CORPORATE SOCIAL RESPONSIBILITY IN PROCUREMENT

PART I – CORPORATE CSR MOTIVES AND OBJECTIVES
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3 Executive Summary
5 Introduction
6 One Accepted Term?
7 A Complex Problem
8 Why Now?
8 Is CSR Important to Everyone?
9 The Market as a Driver
10 A Defensive Mechanism
11 Getting Started
12 Designing a CSR Governance Structure
13 Practical Measures
15 Certifications – Badges of Honour?
16 Conclusion
17 Appendix
This report is Part I in a four-part series of a comprehensive CSR benchmarking research project. It provides an introduction to CSR, its scope, the motivations behind companies considering CSR and an overview of the fundamentals that companies have employed on a corporate level. This is based on the results of a survey the Procurement Leaders Network (PLN) conducted between July and September 2012. It represents 296 responses from procurement officials and CSR/sustainability officers at companies across the world.

**Objectives of CSR Initiatives**

- Reduce Reputational Risk: 71%
- Moral Obligation: 49%
- Create Business Opportunities: 36%
- Legal Obligation: 34%
- Respond to Consumer Demand: 34%
- Satisfy Investors: 23%
- Reduce Cost: 18%
- Satisfy Our Management: 8%
- Repair Reputational Damage: 3%
- Other: 7%

Source: PLN CSR Survey, 2012
**INSIGHT:**
The likelihood of a CSR-related event negatively impacting supply chains is 28%, according to a separate Procurement Leaders study, ‘CPO Planning 2013’. Should it occur, the average cost exposure is calculated at over €100 million.

### CSR Policy Implementation

- We have a written policy on ethical and environmental performance
- We currently don’t have any CSR policy, but will look to implement one in the next 12 months
- We currently don’t have any CSR policy in place

**Key Findings**

<table>
<thead>
<tr>
<th>Action Points</th>
<th>Key Findings</th>
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<tbody>
<tr>
<td>Allocate and, if necessary, recruit specialist staff dedicated to CSR activities across your organisation. Put senior leadership in place to support complex decision-making.</td>
<td>Extended, multi-tiered global supply chains make for a daunting challenge.</td>
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<tr>
<td>Most companies now have a CSR policy, making those without one look negligent. In 2013, you will need to do more to differentiate yourself.</td>
<td>Nobody wants to be seen as a CSR laggard.</td>
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<td>Identify the most important driver of CSR for your business. If the customer is the biggest driver of CSR in your industry, define their needs. Form cross-functional teams to build business cases and execute.</td>
<td>For most companies, the customer is the primary catalyst for CSR.</td>
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<td>The cost of not tackling CSR could be high. Identify your highest areas of risk and implement your chosen processes here first. Outsourced products or services require particular attention.</td>
<td>CSR presents a major business risk.</td>
</tr>
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Source: PLN CSR Survey, 2012
Corporate Social Responsibility (CSR) is now a major item on the CEO’s agenda; no annual report is complete without making reference to CSR performance. The Procurement Leaders Network (PLN) believes it will be the most influential megatrend affecting the procurement function in 2020.

There is no universally accepted term for initiatives related to responsible business behaviour. Our research found that CSR was the most widely accepted expression and this encompasses both ethical and environmental issues in business. We recognise that both the terminology and the scope vary from business to business and this is one aspect of CSR that we investigate in our research.
ONE ACCEPTED TERM?

Time and again, we heard varying terminology when people refer to the ethical and social standards relating to the performance of their businesses. It almost seems as if there is no real consensus on what to call it.

To test for the most commonly applied convention, our survey asked respondents to share their company-internal definitions. At the top of the short list we see a clear preference for the term “CSR,” indicated by a majority of 55%, while the second most-commonly used term is “Sustainability”. Only a small minority refer to it as “Green/Ethical Business” and “Responsible Business” or use the consulting terminology “Triple Bottom Line”, which relates to operating a business along the interrelated dimensions of people, planet and profit.

These terms are largely synonymous, even if one might argue over minor semantic differences. Nonetheless, over the past couple of decades, “CSR” has emerged as the prominent buzz word that companies use to describe a recognised business imperative.

INSIGHT: WHERE DOES CSR COME FROM?

Ideas about ‘corporate social responsibility’ go back as far as the 1930s with Chester Barnad’s 1938 publication The Functions of the Executive and then Theodore Krep’s Measurement of the Social Performance of Business, published in 1940. However, the person largely credited for coining the term ‘corporate social responsibility’ is Howard Bowen who in his 1954 publication Social Responsibilities of the Businessman posed the question: “what responsibilities to society can business people be reasonably expected to assume?” Bowen also established a preliminary definition of CSR: “It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow lines of action which are desirable in terms of the objectives and values of our society.”

Throughout the 1960s and 1970s, the academic discussions continued to grow, and in 1963, Joseph McGuire, in his book, Business and Society, stated, “The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations”. This definition is perhaps getting closer to the current understanding that organisations have an obligation to address social, environmental and ethical concerns, and not merely shareholder’s requirements.

The first company to actually publish a CSR report was the US ice-cream maker Ben and Jerry’s in 1989 and the first major company was Shell in 1998.
A COMPLEX PROBLEM

To a large degree, the complexity of CSR stems from the organisational evolution over the last 100 years (Fig 2). In the early 1900s, companies like Ford operated with a narrow geographical scope, controlling different parts of production, starting with the extraction of raw materials, manufacturing, transporting, all the way to marketing. Today however, we have reached a point whereby organisations have factories in various parts of the world and some have even outsourced a part(s) of their business in order to be able to focus on core competencies. As a consequence, organisational structures are now far more complex. They deal with multiple tiers of suppliers, which inadvertently implies an increased exposure to CSR issues.

Another particular challenge with CSR is the fact that we so often find ourselves in a situation where we have to choose the lesser of two evils. In seeking to improve our CSR performance, we will have to select products or suppliers that we believe to be the most responsible options. Selecting the most responsible option requires a whole array of information which could include anything from cultural context to environmental impact analysis. As one sustainability officer in an interview with Procurement Leaders noted:

“We are looking at alternatives, such as the switch to bio-based materials. But this is not always environmentally preferred. So we are very careful about making that choice.”

Finally, CSR as a concept in itself proves to be even more complex. We can see it as altruistic behaviour that is guided by doing something good for society at large. The other way of looking at CSR is a profit-motivated act which is aimed at reducing reputational risk and wherever possible, boosting PR value.

OUR DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY:

Our scope of CSR covers the following core issues based on the ISO 26000:

- Get involved in and develop the community;
- Respecting the environment;
- Implementing fair operating practices;
- Respecting human rights;
- Implementing labour practices in accordance with local legal requirements.

Tackling CSR involves setting a standard in each of these areas and ensuring that you and those you do business with adhere.
WHY NOW?
Even though CSR is not a new concern, it has recently become a pressing issue, or “risk”, as many would describe it.

For one, we are facing a deteriorating environment. The enormous growth of the emerging markets is accelerating the decline in natural resources, pressing us to find sustainable alternatives. Related to this, tsunamis and massive floods – likely brought about by climate change – have recently disrupted the global supply chain.

The immediate pressure of CSR can also be exemplified by the reputational risk it now poses for companies. BP’s Gulf of Mexico’s oil spill in 2010 and the highly scrutinised working conditions at Foxconn, a key supplier to Apple, are prominent illustrations of how not getting CSR right can lead to long-term effects on brand and reputation.

Another factor creating urgency is the ease and speed with which information can flow through social media networks. The nature of social media means the corporation cannot prevent negative publicity on any topic, leaving corporate reputations exposed.

IS CSR IMPORTANT TO EVERYONE?
A large proportion of organisations participating in our survey indicated that CSR is either “important” or “very important” to them, forming a combined majority of 80%.

The degree of importance varies from sector to sector but overall it can be concluded that CSR is a universal problem that affects all organisations to one extent or the other. Only a small minority admits that CSR is not important to their organisations, implying that public perception matters and that nobody wants to get caught being a laggard in this area.
When it comes to CSR, every organisation is driven by pressures, both internally and externally. In fact, these act as determinants of CSR initiatives. But which pressures and stakeholders are the most powerful ones, and why? We asked respondents to point out their top three.

For most, CSR is a market-led activity. 61% of organisations are driven by their end-customers. Companies in B2C markets need to be especially sensitive to these particular stakeholders as consumers own their brand reputation. Not doing CSR, as one respondent from the food and beverage sector pointed out, “means putting yourself at risk of getting in the news.”

Governments and regulations represent the second-most influential pressure that organisations face. While complying with laws may be seen as a laborious and perhaps even a costly duty for many organisations, others see the benefit of having a regulatory body exerting pressure on their CSR activities. In the words of one survey respondent from the shipping industry, “evolving legal requirements can help speed up the process of CSR enforcement.”

Employees wanting to work for a responsible organisation can also be a driving force in the CSR agenda, as reported by nearly half of organisations. Several procurement and CSR officers that we spoke to during the course of this research confirmed that especially younger members of staff that enter the organisation bring in an “environmentally-conscious” mentality.

It is worthwhile to point out that employees even precede investors on our list, which historically have been the critical stakeholder group for organisations, as they make decisions based on criteria that include ethical and environmental concerns.

What it comes down to is that companies mostly bow to the influence of their end-customers, and rightfully so as this is the stakeholder group that will determine whether they will want to continue spending money on their products or not.

While this report does not reflect procurement’s role in influencing a company’s adoption of CSR activities, we will closely examine this issue in our subsequent reports.

![Fig 4] Which Top Three Stakeholders are the Biggest Drivers of CSR at Your Organisation?

- **Our End-Customers**: 61%
- **Government / Regulations**: 50%
- **Our Staff Wanting to Work for a Responsible Organisation**: 48%
- **Investor Community**: 42%
- **Our Marketing / Sales Strategy**: 39%
- **Our Suppliers**: 23%
- **Other**: 6%

Source: PLN CSR Survey, 2012

**INSIGHT:**

According to the results of a 2011 survey conducted by the Reputation Institute, a company’s CSR programme can be responsible for up to 40% of a company’s reputation.
A DEFENSIVE MECHANISM

We have seen which stakeholders exert the most influence on CSR. But what do companies hope to achieve through their respective CSR programmes? Again, respondents were asked to provide their top three choices.

The vast majority, 71%, use CSR to minimise reputational risk. Companies have realised that negligent corporate behaviour will get them in the news, and cost them brand reputation on top of any potential (legal) fees to settle the case. BP’s costs to pay for the Gulf of Mexico oil spill had risen to over US$38 billion by 2012, two years after the incident.

“Moral obligation” is another top-listed internal motivator, and may be yet another reflection of an emerging, younger workforce seeking to work for a responsible organisation.

According to the findings of a recent study, Talent Report: What Workers Want in 2012, by Net Impact, a San Francisco based non-profit organisation which surveyed US college students about to enter the workforce as well as employed graduates, 35% said they would take a 15% pay cut to work for a company committed to CSR. Yet, other research has found that CSR is valued by employees of all experience, levels and generations. Overall, there is growing evidence that a company’s CSR activities can be an increasingly important way to attract and retain good talent.

CSR is also seen as a business opportunity, and various sources of evidence underpin this claim. For instance, a study undertaken by Nielsen in March 2012, The Global, Socially Conscious Consumer, reveals that 46% of global consumers are willing to pay a premium for products and services from companies that have implemented programs to give back to society. This represents a tremendous market opportunity for companies. However, there is another interesting finding that the Nielsen study highlights: of those consumers, most of them consult social media when making purchasing decisions. Again, this highlights the extent to which consumers can influence a brand, for better or for worse, via means of social media platforms, where news travel fast and far.

Meeting legal requirements is less frequently an objective for companies considering CSR. There are local laws and regulations covering things like minimum wage, health and safety, and the reduction of CO2 emissions, but none covering overall disclosure of environmental impact, little covering supplier relationships and nearly nothing on community impact.

Overall, CSR is seen as more of a threat than a business opportunity. Some established firms have made good progress on CSR, but have struggled to convince consumers of their authenticity.

INSIGHT:
A recent Procurement Leaders study, CPO Planning 2013, revealed that the likelihood of a CSR-related event negatively impacting supply chains is 28%. Should it occur, the average cost exposure is calculated at over €100 million.
Defining a CSR policy is the first step in creating a CSR initiative; it’s a company’s statement of intent to make clear to all stakeholders its approach to CSR and to outline how it proposes to meet the challenges associated with it.

According to our findings, the vast majority of companies worldwide, 89%, currently have a written policy on ethical and environmental performance. Those companies who do not have such policy represent minorities: 6% are looking to implement a policy within the next 12 months, and only 5% state no activity or intention on this front. It appears as if having a CSR policy in place is the norm, regardless of a company’s geographic location and the industry it operates in.

As there is no universally accepted standard or legal framework describing the standards required to be considered a responsible corporation, each corporation has had to set about creating its own set of standards. This is generally considered the first step in tackling CSR. This framework is referred to as a CSR policy, and is typically publicly available. It sets out the standards to which the company commits and often its requirements of suppliers.

The first companies, around one-fifth, started setting out their CSR intentions more than 10 years ago; and perhaps this is the group we would consider to be the innovators. Between 2003 and 2006, there was relatively little activity to be seen.

The majority of companies (66%) however started addressing CSR sometime between 2007 and 2011. This is likely due to an increasing awareness of CSR and perhaps certain CSR scandals such as Mattel’s lead paint covered toys in 2007 and palm oil supplier Sinar Mas being accused of deforestation by Greenpeace in 2010.

There have been periods of rapid progress coinciding with public corporate scandals but from 2012 onwards, we expect a more planned and less reactionary effort. As we have already established, CSR is a mega trend impacting all businesses.
DESIGNING A CSR GOVERNANCE STRUCTURE

As companies develop their CSR initiatives, they need to establish effective corporate structures that support their efforts. It is not unusual that they revise their governance structure at the various stages of CSR strategy development. Some companies already have dedicated CSR staff, but still require a different model to better manage their growing efforts. Others have specialised staff working in particular areas of CSR. Still others decide to develop governance as a reactive measure to external pressures.

Our data provides a snapshot of the current average CSR governance structure at organisations worldwide. What stands out is that many companies choose to put dedicated leadership in place for CSR, whether this means having a dedicated CSR Board, a Chief Sustainability Officer or top management being in charge. While it is important to highlight that there is no “one-size-fits-all” structure, the picture suggests that a successful CSR structure does have some kind of senior leadership element to it.

“You absolutely need to have senior leadership because employees are challenged to meet many different deliverables and they have to prioritise. So if they don’t see that this is something important to leadership, this is not going to come to the top of the list for them,” one Sustainability Director stated.

Obviously, every company will choose a different approach, and the key is choosing one that aligns the company’s mission, size, structure, sector, geographic location and risk areas.

(Fig 8) What is the Governance Structure of CSR at Your Organisation?

- We Have a Dedicated CSR Council / Board: 43%
- We Have a Chief Sustainability Officer: 30%
- Our CEO Personally Drives This: 22%
- Procurement Leads CSR at Our Organisation: 19%
- Our Marketing / PR Leads CSR Secondary Responsibility of Another Sr. Leader: 6%
- Secondary Responsibility of Another Sr. Leader: 3%
- Other: 7%

Source: PLN CSR Survey, 2012
When it comes to embedding their CSR strategy, companies will choose an array of practical activities. Nearly every other company considers the training of their staff on CSR as a critical activity, particularly for buyers. Many companies also make CSR part of staff objectives. One company shared with us that part of its CSR KPIs are directly linked to the bonus schemes of procurement officers, allowing them to collect an extra incentive at year-end if they have met their targets. Another procurement executive from the pharma sector told us about the car policy, known as the “green fleet” that his team had recently implemented. The new programme is based on a bonus/malus structure, either rewarding or penalising a car user based on the chosen vehicle’s CO2 emissions.

The idea of having CSR “champions” across functions is also a popular practice. These typically tend to be individuals from various parts of the business, tasked to “champion” the idea of CSR and to help embed it into day-to-day processes or make it business as usual. One respondent from the oil and chemicals sector described CSR “champions” as follows:

“Each of our business groups has a dedicated person that we call “sustainability champion”, and that person basically has a dual role, usually combined either with manufacturing and marketing or sales. This individual helps embed sustainability within that business group across all the functions. It’s not a procurement person but they are aware of all the sustainability standards within our organisation and have previously been involved in audits.”

40% of organisations will promote CSR through internal marketing. Even though this is an effective tool to raise awareness on CSR initiatives across the entire organisation, it can also bring the danger of falling on deaf ears. One respondent explains that extensive marketing of sustainability can be counterproductive:

“At my company, you must first get the ear of the employees and then be able to explain why CSR is important to the company. It’s the people who have done the job who tell the stories, and that’s what gets people’s attention. It’s a bottom-up approach.”

(source: PLN CSR Survey, 2012)

(Fig 9) What Practical Measures are taken to embed CSR at Your Organisation?

<table>
<thead>
<tr>
<th>Practical Measure</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Training</td>
<td>47%</td>
</tr>
<tr>
<td>CSR is in Staff Objectives</td>
<td>44%</td>
</tr>
<tr>
<td>We have CSR “Champions” Across Functions</td>
<td>42%</td>
</tr>
<tr>
<td>Through Internal Marketing</td>
<td>40%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
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</table>
INSIGHT: DOES CSR NEED TO BE FORCED?

Using Social Norms

“When it comes to creating motivation in the workplace, leaders consistently underuse social norms to shape behaviour.” This is a compelling statement as Scott Keller, a McKinsey & Company director and co-author of the book Beyond Performance: How great organizations build ultimate competitive advantage makes. Keller further argues that social norms are not only cheaper but also happen to be more effective.

This is why: The American Association of Retired Persons (AARP) once asked lawyers if they would offer their services to needy retirees at a cut-rate of around $30 an hours. The lawyers declined, however, when the AARP asked lawyers if they would offer their services pro bono, most lawyers agreed. In other words, when compensation was mentioned, the lawyers applied “market norms” and found the offer was not sufficient. But when no compensation was offered, they used social norms and were suddenly willing to volunteer their time.

In a corporate environment, social norms, in its simplest form, are invoked by peers and supervisors. In the case of CSR, if employees KPIs schemes are linked to CSR performance, employees will be motivated by compensation. The reality is that most companies don’t have enough budgets to significantly increase overall compensation for employees to the extent it will make them take significant notice. However, if CSR performance is acknowledged by senior management and the wider organisation through effective communication, it will drive motivation for years to come.

Nudging

People can often be ‘nudged’ into observing norms through thoughtful design of business processes. This has been termed ‘choice architecture’ by behavioural economists and social psychologists that research into methods of urging social-beneficial behaviour through knowledge of individuals’ psychological tendencies.

For instance, buyers may be encouraged to select a more environmentally friendly supplier by lightening the bureaucratic procedures for new supplier selection, or by creating the impression that all buyers are focusing on green procurement as a matter of course through wider publicity of recently negotiated ‘green contracts’.

CORPORATE SOCIAL RESPONSIBILITY IN PROCUREMENT:
PART I – CORPORATE CSR MOTIVES & OBJECTIVES
CERTIFICATIONS – BADGES OF HONOUR?

While companies develop their own policies, they tend to use international standards as a basis. Sources such as the OECD Guidelines, the UN Global Compact Management Model, ILO Conventions and the International Organization for Standards (ISO) have been used for this purpose.

Companies seek to make their CSR commitments public and differentiate themselves from the crowd by acquiring CSR certifications as their CSR performance improves. In fact, when we prompted respondents about the certifications they have acquired, a long list emerged.

The by far most common certification, indicated by 80% of companies, is the ISO 14001, which relates to environmental management. Nearly one third of companies are BS OHSAS 18001 certified, committing to the improvement of occupational health and safety management systems. 11% have an SA8000 certification, which encourages the improvement of working conditions. Interestingly, many responses that fell into the “other” category admitted that while they had CSR certifications, they were unsure of which exactly.

When it comes to seeking wider industry acceptance through CSR certifications, we see a proliferation of standards, highlighting two things: firstly, there is no global standard that companies follow and secondly, CSR standards will vary depending on industry sector and CSR priorities.
CONCLUSION

Our survey results provide an overview of the current state of Corporate Social Responsibility on the corporate level. We are drawing the following key conclusions:

- **CSR Means Incredible Complexity**
  Extended, multi-tiered global supply chains, combined with challenging decision-making make for a daunting challenge. This calls for a methodology that can prioritise CSR based on the company’s objectives.

- **Nobody Wants to be Left Behind**
  Appearance does matter: nobody wants to be seen as a laggard in this field. Most companies have at the very least put a policy in place. However, there might be a mismatch between the picture companies put out to the public, and the actions they take.

- **The Market is a Catalyst for CSR**
  The biggest driver of CSR activities is the end-consumer who will abandon a brand tarnished by CSR failures. There is also a business opportunity as consumers are becoming increasingly willing to pay a premium for CSR-labelled products.

- **CSR Presents a Major Risk**
  Historically, CSR risks could be hushed up by PR departments. However, since the advent of social media, especially Twitter, there is no time or mechanism to prevent the spread of consumer criticism.

- **There are no Shared Standards**
  Each organisation has set their own standards in their policy. This inconsistency across and within industries will slow progress in tackling CSR.
APPENDIX - ABOUT THE SURVEY:
The data subject to this survey is based on a Procurement Leaders cross-sectorial community survey conducted between July and September 2012. We surveyed 296 procurement officers, CSR/Sustainability officers, or those in a hybrid role, from organisations worldwide.

![Diagram](image)

**Figure 11** Titles

- Manager: 1%
- Director: 6%
- Head of: 8%
- Buyer: 9%
- CPO (Chief Procurement Officer): 15%
- VP: 16%
- SVP: 34%
- Other: 11%

Source: PLN CSR Survey, 2012

**Figure 12** Sectors

- Food & Beverage: 11%
- Consumer goods, Retail & Leisure: 11%
- Manufacturing & Engineering: 10%
- Telecoms: 9%
- Pharmaceuticals & Healthcare: 9%
- Energy & Utilities: 9%
- Banking & Financial Services: 9%
- Construction & Mining: 7%
- Oil & Chemicals: 5%
- Technology (Software & Hardware): 4%
- Logistics & Transportation: 3%
- Automotive: 3%
- Business Services: 3%
- Media & Entertainment: 2%
- Government & Public Sector: 2%
- Defence: 1%
- Aviation: 1%
- Agriculture: 1%

Source: PLN CSR Survey, 2012
CORPORATE SOCIAL RESPONSIBILITY IN PROCUREMENT:
PART I – CORPORATE CSR MOTIVES & OBJECTIVES

(Fig 13) Geographies

(Fig 14) Procurement Spend

(Fig 15) Procurement Team Size

Source: PEN CSR Survey. 2012