

Social Responsibility and New Ethical Standards for Procurement

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90TH Annual International Supply Management Conference, May 2005

Abstract. Today's business environment is demanding that organizations understand and meet certain social responsibility measures as a condition of contract award. Reputational risk can no longer be controlled through first tier contracting alone. This paper identifies the challenges in dealing with Corporate Social Responsibility, and provides approaches and strategies which allow for the synchronization of various social issues.

Social Responsibility. The authors define Social Responsibility as the duty to make decisions and take action to support the welfare and interest of society in the areas of:

1. Core Labor Standards
2. Safety
3. Environment
4. Diversity
5. Community involvement.

No matter what type of industry we are in, whether public or private, we have many diverse interests attempting to influence the priorities in their favor. In most organizations, the issues of social responsibility are not combined – we typically forego one aspect for another. Associated costs of socially responsible practices are difficult to quantify. How do we effectively measure our impact on the environment, let alone society? We face risks associated with the loss of customers – not only at a micro level, but at a macro level through our brand or organizational reputations. In many cases, we do not see it coming, and if we react without completing any due diligence, we may cause even more damage.

Core Labor Standards. Core labor standards have been developed to identify fundamental rights and principles in the specific areas of forced labor, child labor, equal opportunity and non-discrimination, and the right of association and right to organize and bargain collectively. These standards are enforced by those countries that ratified the ILO Core Labor Standards.

One of the main challenges around setting standards is that there is no consolidation in legal requirements thus causing any policy to be open to question. Individual Governments will set the minimum age for employment regulations typically anywhere from ages 12 to 14. The World Bank, for example, defines child labor as meaning labor performed by children by doing it will unduly reduce their present economic welfare, or their future income earning capabilities, either by shrinking their future external choice sets or through reducing their own future individual productive capabilities. What is acceptable? How do we monitor and report this?

The next tier of labor standards identified by the ILO represent the following:

- Health and safety
- Wages
- Working hours
- Social security payments
- Addressing illnesses such as HIV/Aids.

These are typically local, regional, or national requirements, so the challenge is with creating any type of uniformity for corporate standards.

Environmental Goals. Findings indicate that the pre-awarded environmental assessments need to include procurement activities. This ensures that the environmental management plan will include measurements of environmental impact. Ratification of the Kyoto agreement by countries will support standards, however not all countries have ratified this treaty.

Diversity Goals. From a procurement perspective private and public interest differ. Private organizations are interested in diversifying primarily to support increasing market share. Government agencies utilize diversity to support economic objectives of the specific entity. Procurement researchers are now looking at the impact of strategic sourcing: are we compromising innovation and nimbleness that a competitive market with many sources delivers for the sake of reducing costs and supply base numbers?

Community Involvement. In private organizations companies typically support projects close to their stakeholders interest such as oil companies building local infrastructure. In public organizations politicians are interested in supporting the constituent base that elected them.

Social Responsibility Drivers. We typically look at all elements on a stand-alone basis. CAPS research on Purchasing's Contribution to the Socially Responsible Management of the Supply Chain found relationships between social responsibility drivers -- therefore we need to consider all areas when initiating activities. Barriers in one area will likely be the same barrier in others. The study also found that the outcomes of one set of procurement social responsibility activities will often be similar to those of other procurement socially responsible activities. The drivers identified include a) people oriented organizational culture, b) policies which promote social responsibility, c) individual employee initiatives, and d) pressures from external customers.

Social Responsibility Audit. The following steps are put forth by CAPS as a model to develop a social responsibility audit:

1. establish buy-in
2. analyze key documents
3. assess current state
4. communicate audit results
5. develop strategies to fill gaps

It is critical that we develop the appropriate measurement tools so that we can collaborate on information reporting. One tool that can be utilized is a strategic sourcing process model which has requirements built into the front end of the procurement process.

ISM Principles of Social Responsibility. ISM has adopted the following Social responsibility principles to be used depending upon the context in which the organization operates:

- I Community
- II Diversity
- III Environment
- IV Ethics
- V Financial Responsibility
- VI Human Rights

Role of Procurement. The following good practices are recommended for procurement:

- develop social responsibility standards
- maximize functional team benefits
- open up lines of communication through the total supply-chain
- trust between buyers and suppliers leading to cooperation
- develop tools to link specific programs and business performance, and
- find creative ways to share as much as you can with your colleagues.

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