

# Fill in the blanks on CSR

Many organisations talk about corporate social responsibility but few have put it into practice. Yet getting caught out could be catastrophic

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by Corey Billington, Aileen Ionescu-Somers and Michèle Barnett Berg



ILLUSTRATION: KARINE FAOU

**W**hile corporate social responsibility (CSR) has made it into the business lexicon and on to boardroom agendas, it still remains a challenging task for many organisations to execute successfully. CSR initiatives as they relate to responsible procurement present a challenge to most CPOs as the benefits are often difficult to measure, the problems are extremely complex and the investments are large and unclear.

Responsible procurement covers a broad range including carbon emissions, toxic waste and other environmental concerns, health and safety, and child or even slave labour, to name but a few. Also, in a tough economic climate like this one, responsible procurement becomes even more challenging as budgets and resources get cut and many initiatives lose their priority. It is no surprise, therefore, that many CPOs have elected to avoid the issues.

But often stakeholders expect companies to act on these issues as part of a “brand promise”. Astute CPOs know that, no matter what the state of the economy, they need to be doing something and that failure to do so can result in a high cost and unwelcome exposure. However, acceptance and implementation are very different things and sustained execution is where many companies struggle. The “how to” hurdle gets higher especially when the assumption is made that the only way to do responsible procurement and fulfil CSR initiatives is with a big budget and lots of resources.

In fact, a lot can be done more easily than you might think.

## Fighting for attention

The challenge for most organisations is where to start and overcoming the misconception that the process will be expensive and resource-intensive. In addition, while companies may understand the risks of not implementing responsible

procurement practices that support their CSR strategy, they may not appreciate the potential consequences.

For the companies that have been caught out, the repercussions are evident: brand damage, reduced market position, major costs to repair infractions and a future under the public microscope. Much like a convicted criminal, an organisation with a tarnished reputation will be held to a higher standard, which typically involves significant cost. Social issues have now become business issues; companies without real, operative actions behind their CSR statements are vulnerable to attack from non-governmental organisations (NGOs), which hold the power to influence media and create bad publicity. With the internet, blogs and social networking sites, negative press can be rapidly disseminated to huge numbers of customers and shareholders in a few keystrokes.

Many companies are frustrated because they have made the false assumption that the only way to successfully launch these



**FIGURE 1: THE PAIN POINTS OF MANAGING RESPONSIBLE PROCUREMENT PRACTICES**

ENGAGEMENT/CHANGE/RECOGNITION & REWARD	KNOWLEDGE	RESOURCE LEVERAGE
<ul style="list-style-type: none"> <li>• Middle management buy-in</li> <li>• Short-term mindsets</li> <li>• Difficulties with integration into business model</li> <li>• Organisation silos</li> <li>• Difficulties with making the business case across departments and business units</li> <li>• CSR targets are not integrated within rewards and evaluation systems</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of systematic performance measurement and benchmark</li> <li>• Difficulties with building effective networks to support innovation</li> <li>• Barriers to transforming markets/educating customers</li> <li>• Lack of quantification tools of specific business cases and emerging risks</li> <li>• Lack of adequate key performance indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Poor cost-effectiveness of green procurement</li> <li>• Difficulties with pushing energy/resource savings to the next level</li> <li>• High cost of innovation</li> <li>• Low impact on brand leverage</li> </ul>

programmes is through Herculean effort and cost. In the spring of 2009, 22 global organisations participating in the Forum for Corporate Sustainability Management met at IMD’s business school in Switzerland, and discussed the current challenges and pitfalls of managing their CSR agenda. There was a shared feeling of frustration and hesitation about how to go further with already established strategies and the worry that if they do not show enough immediate results their efforts will be futile.

The managers discussed “pain points” or barriers to sustainability strategies taking hold in companies. *Figure 1* (above) illustrates an application of “pain points” to the area of responsible procurement. But often the companies that have been successful with responsible procurement programmes are the ones that have stopped all the hyperbole and taken concrete action, worrying less about conducting lots of research and focusing more on executable tactics.

In essence, our observation is that with a structured process and some motivated individuals, it is possible to do something worthwhile no matter how small you start. Typically, companies are judged poorly when they aren’t consistent with their stated objectives and “greenwash” issues

and don’t “walk their talk”. Visible effort and progress are early markers of success.

Once you have started there are three ways we propose you organise your methods to create a successful, cost-effective programme.

### Capture

A common mistake that companies make is to use an inefficient approach to designing their CSR activities or spend time and money creating a new process when designing their responsible procurement programmes. Using an existing solution or part of a solution has proven to be much more cost-effective.

Knowledge-brokering – using old ideas as raw materials for new ideas in different contexts – is a way to find fast, innovative and cheap solutions. Great CSR processes can be developed from seeing what others have done and incorporating parts of others’ solutions into your processes. Exchanging ideas can spur innovation by capturing insights from others and gaining their experience; in effect, leveraging others’ investment. Many times, the insight from collective intelligence sometimes comes from places you would not typically consider. Practice studies at MIT, IMD and other universities show that by using knowledge-brokering many industries have cut development costs by over 10 times.

One company that used knowledge-brokering to capture the right ideas to help it start a responsible procurement programme was E.ON UK, which has over 20,000 employees and is part of the E.ON Group. In 2006, E.ON UK was languishing with its CSR efforts. It had no agreed

process for responding to suppliers that were acting in a socially irresponsible manner, a very sensitive issue where tough market conditions (such as monopolies or duopolies) existed. When suddenly faced with a threat from Greenpeace and Friends of the Earth, E.ON UK knew it had to react quickly and effectively or risk further attacks on the company’s reputation, brand and financial position.

Responsible procurement had become mission-critical, especially as the company was about to begin re-branding its energy products from Powergen to E.ON UK. It was decided the fastest way to succeed would be to enlist the help of outside facilitators to help define its goals and to knowledge-broker, because it was likely that someone out there already had the process it was searching for.

The outside facilitators provided a rich global network of partners for E.ON UK to knowledge-broker with and gain insights as how best to launch its responsible procurement initiative. These learnings enabled E.ON UK to develop much more quickly and cheaply its own simple and practical approach for a responsible procurement initiative and to literally “leapfrog” to a new dimension of programme development. This included:

- embedding responsible practices in the way procurement was conducted;
- creating value through targeted strategic relationships with key stakeholders within the business;
- using communication channels effectively to both fortify responsible practices and raise the credibility of E.ON UK’s expertise.

Once the responsible procurement

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**Corey Billington** (*corey.billington@imd.ch*) is professor of operations management and procurement at IMD in Lausanne, Switzerland, where **Aileen Ionescu-Somers** is deputy director of the Forum for Corporate Sustainability Management. **Michèle Barnett Berg** is an IMD research associate based in Hong Kong



## CASE STUDY

### MARKS & SPENCER

Marks & Spencer (M&S) is one of the UK's leading retailers, with more than 21 million people visiting its stores each week. It offers quality and value clothing, home and food products, responsibly sourced from around 2,000 suppliers globally.

The M&S name has also become synonymous with having green credentials as a result of its five-year eco plan – Plan A – which will, among other things, see the company becoming carbon-neutral and sending no waste to landfill by 2012. The company holds its green efforts with conviction and chose to call it Plan A because there will be no Plan B.

M&S has developed a sustainable supply chain by adopting a pragmatic approach. After a top-to-bottom review of its suppliers, it chose to use and support the efforts of the top 10 per cent and disengaged from the bottom 10 per cent.

It then worked with the remaining 80 per cent of its supply base to improve efforts and reach a higher standard of responsible procurement. M&S has effective programmes to measure its supply chains and use of resources and production of carbon. In addition, the retailer's CSR programmes are broad-based and consistently managed.

Knowing that it had to collaborate with and educate its suppliers to reach a new level of results, M&S created a knowledge-sharing platform for its suppliers to exchange and share information. It believes that this shared mindset is the way to do business and makes raising standards a lot easier and more effective.

The retailer understands that policing and monitoring its suppliers is expensive and will result in poor results, frustration and covertness, not to mention extra expense. M&S had continued to receive industry recognition and honours for its dedicated and disciplined work.

policy had been defined, the group created a “toolbox” for creating sustainability that included:

- an E.ON-wide supplier code of conduct;
- a social responsibility risk-analysis tool – the “supplier spectrum” – to effectively manage CSR risk within the supply base;
- a defined programme of activities to be carried out depending on the categorisation received in the supplier spectrum;
- a self-assessment survey for suppliers and E.ON procurement staff;
- long and short supplier audit documentation with methods of use.

### Collaborate

Some of the most effective CSR efforts can come from collaboration with external audiences such as those in the NGO community. For example, The Rainforest Alliance's (RA) work with food supplier Chiquita is indicative that NGOs and companies can work together with impressive results. The RA certification of Chiquita farms spurred a productivity increase of almost 30 per cent and a cost reduction of 12 per cent. Another benefit of this collaboration was that agro-chemical use was greatly reduced and pallet-recycling increased substantially, with resulting savings to the bottom line.

While you may feel that your efforts are being judged, in most cases activists are more than willing to give guidance, training, share research and define expectations and arrange meetings with knowledge-brokers. They gain nothing by tripping up your efforts. Tremendous organisational learning can be gained from meeting your critics face-to-face rather than staying under the radar. Also, these relationships are valuable and create a transparency that is motivating and inspiring for organisations to meet their CSR goals. While working with NGOs is not without risk, hiding and doing nothing is riskier.

### Consistency

The same discipline and focus should be applied to these efforts as to other business initiatives. The biggest mistake a company can make is to broadcast its intentions without following up; this discredits the initiative and exposes the company to accusations of greenwash.

When troubles arise, a transparent and upfront response is the only effective strategy. It's better to try to fix the problem than to do nothing or, worse, try to hide the issue. 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. The white plastic bracelets sold to support the campaign were hugely popular until an allegation was made that they were being sourced and made using forced labour. Oxfam reacted immediately. It investigated the claims and created a responsible procurement initiative. This project enabled Oxfam to formulate and communicate good ethical and environmental purchasing practices that supported its missions and maintained the confidence of its large supporter and stakeholder base.

Most companies have a network of potential CSR “champions” willing to donate their time and energy to improving their environment or being part of effecting social change. Developing a structure that motivates these people to make progress is where CSR processes can be

most productive. Once mobilised, this “silent army” starts building on itself. These champions, whether internal or external, are passionate for action and creating sustainability. E.ON UK's responsible procurement programme was initially launched solely through the volunteer efforts of motivated and interested individuals as no staff or budget had been assigned to this initiative.

Kayzi Ambridge, E.ON UK's responsible procurement manager, fortified her efforts by allying herself with champions outside the company. She credits a lot of her success to the support and energy received from external networks. She worked diligently internally to get responsible procurement on the radar screen throughout the organisation and this positive buzz had value. By tapping into an external network made up of NGOs and other environmental agencies, she has received continuous guidance, inspiration and support.

### Hewlett-Packard

Hewlett-Packard (HP) is a technology company operating in more than 170 countries.

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Champions at HP used its internal CSR programmes to build awareness of the brand consequences and ensure that HP senior management understood both the concept and that inaction was risky.

These efforts were successful and the organisation embraced that it need not be the best-in-class nor even world-class to significantly reduce the risk from NGO attack. As such, HP used the techniques of minimising programme costs coupled with a fuller understanding of the costs of various alternatives.

HP believes that CSR and responsible procurement are good for business but, like most things, must be managed within economic realities. Rather than adopt an expensive policing mentality and approach, it is far more effective to put into practice a quality programme-type approach and assume good supplier intent. Suppliers that are convinced these programmes are good for business overall will contribute their resources and people to the success of these initiatives. Once this point is reached, the major deficit is knowledge; with properly functioning forum and knowledge-brokering mechanisms, this is easy to overcome.

Another deficit is supplier knowledge. Help to reduce “audit fatigue” among suppliers that are likely overwhelmed with numerous audit requirements. Teach them how to help themselves and work with them rather than against them by policing and demanding new requirements. Education and collaboration will create long-term sustainable efforts while policing focuses on short-term responses. Monitoring and threats tend to motivate people to take shortcuts and do the

minimum and, invariably, it can get litigious and expensive.

HP has used the Electronic Industry Citizenship Coalition (EICC) to reduce programme costs by sharing the cost of tasks among several companies, and to allow the diffusion and sharing of intellectual property across multiple companies.

## Organisational challenges

Most organisations are economically rational. One of the biggest CSR barriers is that the perceived value is less than the expected cost and this is a major deterrent for most organisations. So the only way to get around this is to increase the perceived value or lower the expected cost. The following are some effective strategies for making the case.

### 1 | Increase the value of sustainable supply chains and procurement

Show that customers will choose products from sustainable supply chains. Research does exist to support this and data is available, but companies often waste money launching intensive research efforts. Companies must engage their marketers and salespeople to think innovatively and inclusively about sustainable development and towards markets of the future. This will help to build a strong business case for sustainable procurement as a possible and tangible benefit to the bottom line.

### 2 | Monetise the economic value of sustainability

Sustainability benefits must be made apparent to your company. Consumers

typically won’t simply “go green” and pay more if the value or change to the product is not visible or understood. They will pay a small premium when they perceive a tangible benefit or difference; a challenge when the contribution is less visible, as in the case of electronics. Clearly measure the consumer economics of sustainability.

Clarify other intangible sources of value, such as attracting and hiring better talent and higher staff retention, and monetise these sources of value. Being socially conscious helps to lower the cost of recruiting; people are attracted to and want to work for companies that have a social conscience and trade responsibly.

Another source of value can be receiving special endorsements from different interest groups that will attract the attention of the general public, thus increasing your brand cache or market position. For example, the farm certification initiative endorsed by the RA brought significant brand benefits to Chiquita, as well as organisational learning that gave the company distinct competitive advantage.

### 3 | Increase perceived value

Another source of economic benefit is avoiding cost. Large multinationals that get caught out in CSR scandals face an annual burden of \$5 million-\$10 million for about five years to repair the damage. Many people may be familiar with the history of Nike’s CSR problems, but what they perhaps don’t know is that Nike will be paying upward of \$50 million over a decade to fix them.

On a positive note, companies have learned from their environmental gaffes and the number of gross corporate scandals at the level of their own operations has significantly lessened since the 1980s and 90s. Think about Union Carbides’s debacle in Bhopal, Shell’s formidable challenges with the Brent Spar incident, and others; the likelihood of such incidents occurring today is much smaller because global companies have broadly learned to manage their environmental and social risks in their own operations.

The latest risk on the horizon is in moving supply chains away from the developed world to developing economies such as China, India and Vietnam, where legislation either does not exist or is poorly

applied. This migration makes a strong business case for sustainable corporate procurement. As one manager pointed out: “Recently we had our fingers burned in China; a supplier used a production process outlawed in Europe. It was clear that we would not touch it. But it raises competitive issues. For the first time we were really worried. We need processes in place to evaluate the supplier.”

In fact, CSR scandals nowadays tend to be much more around responsible procurement issues than in “own operations”. For this very exposure to risk, Nike made a dramatic move a few years ago to increase transparency in its supply chain. The company established supplier codes of conduct and pulled together an internal team to enforce it, and it also worked with external bodies to monitor factories and engage with stakeholders. It also made the unprecedented move of publishing a list of its suppliers (a first in that industry).

However, on its website, there is a note of caution: “What we’ve learned, after nearly a decade, is that monitoring alone hasn’t solved the problems. And many of the problems are recurring in the industry. Our focus now is getting to the root of the problems. We’re looking end-to-end from the first phase of our product creation process to the outcome in the lives of workers in the factory that bring our product to life.”

#### 4 | Increase communication and decrease misconceptions

Progressive companies are now actively trying to “hardwire” their procurement programmes in terms of social and environmental risk. If a task is perceived as too big, too hard and not enough progress is being made, it is tempting to give up or just let it languish. To avoid this kind of stalemate and cynicism within your company, sharing the progress that has been made will help to build momentum. Internal PR helps to increase everyone’s commitment and energy levels.

#### Shell

Shell is a global group of energy and petrochemical companies with about 102,000 employees in more than 100 countries and territories. It has defined seven building blocks to structure a robust business case

#### CHECKLIST

### AN ACTION PLAN FOR PROCUREMENT

As the economy improves, CSR issues will regain their high profile and critical status. You won’t want to be caught unprepared and have to play catch up. As a result, there’s an opportunity now to improve what you are doing and get ahead of the game. If you have not already started, we recommend you get a pilot project going.

- Make your programme economically rational by tying the expenses to the size of the economic benefit.
- Find an efficient approach; don’t duplicate efforts or spend money when resources already exist.
- Collaboration, education and sharing IP can bring great benefit and cost savings.
- Be concrete on the economic value and the cost of responsible procurement.
- Use pilot projects to mobilise your “silent army” and get buy-in.
- Establish a preferred supplier network. Facilitate your learning and network with “best practice” companies in responsible procurement.

Once there is a successful example to refer to, mainstreaming can be facilitated and progress accelerated. Managers will be able to start speaking the same language on these issues and understand the practical challenges and solutions that will make sustainable procurement a reality.

for sustainable development: attracting and motivating talent; reducing costs through eco-efficiency; reducing risk; influencing product and service innovation; influencing the portfolio for the future; attracting more loyal customers; and enhancing reputation. Shell evaluates its social and environmental impacts through its supply chains and manages them as part of normal operations. Then it captures the business opportunities.

These building blocks are significant, especially to contracting and procurement where a \$35 billion spend is at play. Shell integrates environmental and social criteria into its vendor pre-qualification systems on an industry level, balancing the globalisation of its supply chain with local content development and enforcing standards, without significant end-user pull.

The company began its process by establishing a central overview of the contracting and procurement initiatives and launching pilot projects to demonstrate the application of sustainable development in the contracting and procurement functions. A raised awareness and an increase in competence among staff have resulted from focused training and the introduction of measurement indicators, external benchmarking and a best-

practice input system. The company’s efforts resulted in a more level playing field for suppliers and a streamlining of the number of assessments and audits. In the process, Shell acquired much more knowledge about its key supply base, and thus the environmental and social risks to which it was potentially vulnerable.

However, Shell advises there will continue to be challenging questions to answer: Which are the best standards to use? What happens when suppliers have a higher CSR level than the company? In some environments, companies are the only standard-setters, so how can local differences be taken into account and dealt with appropriately?

#### Learning from the past

We feel that an analogy can be drawn between the quality programmes of the 1980s and the CSR programmes of today. At the beginning of the quality initiative, it was widely felt that high quality required higher cost. A major breakthrough was the understanding that “quality was free”. In other words, the economic benefits were greater than the costs and it was much easier to get suppliers to learn and implement quality, lean and Six Sigma programmes than in the past. **CA**