



## Practice Guide: Corporate Social Responsibility

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Welcome to a  
guide on  
CSR



It is an increasingly popular view that it is no longer acceptable that an organisation continues to operate in isolation without consideration of its environment and its stakeholders.



## 1. INTRODUCTION

Many business leaders see globalisation as a primarily economic phenomenon; involving the increased interaction of national economic systems through the growth of international trade, investment and capital flow.

Alongside this we have seen a rapid increase in cross border social, cultural and technological exchange. There has also been a steady growth in stakeholder pressure through institutions such as Non Governmental Organisations to encourage organisations to become good corporate citizens.

Advocates of globalisation firmly believe that inequalities in global income and poverty are decreasing and that globalisation has contributed to this turnaround. However, critics would argue the opposite, the gap between rich and poor nation's is increasing.

It is an increasingly popular view that it is no longer acceptable that an organisation continues to operate in isolation without consideration of its environment and its stakeholders.

Business leaders face tough decisions, what social issues should be supported? What initiatives should be developed that will do the most good for the company as well as its stakeholders? Do business practices need altering? How do new initiatives get integrated into current strategies? How do you generate internal commitment and passion? How do we measure success?

In the midst of the ongoing debate on how best to achieve good social and environmental performance supply chains are becoming a defining factor. Few could have missed the furore that has erupted over unethical practices within global supply chains, such as child labour and exploitation of migrant workers, for example.

However, while the supply chain does bring risks, it also brings opportunities, for example, organisation's are working with suppliers to identify new energy sources, new power sources for vehicles and an increasing emphasis on minimal environmental footprints. These changes shake out markets and create opportunities in the supply chain.

Among the increasing number of issues raised under the overall banner of Corporate Social Responsibility (CSR) this Practice Guide will examine the following as they are most common in supply chains.

- Environmental Responsibility
- Human Rights
- Equal Opportunities
- Diversity
- Corporate Governance
- Sustainability
- Impact on Society
- Ethics & Ethical Trading
- Biodiversity
- Community Involvement





## 2. CIPS POSITION

The CIPS position on Corporate Social Responsibility (CSR) is intended primarily for P&SM professionals but it applies equally to anyone who has responsibility for managing the supply of goods or services from an external source. The P&SM professional has a responsibility to at least be aware, if not have a thorough understanding of CSR, issues in P&SM and to endeavour to ensure that P&SM practice does not have a negative social impact on all stakeholders concerned, and that any issues are addressed in a positive manner.

- CIPS believes that CSR has become the broadly accepted phrase to describe a collection of interrelated disciplines all of which combine to represent an organisation's overall ethos, its personality, philosophy and character, as regards its role in the world in the largest sense.
- CIPS believes that CSR is simply good business practice. It embraces how organisations are run and their commitment to all stakeholders.
- CIPS encourages P&SM professionals to consider the long-term implications of their actions and to question objectives that may unintentionally have negative socioeconomic consequences.
- CIPS believes that P&SM professionals should adopt a balanced scorecard approach when assessing a supplier's CSR credentials which brings with it inherent logic that ensures adequate consideration is given to the interrelated elements of CSR.
- CIPS believes that the following elements are considered most relevant within the supply chain and that they relate to, and recognise the importance of, the various stakeholders concerned (employees, customers, suppliers, the community, the environment, and shareholders).
  - Environmental Responsibility
  - Human Rights
  - Equal Opportunities
  - Diversity
  - Corporate Governance
  - Sustainability
  - Impact on Society
  - Ethics & Ethical Trading
  - Biodiversity
  - Community Involvement
- CIPS believes that P&SM professionals should play an integral role in influencing board directors to affect the desired company position relating to CSR.

## 3. ENVIRONMENTAL RESPONSIBILITY

In short, new scientific modelling suggests the earth's average temperature could rise by 7.8°C by 2300 if fossil fuel consumption remains unchanged, with polar ice caps melting and seas rising by seven meters. Environmental issues have been a matter for concern for over 25 years. As knowledge relating to the cause and effect of environmental damage has become more complete, the pressure to change the ways in which organisations behave has increased.

Until relatively recently, the environmental debate has been one of rhetoric rather than action. It is becoming increasingly difficult for most organisations to refute the general need for environmental protection. Organisations are at the core of the environmental debate and are central to both the cause and the solution.

Organisations have a legal and a moral obligation to the environment. The supply chain is an integral facilitator in supporting the recently signed Kyoto Protocol, it is well recorded that organisations, in whatever sector, public or private, spend 50% or more of their turnover on bought-in goods and services. In many, that figure may be 80 or 90%. As raw material exploitation, processing and manufacturing moves further back up the supply chain, so do many (though by no means all) of the associated environmental impacts. The dispersal of such operations on an increasingly global basis also creates or amplifies environmental impacts, especially in terms of transport. At the same time, there are in most cases few or no globally-accepted norms on environmental behaviour, and so suppliers, often at several tiers' remove, may be operating perfectly legally but with environmental impacts that would be unacceptable if our representative organisations or companies were creating them.

Legislation also has played an important role in environmental awareness, for example one of the more recent elements of legislation coming from Europe is the Environment Liability Directive.

This directive was in response to the Erika oil tanker sunk off the Brittany coast, causing extensive damage to French shores. This is an attempt to apply the 'polluter pays' principle whereby polluters should clean-up the environmental damage that they cause. After heated debates between opposing business and environmentalists, the European Parliament and the Council of the European Union struck an agreement on the proposal on 20 February 2004. The final compromise leaves out references to compulsory insurance, Genetically Modified Organism (GMO) contamination and nuclear hazards while maritime incidents will be dealt with only six years after the directive comes into force.



The joint text, published in the Official Journal of 30th April 2004 (L143), says that member states now have three years from the date of publication to implement the directive into national legislation. P&SM practitioners should not ignore the possibility that their own business processes could be transformed to environmental benefit. Reduction in paper generation, perhaps by increased use of e-commerce, better power management on computer systems, generally getting things 'right first time', all help to avoid waste.

#### 4. HUMAN RIGHTS

The notion of Human Rights violations in the course of business is gaining ground, in fact organisations are quickly realising that they are not immune to human rights issues.

By way of example some of the first industry sectors to experience unwanted attention over human rights violations in supply chains were retail, including sport goods, footwear and apparel, toys and food.

Further afield, a survey undertaken by ISIS Asset Management plc in January 2004 'Waste and Workers in the Tech Sector' shows some of the emerging issues that the Information, Communication and Technology (ICT) sector is facing:

- Significant operational and reputation risks in relation to labour and environmental standards in supply chains
- Workers exposed to a toxic cocktail of hazardous chemicals
- Reports of low wages, excessive overtime, discrimination and bonded labour
- Allegations of destruction of local eco-systems and complicity in human rights abuses in relation to the extraction of raw materials

Taking the above into account organisations are now beginning to realise that human rights can be upheld in their supply chains. Voluntary standards such as the Global Reporting Initiative or the FTSE4GOOD Index are increasingly moving towards human rights benchmarks. The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and some governments actively promote the Conventions of the International Labour Organisation

Human rights is a mixture of interrelated but complex issues such as:

- Slavery
- Bonded Labour
- Child Labour
- Freedom of Association
- Working conditions
- Working wages
- Exploitation
- Non Discrimination

Further information on Human Rights can be found in CIPS Executive Insights Guide on Human Rights

#### 5. EQUAL OPPORTUNITIES

Everyone shares the right not to be discriminated against. Acts of discrimination take many forms, for example:

- Race discrimination
- Sexual harassment
- Equal pay
- Relationships at work
- Religion
- Disability
- Culture
- Gender

Equal Opportunities is an area steeped in legislation, one of the most recent is the Race Relations (Amendment) Act 2000 (RRA), which amended the Race Relations Act 1976. This includes important implications for all organisations as the amended RRA now outlaws discrimination in all business functions, including P&SM.

The RRA has important implications for public authorities, however, through trading with public authorities it will impact upon the private sector as well. The RRA puts a legal duty on everyone to eliminate discrimination and to promote equality of opportunity and good race relations. This will require P&SM professionals to take a proactive approach to purchasing policies and procedures to ensure that equality of opportunity is open for everyone within the supply chain.

One of the significant implications of this legislation is that P&SM professionals need to be aware that if one or more of your organisation's functions have been outsourced to an external supplier you will still remain responsible for meeting the RRA and the duty it imposes. All contracts with suppliers must not lend themselves to discrimination and suppliers themselves must not discriminate, as they too will have the same duty to promote equality of opportunity.

In short the key outcomes that affect P&SM are:

- All contracts are to be delivered in a way which is non discriminatory and promote equality of opportunity for staff, the general public and business.
- The goods, works and services provided by a supplier cater for all users' needs
- There is no difference in the satisfaction rates of users, staff from different racial groups
- Suppliers are representative of the local population, or of the area from which the businesses are drawn, with respect to ethnic diversity
- Suppliers work on a voluntary basis of equality of opportunity beyond the scope of the contract.





## 6. DIVERSITY

'Diversity' refers to the idea of variety, a central feature of the world that we and other species inhabit. In business we see this variety manifest in many different ways: a modern economy comprises different sectors and industries, firms come in a variety of sizes and have different legal structures, businesses acquire finance and other resources from different sources, most firms have a diverse workforce, with employees of different ages, genders, racial and ethnic groups, religions, sexual orientation and so on. This diversity is both natural and enriching: it provides opportunities and experiences that would be missing from a world where everything was totally homogeneous.

As a concept 'supplier diversity' is frequently taken to mean any initiative to broaden an organisation's supply base, for example by increasing the number of suppliers with whom the organisation does business. While this perception is understandable, it is not totally correct. In the context of the supply chain, supplier diversity (SD) refers to:

*'Initiatives that aim to increase the number of diverse (eg ethnic-minority owned; women-owned) businesses that supply goods and services to both public and private sector organisations, either directly or as part of a wider emphasis on smaller enterprises in general' (Ram and Smallbone)*

In essence the basic idea of such initiatives is to offer under-represented businesses the same opportunities to compete for the supply of quality goods and services as other qualified suppliers. From the buyer's point of view, SD programmes in the UK do not seek to positively discriminate in favour of specific types of businesses (eg based on the size of the firm, the gender or ethnicity of its owner), rather they aim to 'level the playing field' so as to allow all firms to have an equal chance of gaining an order.

Defined in this way the idea of supplier diversity clearly fits well with current debates and policy preferences in the UK. For example:

- It can be seen as an integral part of the CSR agenda
- It has resonance with current government policies to promote equal opportunities, greater social inclusion and good race relations
- It helps to further the idea of 'think small first' in respect of supply chain relationships developed within the public sector
- It can contribute to the long-standing practice of encouraging local economic development through the use of the procurement process.

## 7. CORPORATE GOVERNANCE

Good corporate governance - in essence, the integrity with which a company is managed - is a central component of a robust CSR management programme.

A good corporate governance structure is a working

system for principled and values-driven goal-setting, effective decision-making and appropriate monitoring of compliance and performance. Through a flexible and dynamic structure, the CEO, the management team and the board of directors can interact effectively and respond quickly to changing circumstances, within a framework of solid corporate values, to provide enduring value to the shareholders who invest in the enterprise.

Supply chain governance is an integral aspect of the overall governance structure of the organisation. P&SM within the Social Responsible Investment\* market is quickly becoming a measure of organisational performance. Because of this it is becoming increasingly important that P&SM professionals, not only understand the concept of corporate governance, but also have a robust and transparent reporting process across supply networks

The reports where little attention has been paid to supply chain governance make grim reading:

- the non-compliance with minimum wage laws, working weeks of 86 hours or more
- "inadequate" occupational health and safety conditions
- "endemic" abuse of workers rights, including suppliers using physical force to prevent workers exercising their right to organise (freedom of association)
- children under the age of thirteen being abused and exploited.

These are probably exceptional cases and most good organisations would not tolerate them, but where they do exist, all would agree they must be taken seriously.

*\*The Social Responsible Investment Market is where major world leading financial institutions monitor and measure the social and environmental performance of organisations prior to deciding whether or not to invest in that organisation.*

## 8. SUSTAINABILITY

Sustainability is about living and working in ways that meet and integrate existing environmental, economic and social needs without compromising the well being of future generations.

P&SM can make a significant contribution to sustainable development and resource minimisation by ensuring that suppliers, contractors and the goods and services bought achieve optimum environmental performance. Furthermore, P&SM has an additional role to play in minimising any reputational risk of social exploitation within the supply chain. P&SM, therefore, plays an integral role in promoting environmental and social awareness in the wider marketplace through its supply community.

However sustainability is defined within



organisations, P&SM is engaged in this debate in a unique way. No business function is routinely and professionally engaged in resolving the competing demands of finance, marketing, 'public image', production, legal compliance and so forth. Nor, in most cases, is any other function so well positioned to use its influence.

If an organisation is serious about integrating sustainability into its P&SM process it must address a number of related areas such as:

- the P&SM strategy
- integration of sustainability into P&SM
- training & development
- supplier development
- performance measures.

P&SM must also be cognisant of resource impacts and any support framework that may be needed to deliver the strategy, thereby ensuring that any sustainable procurement strategy is deliverable in both strategic and operational terms.

## 9. IMPACT ON SOCIETY\*

Many Chief Executives have choices about how they manage their organisations. For example, the approach they take to labour and supplier relations can determine whether or not they are seen as good corporate citizens.

Many organisations that are early adopters of CSR have come to realise that their impact upon society does not just mean the area of operations, but that it extends in some cases globally, this is due to the types of goods and services that are purchased, as well as the type of products supplied to the market.

The best of the world's organisations are setting high standards of behaviour in many aspects of business and wider social conduct. Behind these companies lie millions of small and medium-sized local firms in the value chain that also create jobs and pay taxes. Good corporate citizens have a major impact on how these business partners in turn run their local businesses.

An important aspect of corporate citizenship is the way in which companies account for the behaviour of their business partners in the forward and backward linkages of the supply chain. Companies can trace environmental impacts from the acquisition of raw materials, through all levels of manufacturing, distribution and sale of products. They are similarly being asked to provide accounts on social issues.

Examples of backward linkages include retailers being asked about the conditions of employment and wages of their suppliers in Africa or Asia. Business linkages to the developing world, where food and products like clothing are being sourced from societies where low wages, poor conditions, child labour and environmental problems are endemic, are a cause for concern to consumers in Europe or America.

Examples of forward linkages include concerns about what responsibility the manufacturer or retailer has for safely disposing of or recycling products once used. In the social sphere, questions are asked about the responsibility of drinks companies to help control drink driving and under age consumption of their product.

*\* Impact on Society in the context in this practice guide refers to not only the environment where the organisation operates but also where it can exert its reach and influence*

## 10. ETHICS & ETHICAL TRADING

In a borderless world in which organisations are doing business in diverse cultures, it is necessary to develop core business conduct principles, on which the organisation, its employees and suppliers can rely worldwide.

Ethical supply chain management is one of the greatest challenges facing organisations. It is becoming unacceptable for organisations to be unaware of how the workers involved in making their products or supplying their services are treated. The global nature of trade often leads to complexity within the supply chain; this alone can make ethical trading a daunting task in itself.

Ethics and ethical trading are not simply restricted to activities that occur in developing countries, for example, the tragic deaths of Chinese cockle pickers in England's Morecambe Bay shows that workers in wealthier countries can still be victims of exploitative practices.

CIPS has a Personal Ethical Code by which all members are governed. The code sets out principles of integrity, professionalism, high standards, optimal use of resources and compliance with legal and other obligations, and offers guidance in relation to declarations of interest, confidentiality and accuracy of information, fair competition, business gifts and hospitality.

The CIPS Policy on Ethical Business Practices in P&SM expands on the principles in the code and addresses business to business ethical and socially responsibility issues within supply chains.

## 11. BIODIVERSITY

Organisations of all types are key ingredients to economic growth and globalisation. They are also central to biodiversity loss and strategies to conserve and restore nature. This is not the only area where organisations and biodiversity merge. Organisations are engaging in biodiversity and conservation has developed within the paradigm of CSR as well as other issues highlighted within this Practice Guide.

Biodiversity as a term refers to 'the life support system of our planet' so how do P&SM activities contribute to the loss of biodiversity? One example of





this is when goods are being purchased globally, it is usually the objective of the P&SM professional to move goods from one destination to another at the lowest overall cost, generally that could be by use of ship. This use of transport can cause significant damage to the biodiversity contained within the sea.

Biodiversity is generally discussed in three distinguished forms: habitat diversity; genetic diversity; and species diversity.

Habitat diversity refers to the range of places where species live - coral reefs, prairie, steppe, tropical rainforest etc. Many species can only survive and thrive in their particular habitat so when that habitat is degraded, or disappears as a result of corporate greed or self-interest, then the species suffer as well.

The genetic diversity within a species is essentially the variety of populations that comprise it, with species reduced to a single population (eg the albatross) containing less genetic diversity than species comprising many populations, eg geese. The smaller the number of populations, the greater the risk of the species concerned disappearing.

Within species diversity, there are about 1.5 m named species on Earth but it is well known that these are also many unnamed species with an estimated total number of between 5 and 15m. Species living in tropical rainforests would seem to be at particular risk from corporate exploitation and other forms of despoliation (each year it is estimated that almost 50,000 sq miles disappears either through being cut for timber or being cleared for crops or grazing). Although they cover less than 2% of the total area of the planet, they are home to at least 50% (some say as much as 90%) of the species on Earth.

Suppliers will be involved in meeting the demands of your own company for energy, materials, goods and services. All these companies will have their own impacts on biodiversity, and the P&SM function has a significant influence in ensuring that organisations within supply chains minimise their impacts on biodiversity and make positive contributions to conservation where possible. Thorough engagement of these issues means, evaluating your impact on biodiversity through your supply chain and working with suppliers to improve their environmental performance.

## 12. HINTS AND TIPS

So how can P&SM professionals create value for their organisations when dealing with CSR? Below are some handy hints CIPS recommends are undertaken to minimise the negative impact and maximise the positive impact CSR can have on an organisation through buying goods, works and services.

- Link with the organisation's overall CSR policy and exert influence on its approach from the P&SM perspective
- Ensure the CSR sourcing strategy delivers what the organisation, as a whole, is aiming for and its commitments are entirely practicable within overall existing policies in more general terms, such as value for money or cost reduction
- Identify which aspects of CSR are important to the organisation overall, particularly within its supply chain
- Get high-level corporate buy-in for a CSR policy for the supply chain and communicate it to suppliers.
- Review products/services/suppliers for potential benefits or risk from CSR impact, and identify the potential of risk/reward from each
- Prioritise analysis and action on higher risk/reward areas and check the likely impact through the supply chain
- Balance the CSR impact within the organisation's overall sourcing strategy. For example, a particular commodity may be identified in the price/cost leverage category but if there is a significant CSR, then the saving methodology will need to be adjusted accordingly
- Involve suppliers in the analysis. If there is a potentially excellent supplier who is poor on a particular aspect of CSR then assess whether it is worth working with them to improve this aspect of their business
- No two organisations will have the exact same requirements, and therefore a unique risk rank model will need to be developed that encompasses social, environmental and economic risks



### 13. SUMMARY

This Guide has provided P&S professionals with a high level view of CSR and some of the many issues that make up the CSR paradigm. The issues highlighted are not exhaustive, as CSR matures and more organisations realise the strategic importance then more individual issues may arise that are pertinent to organisations, sectors and particular products.

It is important that all P&S professionals understand that there is not one standard approach to CSR in the supply chain and that the approach taken whether it is a risk based one or not, should be reviewed alongside other criteria within a sourcing strategy and a balanced scorecard approach developed to identify appropriate solutions for a supply strategy for each particular organisation.

### 14. FURTHER READING

- CIPS Executive Insight Guide on CSR 'The Ethical Decision'
- CIPS Executive Insight Guide on Corporate Social Leadership
- CIPS Executive Insight Guide on Corporate Governance
- CIPS Executive Insight Guide on Human Rights
- CIPS Principles on CSR
- CIPS Briefing on Supplier Diversity
- CIPS Practice Guide on Supplier Diversity
- CIPS Practice Guide on Sarbanes-Oxley
- CIPS Practice Guide on CSR Codes and Standards
- CIPS Practice Guide on Sustainability
- CIPS Practice Guide on the Environment
- CIPS publication 'The Practitioner- Environmental Purchasing in Practice'

### 15. USEFUL WEBSITES

[www.creme-dmu.org.uk](http://www.creme-dmu.org.uk)  
[www.cre.gov.uk](http://www.cre.gov.uk)  
[www.nmsdcus.org](http://www.nmsdcus.org)  
[www.div2000.com](http://www.div2000.com)  
[www.cips.org](http://www.cips.org)  
[www.societyandbusiness.gov.uk](http://www.societyandbusiness.gov.uk)  
[www.ethicaltrade.org](http://www.ethicaltrade.org)  
[www.euractiv.com](http://www.euractiv.com)  
[www.forumforthefuture.org.uk](http://www.forumforthefuture.org.uk)  
[www.nottingham.au.uk/business/iccsr](http://www.nottingham.au.uk/business/iccsr)  
[www.ilo.org](http://www.ilo.org)  
[www.biodiversityandbusiness.org](http://www.biodiversityandbusiness.org)  
[www.eldis.org](http://www.eldis.org)

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