

Socially Responsible Procurement – Doing the Right Things for Everyone

By Michael Stanly and Bruce Thelen

Procurement managers often struggle with how to do the right thing for society, such as protect the environment, conserve resources and treat people fairly. They also strive to do the right thing for their businesses – improve performance, increase efficiency and lower cost.

More and more stakeholders of all types; investors, business partners and vendors, employees, governments and communities, and most of all customers are demanding both profitable performance and ethical conduct from companies. Balancing these priorities is no longer elective – key stakeholders are actively rewarding or punishing companies for how successful they are at performing this balancing act, and procurement plays a pivotal role in that success or failure.

The Institute for Supply Management defines socially responsible procurement as a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization, and the community.

Pursuing this objective requires focused efforts along the six dimensions of socially responsible procurement:

- Community involvement
- Diversity and inclusion
- Environmental protection
- Ethics and financial stewardship
- Human rights respect
- Health and safety

Procurement professionals must set priorities and make tradeoffs between these dimensions in order to properly allocate what are typically limited resources. The procurement workgroup must consider the relevance of that dimension to overall company strategy, and whether actions taken by the company can truly make a difference in the marketplace.

For example, an apparel manufacturer that is sensitive to concerns about sweat shop issues may place a premium on the human rights dimension and how that shapes its vendor choices. A consumer financial services company might place an emphasis on ethics and financial stewardship driving its procurement procedures and other internal reporting. Or a chemical manufacturer might focus on environmental practices within its own operations, as well as the procedures of its vendors, and shape the company's response to those risks.

Company strategy will shape socially responsible procurement strategy, and that strategy will shape the tactical decisions of procurement practitioners.

The basic tenets of this framework are:

- Socially responsible procurement can confer a very real competitive advantage to a company.
- Aspirations must be set high because customers and investors expectations are high.
- The time to begin is now.

Getting started begins with a business case -- a justification for making an investment in socially responsible procurement. In a survey conducted at the Annual APICS International Conference in September 2008, ethics, financial stewardship and the environment were top concerns for three quarters of the participants, which is consistent with the concerns of key stakeholders.

The business case for remedying issues along these dimensions of procurement includes improving Sarbanes-Oxley reporting, meeting regulatory compliance challenges, or even correcting historic ethical issues. These issues can directly affect stock price, customer loyalty, supplier trust, even the very survival of the company.

Of course, there are costs associated with capturing such benefits. Maintaining rigorous policy and compliance procedures, training, audits, and communications are all necessary elements of a socially responsible procurement program, and do require an investment.

My company's research indicates that there are three levels of strategic commitment to socially responsible procurement, and a company's objectives will drive the efforts of their procurement work group and their senior management's interest and participation.

At a fundamental "business protection" level, a company's objective may be simply meeting all legal and regulatory requirements. While in the past this has been elemental to business, this is becoming more challenging as governments are enacting ever-more-stringent regulations for a whole range of issues, from environmental impact to product safety to labor practices. In addition, this "we comply with the law" approach earns a company no points with key stakeholders.

At an interim "proactive" level, market share is protected and earnings are enhanced by mitigating unfavorable social risks, such as environmental violations, by anticipating them and heading them off before they become problems that can affect brand and reputation.

At a more advanced "business enhancement" level, a company might take the view of? addressing such issues as a business opportunity to become more efficient and economical and differentiate itself competitively through the creation of innovative, socially responsible procurement commitments and actions. For example, a company might stake out a leadership position on reducing energy use and lowering environmental impact throughout its entire supply chain. This can help the company lower costs while also setting an example within its industry, and attract key stakeholders, such as consumers, potential employees and investors..

While at the business-protection level, the role of senior managers may be limited to setting expectations and reviewing compliance; at the more advanced levels they should be quite involved in areas including skill building, investment in innovation, and championing socially responsible procurement programs with employees, investors, communities, customers and other key stakeholders.

The APICS International Conference survey also showed that 78 percent of participants felt that socially responsible procurement initiatives can best be managed by cross-department, cross-company

involvement. A leadership committee can facilitate such an approach by identifying all actions the company needs to take and allocate resources to the priority initiatives.

The committee also should develop the policies and procedures to support a formal program and to plan communications to both internal and external stakeholders. Finally, the committee should design the organization which will be needed for success of the program, ensure the training of those that can influence outcomes, and oversee performance audits.

The keys to the success of such a program are creating strong linkages between socially responsible procurement and the company's business strategy, providing the funding and staff resources needed for leadership, and clear, concrete reporting.

The challenge is upon all companies and it is immediate: do the right thing for both society and for the business. Developing and executing a strategy for socially responsible procurement can allow businesses to do both.

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