practices in the way procurement was conducted.

* Booster programs are one-week action learning, innovation programs held at IMD.

2. Creating value through targeted strategic relationships with key stakeholders within the business.
3. Effectively using communication channels to embed responsible practices and raise the credibility of E.ON UK’s expertise.

A toolbox for creating sustainability

Sustainability in the supply chain was a key consideration throughout the entire procurement process. A responsible procurement policy was implemented successfully by using a number of tools to support its delivery. These included:

- An E.ON-wide Supplier Code of Conduct.*
- A social responsibility risk analysis tool – the Supplier Spectrum.
- A defined program of activities to be carried out depending on the categorization received in the supplier spectrum.
- Self-assessment survey.
- Long and short audit documentation with methods of use.

The value of support

Two ways that Kayzi fortified her efforts and energy were making sure that she had strong internal and external support networks. While Kayzi received unconditional management support, she found that her external network also provided a valuable source of inspiration and support:

My role at E.ON is unique and the internal support has been complete. However, I have greatly benefited from networking and gaining the support of an external network with individuals in similar roles and with shared interests and passions – those activists working for NGOs. The encouragement, enthusiasm, exchange of ideas and positive feedback has been incredibly nurturing and motivating.

Getting responsible procurement seen and heard

E.ON’s responsible procurement initiative has delivered the following key benefits to the company:

* See www.eon-uk.com/about/ProcurementPolicyDoc/E.ON_Responsible_Procurement_Policy_2007-03-14.pdf

Internal messaging and visibility

Early in 2007, an article on responsible procurement, written by the procurement board at E.ON AG (HQ), was included in *E.ON World*, E.ON's global employee newsletter. Kayzi's boss, Joanna Kinson, delivery improvement manager business services, and Colin Davis, director of supply chain for E.ON UK, were very persuasive and successful in elevating the urgency and importance of responsible procurement to their corporate counterparts. The resulting article was circulated to all 70,000 staff worldwide.

E.ON UK continued its efforts to raise internal visibility. In September 2007, the responsible procurement stand at the E.ON UK Changing Energy Festival exposed procurement's new brand strategy and positioning to 2,000 managers. The feedback was positive and reinforced the fact that Kayzi and the rest of the team's efforts were not going unnoticed or without applause.

Another huge milestone was the new and redesigned procurement section of E.ON UK's website. Its transformation, made possible by a collective effort from the media team, software developers and procurement staff, offered an easy-to-use interface for suppliers to access a wealth of information.

Awards, recognition and photo ops

E.ON UK's procurement team was not used to being in the limelight. Prior to the responsible procurement initiative, the procurement organization had never been quoted or featured in any industry or trade magazines. However, commitment to being a world-class procurement team and the responsible procurement initiative changed that, and by late 2007, the group had been featured multiple times in industry magazines. In 2007, E.ON UK won in two categories of the annual CIPS* Supply Management Awards – Overall Winner and Best People Development Initiative.

All these actions not only generated internal PR around the initiative but also raised motivation within the team to continue its efforts.

Maintaining the momentum

By staying focused on its mission and making its plan clear and concise, E.ON UK was able to turn its intention into action.

* Chartered Institute of Purchasing and Supply – www.cips.org

Embedding sustainability in a supply base of 5,000 companies involved hard work. This standard baseline required a myriad of activities and E.ON UK knew this would become the norm among world-class companies. The procurement team was committed to going above and beyond to demonstrate the additional value of sourcing responsibly.

Addressing hot topics

E.ON knew that sourcing from low cost countries, China in particular, was becoming an escalated issue for E.ON UK's retail business. It was important that transparency and responsible procurement happened both locally, where it was easier to establish and control, and in all global relationships. Tackling responsible procurement with suppliers in China was an ideal opportunity to create a leverageable model that would contribute to the organization's goal of a truly sustainable supply chain. It also reinforced the message that procurement wasn't just about saving money, but focused on the significant value delivered to the overall business.

Reaping additional benefits

This initiative and its success made a big impact on the procurement team who had been used to keeping suppliers at arm's length and measuring value-add solely on cost. This new approach, along with setting up the supply chain in a different manner, resulted in more time being spent with suppliers and an increased knowledge of the issues they faced and of the supply market. Basically, E.ON had "walked" the supply chain talk and as a result had a better understanding of the nuances of the process and more empathy with the individuals involved.

Also, since CSR is a hot topic and gets lots of press, morale increased and employees were completely vested in the success of the mission. As a result, it became easier to attract and hire excellent people. As well, the procurement group was earning a reputation for helping manage brand risk and introducing innovative techniques to drive change.

When problems arise

When questions are raised, a transparent and upfront response is the only strategy. Better to try to fix the problem than do nothing at all. Oxfam GB, a leading international NGO with a strong reputation for delivery of aid and development work, ran into problems during its Make Poverty History

campaign. White plastic bracelets were sold to support this campaign and they were fantastically popular until an allegation was made that the bracelets were being sourced and manufactured using slave labor. Oxfam reacted immediately, investigating the claims, and set about creating a responsible procurement initiative. The project enabled Oxfam to communicate good ethical and environmental purchasing practices that supported its missions and maintained the confidence of its large supporter and stakeholder base. The success of the project spurred Oxfam to submit an entry for the European Procurement Leader Awards* in 2008.

Getting started is the only way to make progress

Ultimately, there are no objective criteria to judge a company's responsible behavior. Therefore, customers judge a company's efforts and behavior using their worldviews and opinions about fairness, progress and justice. Many companies fall into the trap of assuming that the goal is to "fix" social problems and that change and improvement can only happen by extreme effort and cost. Or if an effort is made, they assume it must be a Herculean one to be successful. Typically, companies are judged well if they are seen to be making some progress rather than doing nothing. How?

* Developed to recognize and reward excellence, innovation and leadership across the European procurement and supply chain community. The awards aim to attract procurement leaders and future leaders from Europe's largest and most proactive organizations.

Even with little budget, resources and time, by using techniques of responsible procurement, there are effective steps that can be taken to make progress and address many social issues. One common mistake companies make is to use an inefficient approach when designing their responsible procurement program. Inventing processes has been shown to cost much more than finding an existing solution. An alternative for fast, innovative and cheap solutions can be found using knowledge brokering.* Exchanging ideas can unlock innovation by capturing insights from others and gaining their experience – in effect leveraging from others' investment. Many times, the insight from collective intelligence may come from places you would not typically consider. What is the value and benefit? Quite a bit! Practice studies conducted at MIT show that by using knowledge brokering, many industries have cut development costs by 1/20 and elapsed time by 1/10.

It is possible for almost any company to design a low-cost, effective approach to responsible procurement. As such, there is no excuse for any company to make no effort. When customers judge lack of progress harshly, they are justified in doing so.

* Knowledge brokering uses old ideas as raw materials for new ideas in different contexts.

QUESTIONS TO ASK

Buying responsibly is only one aspect of a good CSR program. There are many others. As you take a look at your company's broader CSR practices, you may want to think about these questions.

- Is your company's brand at risk? Is your industry under scrutiny? Has your organization been attacked by an NGO? What kind of benefits would your organization gain by implementing a socially responsible initiative?
- Is CSR a top priority for your company? Who is responsible – in terms of organization, resources, and so on? Does your organization have existing NGO relationships?
- How will you make your company's CSR program a reality? Is there a budget? If not, or if it's limited, what will you need to do to make your CSR program successful?
- How will your organization identify the right activists to support these efforts? Who would be the most motivated to head such an initiative? Are there other operational processes or efforts that can be modeled?