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LEADERS**

Global intelligence network



STRATEGY REPORT:
CSR IN THE SUPPLY CHAIN: EMERGING RISKS

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EXECUTIVE SUMMARY

This study is based on a survey of 237 procurement executives. It looks at the sustainability and corporate social responsibility (CSR) practices of members of the Procurement Leaders network.

KEY ISSUES	INSIGHT	ACTION POINT
DEFINING CSR?	Varying definitions can determine the goals of the programme. Overlooking an area of CSR can leave the organisation exposed.	Ensure the organisation uses clearly defined CSR policies, where terms are used in alignment with the company's responsibility objectives. Wherever possible, keep the definition broad and bear in mind that societal values change and consumers will alter their view on ethical corporate behaviour over time.
CSR IN THE SUPPLY CHAIN	The main objectives for CSR have evolved from ethical to risk averting. Where CSR measures are in place, they tend to relate to the most business-critical areas and are liable to be seen as a legal risk, as opposed to a moral imperative.	Create a mechanism of monitoring CSR activity with the supply chain, which will take ownership of the decisions and will be responsible for its actions. This mechanism needs to be mindful of the evolving norms of society and its views of the supply chain. Resist employing a tick-box approach.
INFORMATION FLOWS	If a business does not control the flow of information most relevant to its understanding of its CSR risk exposure, consumers are likely to consider see this lack of oversight to be negligent.	Procurement must take the lead in commanding the flows of information between the nodes in the supply chain. Looking beyond contracts and ensuring suppliers are incentivised to provide all relevant information will be key for businesses in providing an assessment of the current situation and enabling them to identify corrective measures.
CSR STANDARDS	Procurement has a patchy provision of resources when it comes to ensuring suppliers abide by CSR policies, paying more attention to some areas while neglecting others. Non-compliance is liable to result in fines being handed down by regulatory bodies covering areas such as health and safety.	Inserting a contractual stipulation does not amount to CSR. Buyers must ensure that codes of conduct are genuinely conducted and the only way to confirm this is through direct audit. Focus audits on key areas of weakness, such as community and environmental practices.
EMERGING RISKS	INSIGHT	ACTION POINT
MODERN SLAVERY	Slavery is both a real reputational risk for businesses and an increasingly prominent legal risk. Procurement has the greatest responsibility for managing the organisation's response to supply chain slavery.	Develop an organisational policy on anti-slavery practices within the supply chain. This can be used as a basis to reduce the business's risk exposure and a starting point from which to draft documents for the anti-slavery statement.
TAX AND PANAMA PAPERS	Tax is an emerging reputational risk. Poor assessment of reputational risks can bring exposure to global scandals in the same way as the Panama Papers.	Ensure the organisation has a business culture that allows for sales to be generated without compromising the firm's reputation. Procurement must also promote awareness of the growing CSR risk created by purchasing structures that take advantage of offshore tax havens or other corporate relationships specifically designed to avoid tax.
BRIBERY AND CORRUPTION	Bribery is a problem both at home and abroad, one that can cause long-lasting damage to a company's brand.	Look to ensure that suppliers' anti-corruption programmes are up to speed. Train their staff to ensure a zero-tolerance standard is applied across their all their dealings with governments, rivals and their own suppliers.

DEFINING CORPORATE SOCIAL RESPONSIBILITY?

Many organisations have different approaches to ‘doing good’. For some, responsible business practices mean adopting a wide range of moral values. For others, such practices entail no more than obeying the law. Yet customers do not have such restrictions and can punish any corporation that behaves in a way that violates unwritten ethical norms.

Definitions of corporate social responsibility (CSR) have varied depending on the source, objective, timing and place. According to European Commission, for example, CSR refers to ‘companies taking responsibility for their impact on society’. It believes this is important to improve the sustainability, competitiveness of both enterprises and economy while also driving innovation. The commission adds that CSR is beneficial in terms of risk management, cost savings, access to capital, customer relationships and HR management. As such, the scope of CSR goes beyond what many in business and wider society understand as ‘charitable acts’ or ‘doing something extra’.

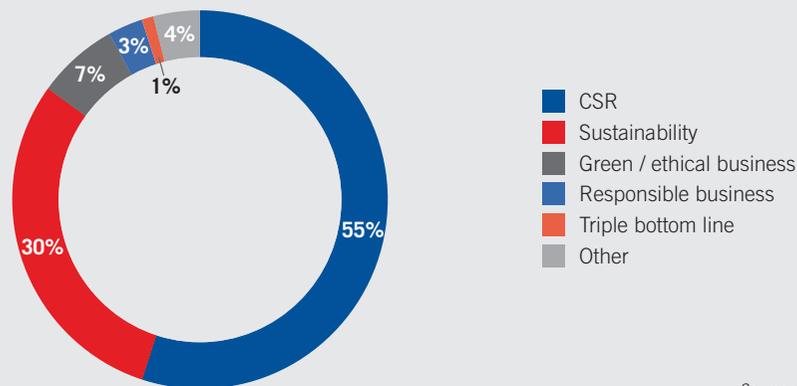
The inclusion of business benefits is key in the commission’s definition. The *Cambridge Dictionary* defines corporate social responsibility as: “The idea that a company should be interested in and willing to help society and the environment as well as be concerned about the products and profits it makes.” The latter half of this definition illustrates that many businesses are right in their belief that CSR in the modern world equates to more than just helping society

and ‘doing the right thing’. Instead, the company’s financial stability and the health of the supply chain are equally important to the concept. Although less marketable than community development and climate change awareness, having a legal defence against reputational costs and government penalties plays a more important role in many large businesses’ CSR plans. This will be evident later in the report.

The terminology of the concept is equally important. Although majority of companies use the acronym CSR in relation to their ethical conduct and responsibility, some might favour other labels. This can potentially skew the area of observation and accountability in more environmental area. In the Procurement Leaders’ 2012 report on CSR, businesses showed a plethora of terms used when describing ethical standards within their organisations (*see chart, below left*). Only 55% of respondents used the term CSR, with others preferring ‘sustainability’, ‘green/ethical business’ or ‘responsible business’. Words ‘sustainability’ and ‘green’, although often satisfying companies’ own expectations, are somewhat misleading as they are often used in the context of the way in which the Earth’s resources are used and do not necessarily relate to fair competition or workers’ rights.

Procurement Leaders’ 2012 CSR report took a broad definition from the International Organization for Standardization, which covered several parts of corporate strategy. In this report, we will continue referring to CSR as described in ISO 26000: getting involved in and developing the community; respecting the environment; implementing fair operating practices; respecting human rights; and implementing labour practices in accordance with local legal requirements.

WHAT DEFINITION DO YOU TYPICALLY USE WHEN YOU REFER TO THE STANDARDS RELATING TO ETHICAL AND ENVIRONMENTAL PERFORMANCE IN YOUR BUSINESS?



Source: PLN CSR Survey 2012

ACTION POINT

Ensure the organisation uses clearly defined CSR policies, where terms are used in alignment with the company’s responsibility objectives. Wherever possible, keep the definition broad and bear in mind that societal values change and consumers will alter their view on ethical corporate behaviour over time.

INSIGHT

Varying definitions can determine the goals of the programme. Overlooking an area of CSR can leave the organisation exposed.

EMERGING REPUTATIONAL RISKS: MODERN SLAVERY



Topic

Many consider slavery to be a problem consigned to the history books. However, this assumption is increasingly being challenged by governments and non-governmental organisations (NGOs) that are uncovering appalling working conditions for many in the supply chain. Many workers are working under contracts that are effectively indentured servitude or are being illegally trafficked to other countries.

The UK government has passed legislation to place a greater onus on corporate buyers to take action against abuse in the supply chains from which they purchase. The Modern Slavery Act 2015 requires all organisations that have a trade interest in the UK to issue a statement that declares the activities the business is taking to reduce the incidence of slavery in the supply chain. Failure to comply may result in an unlimited fine. This has been considered one of the leading legal risks in our survey of global risks facing procurement executives (see *impact/probability matrix, right*).

CSR connection

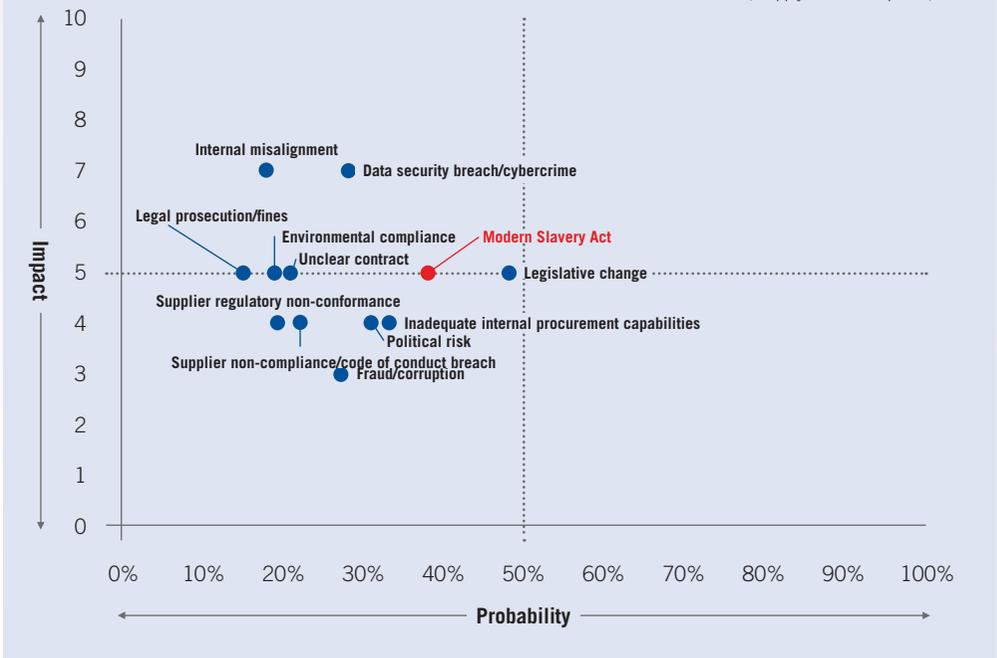
Aside from the legal penalties, being associated with any human trafficking or slavery practices will prove highly damaging to an organisation's reputation. Despite this, a recent survey of UK businesses found that 11% of those surveyed believed it was 'highly likely' that there was some degree of slavery present in their supply chains (source: *Chartered Institute of Procurement and Supply*). The threat is alarmingly real for many geographically dispersed companies. Nestlé and Jacobs Douwe Egberts, two of the world's largest coffee producers, admitted in March 2016 that beans used in Brazilian plantations may have been partly produced by slave labour. The companies were also forced to concede they could not precisely quantify the nature of the problem. The abuse was uncovered by Denmark-based media research organisation DanWatch, which condemned the two coffee giants in the global press.

Lesson

The risk step for buyers is to understand the nature of their potential exposure to this threat in their supply chains. Suppliers may pay lip service to codes of conduct or other ethical commitments, but procurement is obliged to look beyond well-meaning statements and investigate further any suspected instance of abuse. Here, it is best to take a risk-based approach and audit companies that are considered high risk (by the geography in which they are based or the sector in which they operate). Obtaining supporting documentation from

LEGAL RISK MAP

Source: Procurement Leaders, Supply Chain Disruptions, 2016



suppliers that detail firm policies to eradicate slavery – both from their own practices, as well as from their supplier bases – is another means of securing assurance that the company's exposure is minimised. Secondly, procurement can look to lead the internal conversation in approaching slavery and drafting the slavery statement that will be issued to authorities.

INSIGHT

Slavery is both a real reputational risk for businesses and an increasingly prominent legal risk. Procurement has the greatest sense of responsibility for managing the organisation's response to supply chain slavery.

ACTION POINT

Develop an organisational policy on anti-slavery practices within the supply chain. This can be used as a basis to reduce the business's risk exposure and a starting point from which to draft documents for the anti-slavery statement.

CSR IN SUPPLY CHAIN

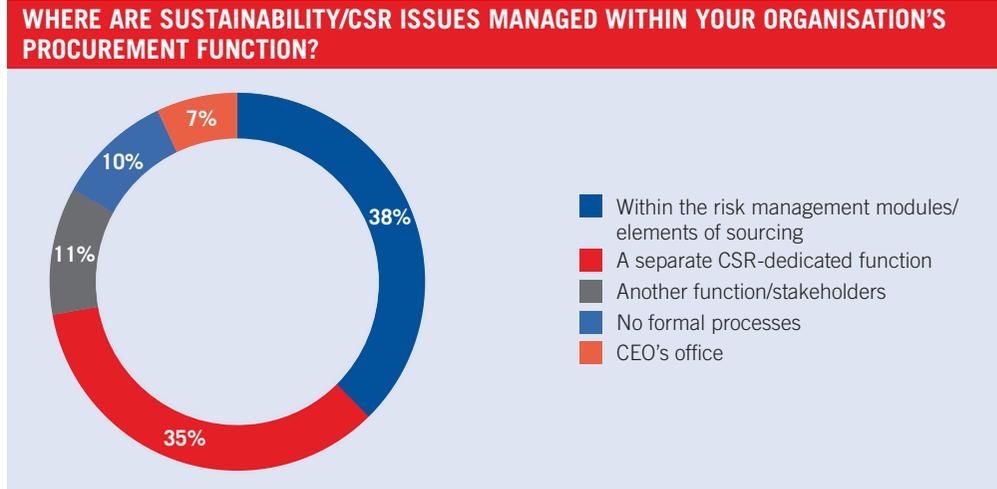
CSR has been a regular feature of company reports and marketing strategies. It has been considered an important feature of publicity campaigns and it is often mentioned in regards to business goals and strategic development. For corporates, the appeal of CSR lies in a ‘halo effect’, which creates an image of a responsible organisation that is conscious of its impact on community and whose goals are aligned with those of the society in which it operates. Corporate responsibility, according to many senior managers, lies at the core of everything the company does, but the responsibility for implementing CSR is not always clear within an organisation.

KEY STAT
€860K

The average annual investment in procurement CSR activities (aside from staff costs)

Through this study, Procurement Leaders has learned that responsibility for the monitoring and administration of CSR standards is often assigned to several different departments or to a separate risk-dedicated function. In more unusual examples, organisations appoint a CSR executive or create a chief sustainability officer. When asked about the responsibility for the management of sustainability/CSR issues within their function, 38% of procurement professionals said it is an integral part of their risk management/sourcing operations. Another 18% said the CEO’s office or another department is responsible for dealing with such issues. Only one-third (35%) of respondents stated that they have a separate function dedicated to CSR.

This figure is only result is slightly more than the number revealed by Procurement Leaders’ 2012 CSR research, in which 31% said they have a dedicated CSR team. Back then, 19% of respondents admitted they did not have resources formally allocated for CSR. In 2016 the number decreased to 10%, providing evidence that this area is becoming increasingly important to an organisation’s strategy.



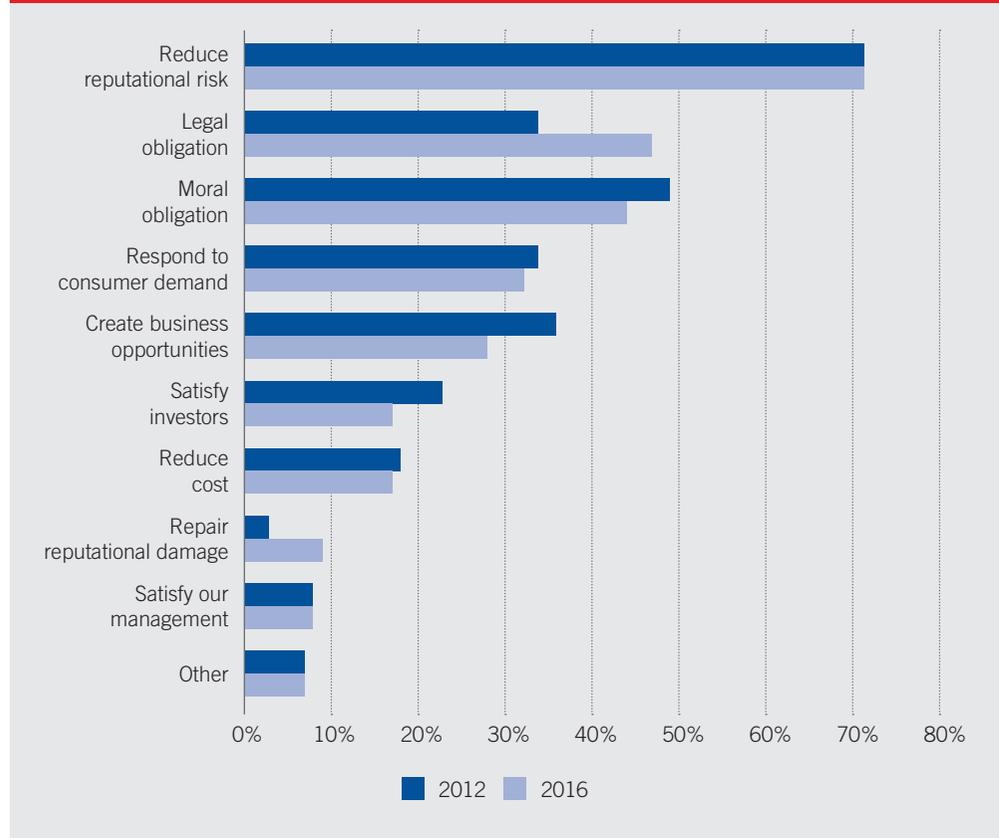
Despite the fact a considerable number of companies still lack any formal CSR processes, it should not be the most alarming statistic to have emerged from this section of the survey. Much more attention should be paid to the fact that, in total, 55% of companies do perform CSR management but do not have a dedicated function. They are on the average level of maturity, not belonging to complete novices (10%) nor advanced companies (35%). It means responsibilities exist and funds are spent, but the accountability for that is spread – or sometimes lost – across departments. It effectively becomes a ‘tick box’ matter, as functions that have a loose structure or shared objectives can become a victim of a problem in business: everyone’s responsibility is no one’s responsibility.

Lack of a responsible function can mean poor communication of goals and achievements, lack of accountability, waste of resources and even reputational costs. On the other hand, a formal approach to CSR can create good information flow, encourage strict adherence to standards and compliance, as well better management of resources. This minimises both the number of under-funded projects and reduces the amount of wasteful initiatives.

CSR objectives

As described at the beginning of the report, the definition of CSR creates differing perceptions of the idea. Defending a company’s reputation is often seen as equally important as reducing its environmental footprint. As part of the 2016 survey, Procurement Leaders asked procurement professionals to name the top three objectives of CSR at their respective organisations.

WHAT ARE THE TOP THREE OBJECTIVES OF CSR AT YOUR ORGANISATION?



The majority of respondents chose the reduction of reputational risk as one of their top priorities, with 71% of responses. Legal obligation gained 47%, while moral obligation was third with 44%. These responses paint an unsurprising picture of the majority of companies engaging in CSR activities to proactively prevent reputational damages and comply with strict regulations. Meanwhile, moral stance and ‘giving back to community’ was rated third in importance.

The notion of CSR as a charitable community work or ‘green policy’ aimed at creating a better environment has changed. Now it is often, rightfully, considered a continuation of risk management and should be regarded as such in procurement departments of all organisations.

OTHER OBJECTIVES NAMED BY RESPONDENTS:
 “Innovation”, “help build better society” and “enhance brand”

Although CSR objectives are largely in line with those proffered by respondents to Procurement Leaders’ 2012 CSR survey, there are, however, some notable changes. In 2016, the two objectives that were mentioned more often than in 2012 are ‘repair reputational damage’ (+6%) and legal obligation (+13%). Moral obligation, on the other hand, decreased in popularity. This perfectly fits the changes in the perception of CSR objectives in a business environment, where social responsibility is becoming more about legal responsibility than ethics.

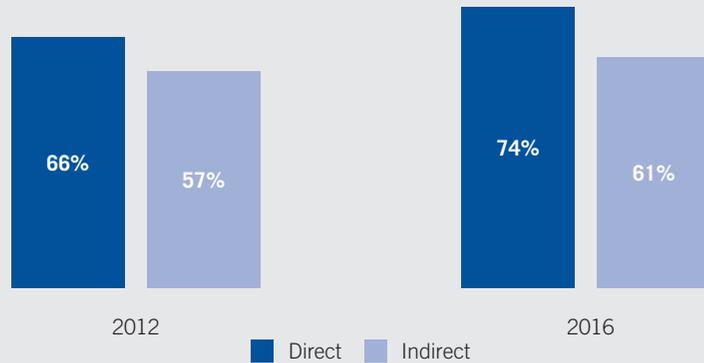
Direct/indirect split

The 2016 CSR survey helps to identify the areas of spend covered by CSR.

The degree of coverage in both direct and indirect areas is greater than that revealed by the 2012 responses. Around three-quarters (74%) of participants' direct spend areas are covered by contractual obligations to adhere with the company's CSR policy. In indirect

areas of spend, 61% of supply chain contracts have CSR clauses. The numbers are 8% and 4% more, respectively, than in 2012. It is a positive sign that three-quarters of direct spend contracts, on average, have risk management points included. This is a mark of strategic planning and long-term thinking. Although such arrangements can add more complexity to agreements, they also ensure greater control over supply chain and legal support in cases of gross non-compliance.

WHAT PROPORTION OF YOUR SUPPLIERS IN YOUR INDIRECT AND DIRECT SPEND AREAS ARE CONTRACTUALLY OBLIGED TO ADHERE TO YOUR CSR POLICY?



INSIGHT

The main objectives for CSR have evolved from ethical to risk averting. Where CSR measures are in place, they tend to relate to the most business-critical areas and are liable to be seen as a legal risk, as opposed to a moral imperative.

ACTION POINT

Create a mechanism of monitoring CSR activity with the supply chain, which will take ownership of the decisions and will be responsible for its actions. This mechanism needs to be mindful of the evolving norms of society and its views of the supply chain. Resist employing a tick-box approach.

EMERGING REPUTATIONAL RISKS: TAX AND THE PANAMA PAPERS



Topic

The Panama Papers scandal has brought intense media attention to the financial affairs of public figures and business practices of wealthy persons. More than 11 million leaked records dating back 40 years have been scrutinised by 107 media organisations in 78 countries, as well as the International Consortium of Investigative Journalists. The primary area of interest is offshore accounts in Panama that were operated by the local law firm Mossack Fonseca, which allowed clients to hide their wealth and avoid taxes by placing funds in one of the last ‘tax havens’.

The scandal touched many important politicians, but the scope of it goes beyond and includes sports stars and business leaders. It has been mentioned by various PR specialists that, although personal reputational risks for involved individuals can be mitigated, the damage for the business is almost inevitable. Procurement departments, therefore, have to deal with the threat of reputational risk in case of potential relationships with unscrupulous suppliers.

CSR connection

Tax avoidance scandal should be considered in the same way as corruption cases, which are generally perceived as low-probability/high-impact reputational risk. Dealing with such incidents is a priority for most businesses, although this work will always start with a risk assessment. CSR specialist Alison Taylor, director at management consultancy BSR, pointed out the need to change the business culture within a company to accommodate a successful anti-corruption programme. Despite their official stance on fighting corruption and preserving compliance, companies nevertheless can operate in a competitive environment that encourages employees to take risks in order to drive sales. As Taylor explains: “Too often, companies are putting in place policies and procedures that forbid the payment of bribes, at the same time as incentivising sales teams to take immense risks to meet punishing sales targets.” Such ambivalence can lead to existing practices being ignored and employees focusing less on responsibility. According to the Taylor, employees start making trade-offs between a company’s commercial and ethical goals. CSR duties in those situations can be substituted by a tick box exercise, whereas risk management can be sacrificed to attain targets.

Lesson

In order to achieve compliance and avoid reputational risks, companies need to consider both the medium- and long-term effects of engaging in affairs such as operating in high-risk markets as well as working on tax-avoiding schemes. Such schemes are – on the whole – legal, and remain popular among wealthy individuals and entities. However, the costs incurred as a result of reputational damage can outstrip any gains achieved by avoiding taxes. In addition, being associated with or listed alongside prominent corrupt names can be even more damaging.

On the other hand, according to a recent study by Harrison Hong of Princeton University and Inessa Liskovich of the University of Texas, the companies with the most comprehensive CSR policies get more lenient penalties – even for crimes unrelated to CSR. The overall positive image, it seems, makes up for some forms of misconduct.

ACTION POINT

Ensure the organisation has a business culture that allows for sales to be generated without compromising the firm’s reputation. Procurement must also promote awareness of the growing CSR risk created by purchasing structures that take advantage of offshore tax havens or other corporate relationships specifically designed to avoid tax.



INSIGHT

Tax is an emerging reputational risk. Poor assessment of reputational risks can bring exposure to global scandals in the same way as the Panama Papers.



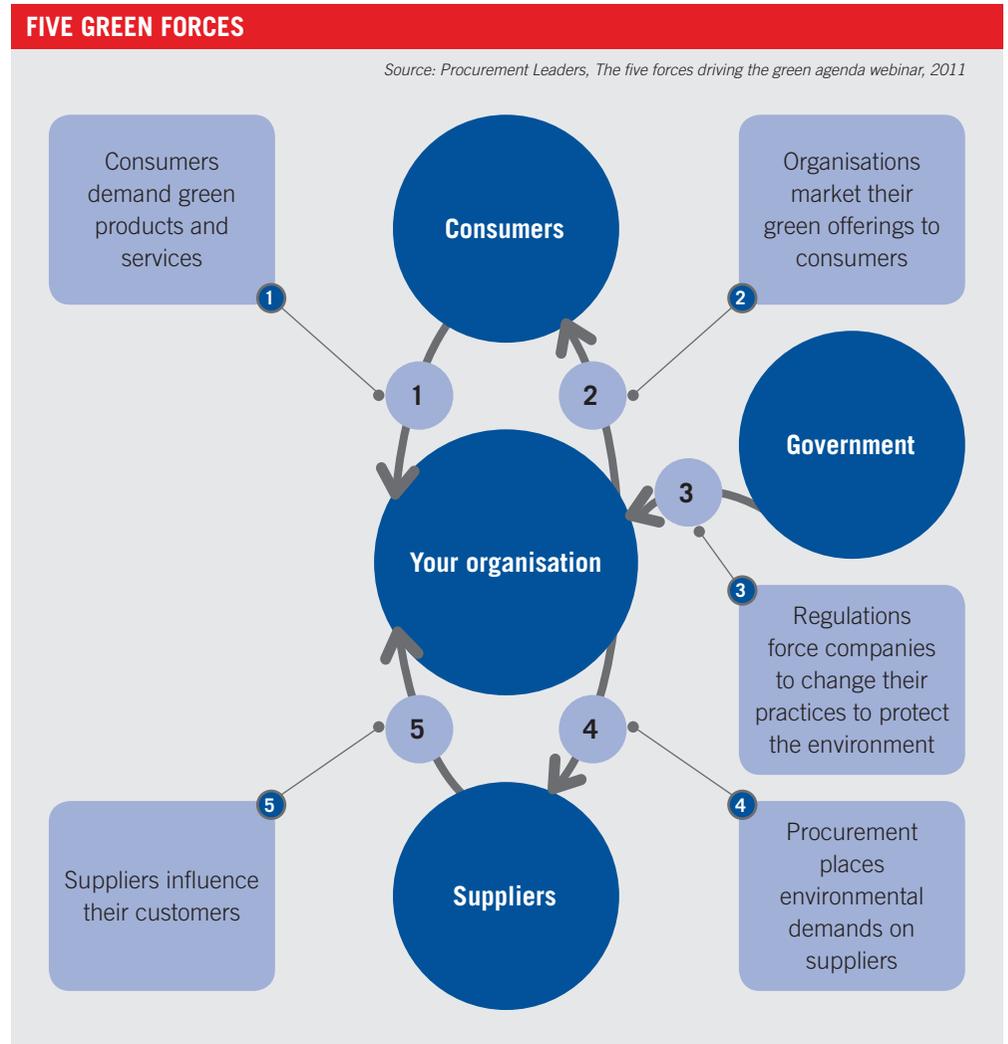
INFORMATION FLOWS

An area of concern that frequently arose in this research related to communicating legislative changes to suppliers and stakeholders. There was a feeling on the part of procurement that the volume of new laws and requirements made accurate communication difficult. Buyers felt inadequately resourced to sufficiently convey all relevant messages to their suppliers.

This belies a deeper question of information flows. From a legal perspective, the buyer is often responsible for the behaviour of the supplier. In the UK Bribery Act, for instance, the law is blind to the different tiers of the supply chain. Should a bribe occur at tier-5, for instance, so long as this bribe was carried out in the intended benefit of the buying organisation at the top of the value chain, that company could face prosecution.

This exposure may be reduced by designing a contract to pass on risk to the vendor. Consumers may, however, consider an activity to be immoral – even if it is not illegal. Recent investigations into corporate tax affairs, furthered by the release of confidential papers of the Panamanian law firm Mossack Fonseca (see page 9), have created a harsher climate for businesses in the public debate.

Procurement Leaders developed the ‘five green forces’ to map out the pressures under which purchasing strives to meet ethical standards. These forces arise from three origins: suppliers; governments; and consumers. Pressures initially emanate from government in the form of laws and regulation. Organisations also face direct pressures from consumers, who demand higher standards and greater transparency from businesses. Rivals, meanwhile, aim to use their sustainability credentials to extend competitive advantage.



Consumer views of the supply chain

In 2014, Procurement Leaders conducted research into consumers' views of large businesses' purchasing behaviour. This included general views, as well as specific opinions on a range of key consumer products (such as cars, clothing, banking services, and so on). The study revealed an almost universal disdain for businesses and, in particular, their approach to sourcing. For many of those surveyed, concepts such as 'outsourcing' and 'offshoring' were merged and almost invariably negative.

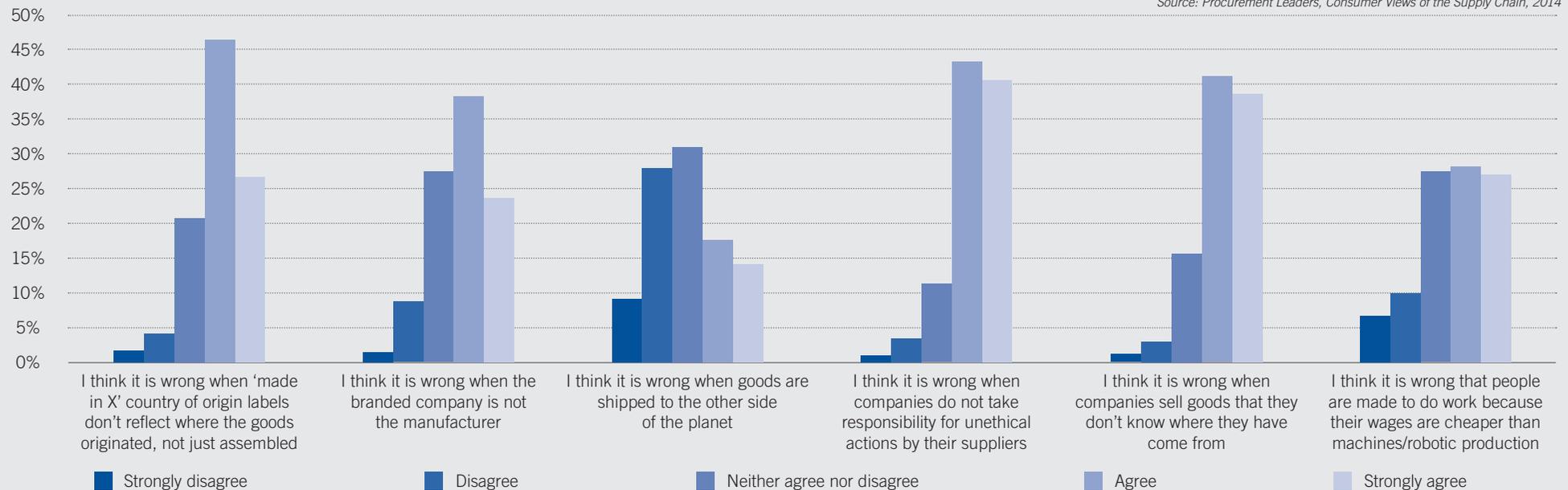
This stemmed from deeply felt mistrust for corporations. Many believed such companies were simultaneously exploiting their workers, while raising prices for consumers. Any practice relating to global sourcing or attempting to improve operational efficiency was also viewed negatively. This is, in part, due to partly as a result of lack of communication – businesses have moved so far away of public opinion, breaching the divide becomes an increasingly herculean task. Another factor relates to lack of visibility. Most consumers are unable to trace the origins of the products they buy. That many companies similarly lacked this capability was condemned as negligent.

To address these deficiencies, procurement needs to lead the internal conversations regarding greater visibility, both into the activities of suppliers and deeper into the supply chain. This can be further by legal requirements in some cases (the US Sarbanes-Oxley Act, for instance, requires a high degree of reporting around conflict minerals in central Africa). In other cases, there may be a consumer benefit to provide a deeper level of understanding of the product that can itself provide a competitive advantage.

In either case, businesses have a problem communicating their practices to consumers and, unless leaders are satisfied with the current anti-business prism of journalists and NGOs framing public discussion, procurement has to come to the fore in the debate. No other function has access to the information that consumers want, nor is any other part of the business equipped with the tools to leverage a more open approach to supplier management.

CONSUMERS' ETHICAL VIEWS OF THE SUPPLY CHAIN

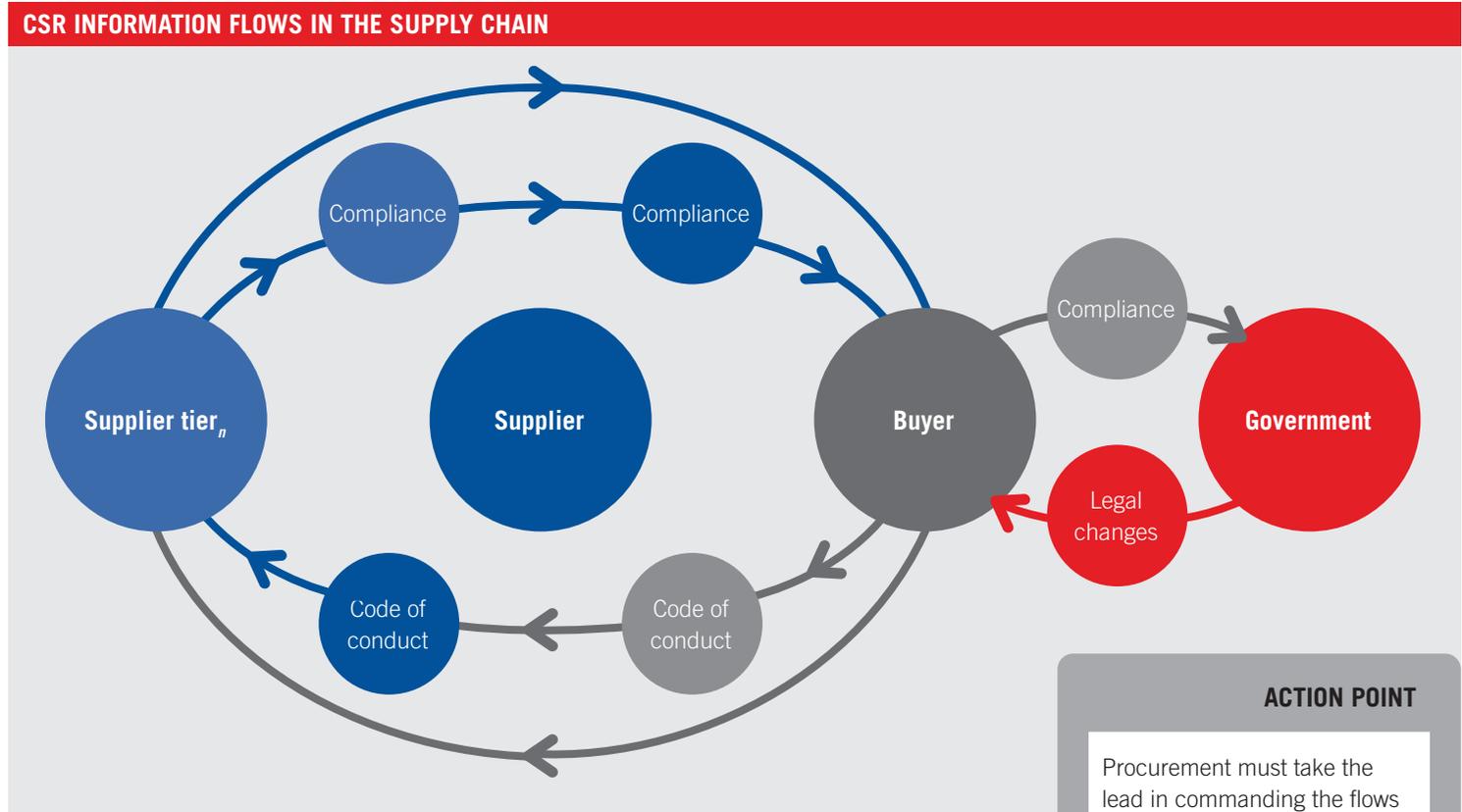
Source: Procurement Leaders, Consumer Views of the Supply Chain, 2014



Managing information in the supply chain

As discussed previously, procurement professionals struggling to manage information relevant to CSR. This is partly a big data issue: a surfeit of data is overwhelming businesses' limited capabilities. First, flows of knowledge are not necessarily monitored or understood. Many legislative changes require a degree of knowledge into lower tiers of the supply chain that organisations cannot currently facilitate. In the main, buyers have outsourced many decisions to other organisations throughout the years, and the responsibility for ensuring ethical compliance has been displaced with that other party. As a consequence, procurement is denuded of the information needed to create an informed approach to building a sustainable supply chain.

Organisations that are successful in this regard look to promoting open behaviour on the part of suppliers; to nominate areas of weakness and address these problems in a collaborative way. Indeed, where there are environmental or other problematic areas, generating a solution can provide a potential new income stream or premium-level product for the supplier in the future. The supplier can miss out on a boon to its business if it does not have the information to understand this need, while the procurement function can encourage a more open approach to sharing and disseminating information within the supplier network.



INSIGHT

If a business does not control the flow of information most relevant to its understanding of its CSR risk exposure, consumers are likely to consider see this lack of oversight to be negligent.

ACTION POINT

Procurement must take the lead in commanding the flows of information between the nodes in the supply chain. Looking beyond contracts and ensuring suppliers are incentivised to provide all relevant information will be key for businesses in providing an assessment of the current situation and enabling them to identify corrective measures.

EMERGING REPUTATIONAL RISKS: CYBERSECURITY



Topic

While the technology used by organisations has become increasingly sophisticated, the number – and sophistication – of cyberthreats that may affect companies’ ability to protect private consumer data has also intensified. For Dan Solomon, director at Optimal Risk Management, companies will face new cyberthreats over the coming years, especially those that compromise the “integrity” of data and data-handling systems. “Most corporations are complacent about the risk,” he says.

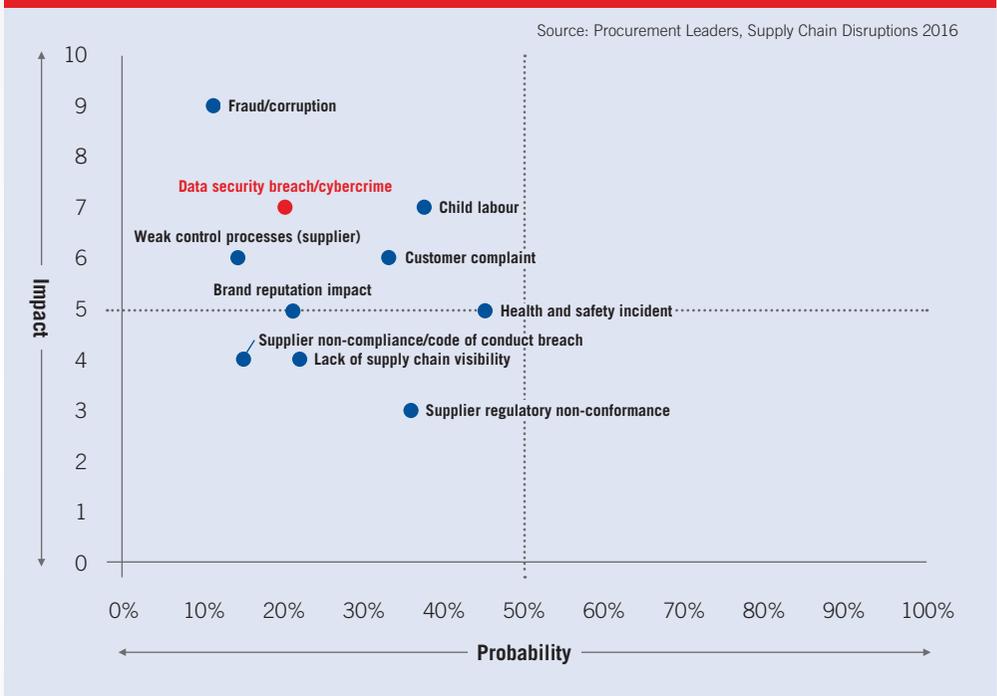
System integrity relates to the control over access to company data. In the past, the chief security concern related to ensuring the confidentiality of information, or hackers threatening an organisation with a denial of service attack, but cybercriminals are using more subtle methods. “If you don’t know your system integrity has been compromised,” notes Solomon, “hackers can make a lot of money by manipulating your data, and you can make a lot of bad decisions based on flawed information.” This threat is made manifold when one considers the numerous suppliers within the base and all their varying methods of mitigating these risk factors.

Consequently, we are seeing procurement looking at cybercrime as just as great a threat to CSR as it is to legal compliance. As we see from our research into risk, cybercrime is looked at just as an issue of sustainability as grounds for a potential legal fine.

CSR connection

Many supplier data breaches have recently conspired to undermine the confidence among the consumers. Target reached a \$39m settlement with banks in December 2015, after the US retailer was subject to a breach that affected 110 million customers. The banks initially compensated consumers after they were left exposed to a piece of malware that had penetrated the retail giant’s systems in 2013. As big corporates strengthen their protection, hackers look to attack less well-defended suppliers. Officer supplier Staples reported data breaches in October 2014, as its point-of-sale systems in 115 branches were infected with malware that had the potential to leak customers’ financial information. Walmart’s Canadian operation had to close down its online photo centre after its supplier was hit by similar data breaches in July 2015. The system was operated by PNI Digital Media, which is own by Staples.

CSR RISK MAP



Lesson

Cybercrime and data information breaches should not exclusively be considered to be a risk issue. Consumers are becoming mistrustful of companies that cannot provide assurances that they will adequately protect customers’ personal data. Looking at the issue from a sustainability-perspective can also unlock new angles into this taxing problem.

CSR STANDARDS

As companies change from philanthropic to more compliance-based CSR objectives and rely on procurement to prevent reputational damages and fulfil the organisation's legal obligations, procurement becomes an integral part of the risk management strategy.

The last time Procurement Leaders conducted this research in 2012, companies were analysed using the ISO 26000 definition of CSR. It is worth noting that ISO Standard 20400 on sustainable procurement is a new factor for the function to consider in future. Given that this is still under consultation, however, the ISO 26000 will be used to compare the degree of investment into CSR by the procurement community. This also enables us to compare performance over the past three years.

ISO 26000 divides CSR into five core areas, each with a number of subcomponents. Procurement Leaders has selected those that share the greatest interest for procurement organisations (see table, right).

The 2016 CSR survey explored procurement functions' activity in tackling each of the CSR elements in their supply base. Respondents were asked to rate various issues, ranging from if they have a policy to whether actively engage with their supply base, effectively showing their resource commitment to each element of CSR.

CSR CORE AREA	CSR ELEMENT
HUMAN RIGHTS	Discrimination against vulnerable groups
	Protection of cultural and political rights
LABOUR PRACTICES	Employment and working conditions, including child labour
	Health and safety at work
	Human development and training in the workforce
ENVIRONMENT	Prevention of pollution, for instance, groundwater contamination
	Sustainable resource use, for example, water management
	Climate change mitigation and adaptation such as carbon management
	Protection of the environment, biodiversity and restoration of natural habitats, for example, preventing deforestation
FAIR OPERATING PRACTICES	Anti-corruption both political and commercial
	Fair competition
	Respect for property rights, including intellectual property
COMMUNITY INVOLVEMENT AND DEVELOPMENT	Education, skills development and employment creation
	Health
	Social investment, such as facilities

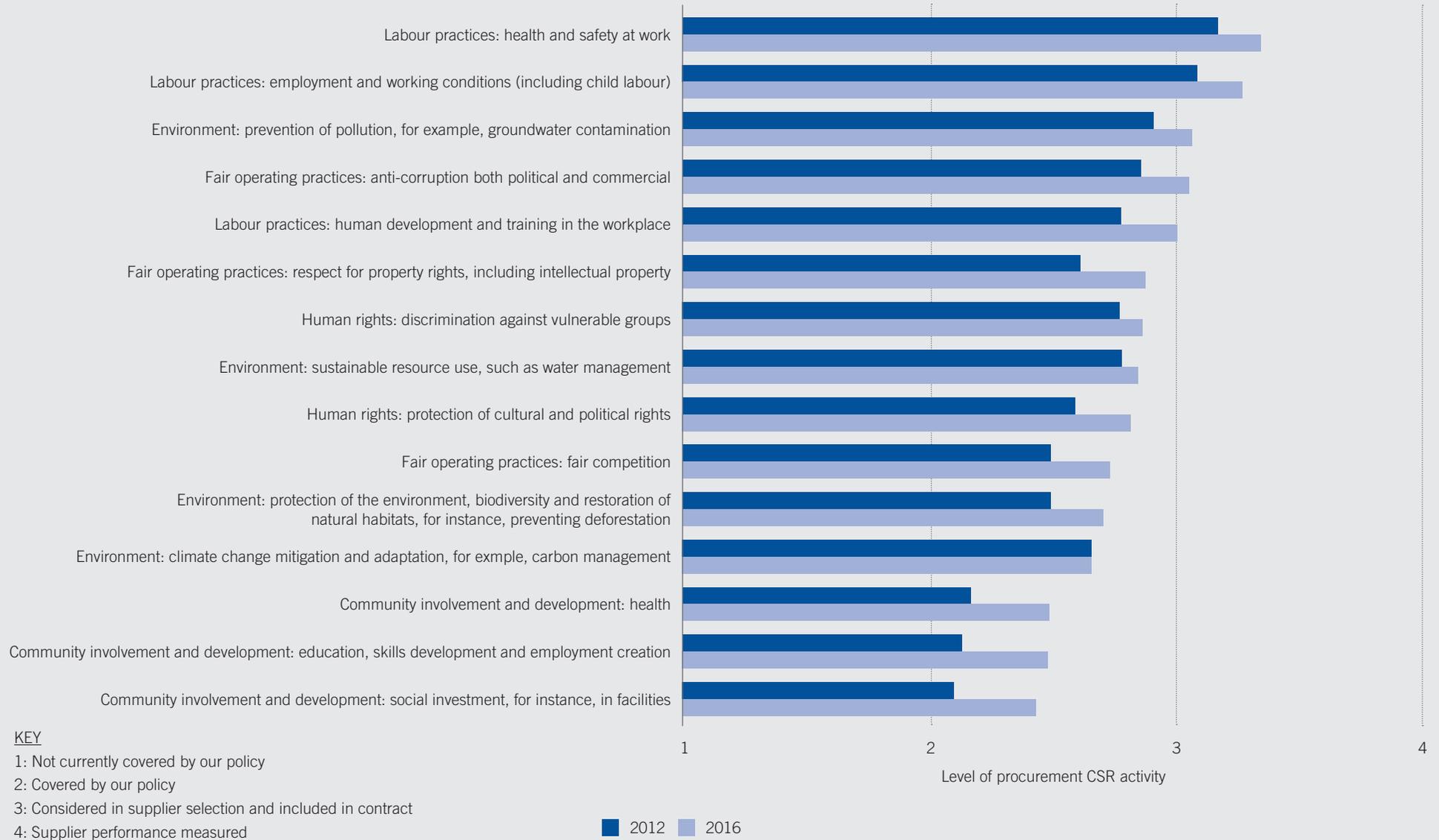
KEY STAT
50%

Percentage of buyers that had to cancel active suppliers and ceased to work with them due to a CSR or ethics policy breach

PRODUCTIVITY ACTIVITY SCALE



HOW ACTIVE ARE YOU IN TACKLING EACH OF THE FOLLOWING CSR ELEMENTS IN YOUR SUPPLY BASE?



The most interesting, though logical, point is that the most important issues are related to risk management and not PR. It indicates the changes of objectives of CSR from ethical, as was the case initially, to legal and means companies rank reputational risks much higher than PR initiatives. Health and safety, working conditions, pollution and corruption are hot topics for both the public and local authorities so, as a result, these gain the most attention from companies. Community projects, which are often overlooked, lie on the other end of the spectrum and are seen as more of a marketing opportunity.

Notably the 2016 CSR results almost entirely outperformed the 2012 survey responses. The only exception to that was climate change mitigation, which stayed at the same level. Perhaps greater resources being allocated to various CSR elements is a sign of the function's general development.

The evolution of the CSR function from philanthropy and community investment to legal compliance and assessment of brand risks shows the level of maturity a company has achieved. What used to be a marketing tool for customers and a retention tool for stakeholders has become a part of risk management programme in large companies and advanced procurement functions.

In order to understand the difference between CSR standards in more mature and less mature organisations, Procurement Leaders produced a breakdown of responses by quartiles, effectively separating the top 25% from the rest (see page 17). The results of the 2012 CSR survey are included in the same graph to illustrate the changes that have occurred over the past four years.

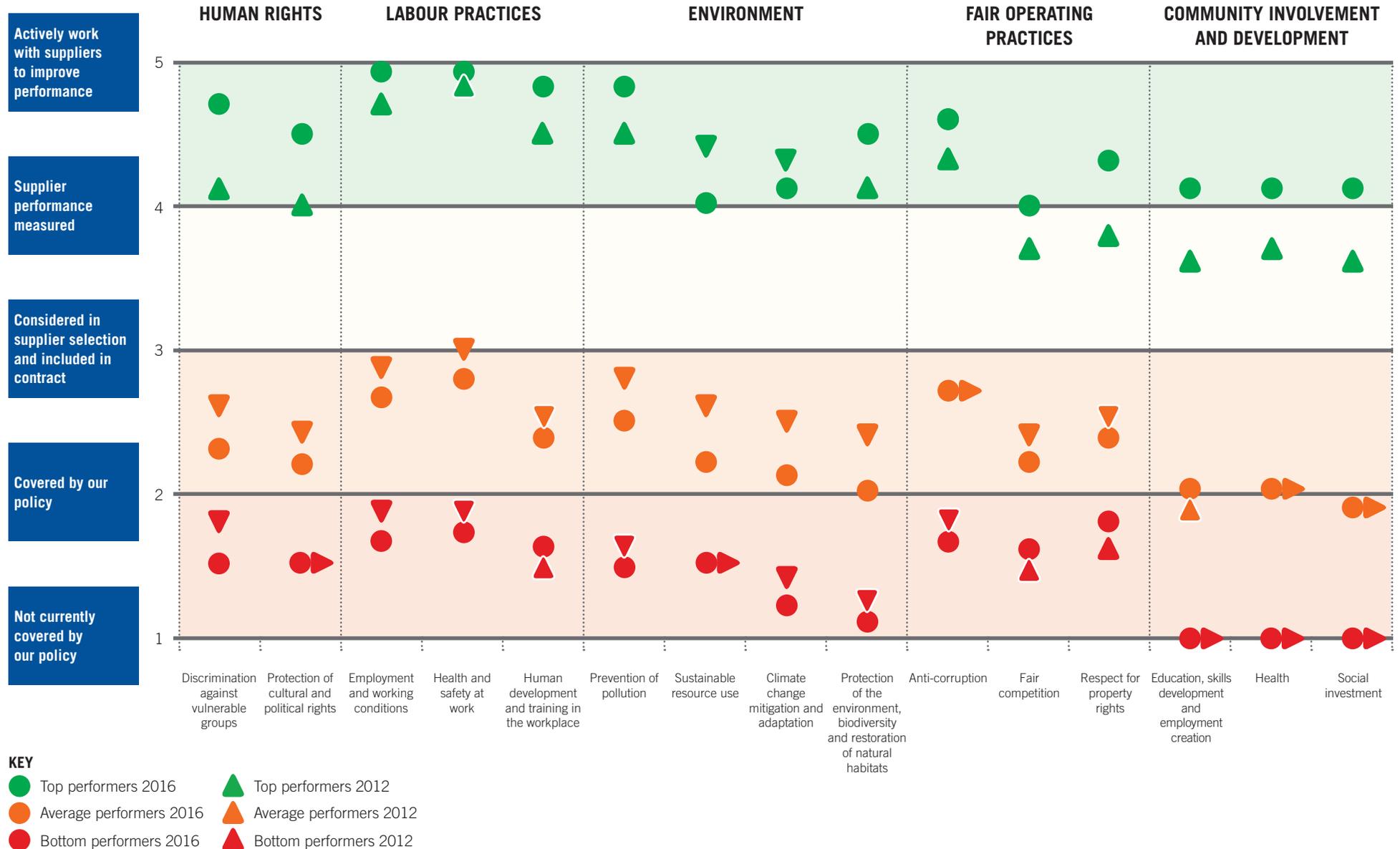
KEY STAT
22%

The average proportion of procurement resources that respondents dedicate to CSR activities. It seems CSR has indirect connection to every fifth decision buyers make.

The most striking point is the 'polarisation' of the responses of the most advanced companies. The bottom quarter of responses are lower than four years ago, whereas the top results are on average higher. Also noticeable is the even greater gap between the most mature organisations and the intermediate ones. As in the previous research, the middle point is closer to the bottom quartile, whereas the top quartile continues to advance.

Mature organisations improved the most in human rights and community involvement, while holding their ground in other areas. All of the elements of a CSR policy among them have reached the level 4 in our ranking, where they start to select suppliers according to the compliance with the corporate responsibility principles. The mid-level and less advanced companies seem to be generally stagnant in their progress, however, they seem to be united in their inclusion of such elements as anti-corruption, health and safety and prevention of child labour. Less mature organisations also keep the same distance from the average level, as they try to cover the 'bare minimum' elements.

TOP, BOTTOM AND AVERAGE PERFORMANCE BY CSR ELEMENTS



INDUSTRIES	HUMAN RIGHTS		LABOUR PRACTICES			ENVIRONMENT				FAIR OPERATING PRACTICES			COMMUNITY INVOLVEMENT AND DEVELOPMENT			AVERAGE
	Discrimination against vulnerable groups	Protection of cultural and political rights	Employment and working conditions	Health and safety at work	Human development and training in the workplace	Prevention of pollution	Sustainable resource use	Climate change mitigation and adaptation	Protection of the environment, biodiversity and restoration of natural habitats	Anti-corruption	Fair competition	Respect for property rights	Education, skills development and employment creation	Health	Social investment	
Consumer goods	3.65	3.51	3.86	3.89	3.58	3.62	3.49	3.14	3.32	3.46	3.0	3.11	2.76	2.75	2.7	3.32
Transportation and logistics	2.76	2.91	3.18	3.38	3.03	3.09	3.03	2.76	2.88	3.18	2.76	2.85	2.45	2.48	2.48	2.88
Energy and raw materials	2.47	2.53	3.36	3.6	2.73	3.33	2.8	2.67	2.93	3.27	2.67	2.87	2.67	2.6	2.47	2.86
Technology	3.5	3.4	3.6	3.4	3.3	2.45	2.27	2.27	2.27	2.64	3.0	3.0	2.55	2.18	2.27	2.81
Public services	2.43	2.36	3.07	3.64	3.14	3.36	3.0	2.64	2.71	3.21	2.36	2.93	2.36	2.5	2.36	2.8
Financial services	2.92	2.85	2.92	2.92	2.85	2.69	2.62	2.69	2.54	3.15	2.92	2.92	2.62	2.62	2.69	2.79
Healthcare	3.06	3.06	3.44	3.41	3.06	2.88	2.65	2.53	2.18	3.12	3.0	2.88	2.06	2.35	2.06	2.78
Business support services	2.73	2.6	3.0	3.13	3.13	2.8	2.53	2.73	2.27	2.6	2.8	2.87	2.67	2.67	2.4	2.73
Manufacturing and engineering	2.48	2.42	3.08	3.04	2.6	2.94	2.63	2.4	2.53	2.86	2.48	2.75	2.33	2.35	2.31	2.61
Infrastructure	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.67	2.33	2.33	2.36

In addition to analysing companies by performance, Procurement Leaders also compiled an analysis of companies based on the industry in which they operate based on the 2016 survey data.

The consumer goods industry has been the most mature sector in most of CSR elements, and the most advanced in the most attention-deprived issues such as community involvement and development. On the other hand, the companies working in infrastructure tend to be less active when it comes to CSR. This tends to come as a result of the media exposure that is often afforded such businesses and the relevance of their brands to the wider public. Consumer goods are typically well known and reputational problems can greatly affect a company for a long time. Infrastructure companies, on the other hand, are more involved in B2B sales, and their risk management programmes are less focused on reputational risks.

Many other industries have generally accepted a special role for CSR and started to consider it when entering into agreements with suppliers. The noticeable outliers include a high score for health and safety at work in public services, and a lack of monitoring of environmental risks among technology and healthcare organisations. This stems from the relevance of certain reputational risks for different sectors. For example, fair completion issue is more relevant to healthcare and technology industries than it is to the public sector. The responses reflect that.

Although allocating considerable resources to all elements of CSR is ideal, it is not realistic for most companies. Instead, procurement professionals should determine the most relevant and impactful issues within their industry. They should design a CSR policy that would be flexible enough to allow covering less relevant issues to some degree, while sending more resources to actively engage with suppliers on the most pressing matters.

INSIGHT

Procurement has a patchy provision of resources when it comes to ensuring suppliers abide by CSR policies, paying more attention to some areas while neglecting others. Non-compliance is liable to result in fines being handed down by regulatory bodies covering areas such as health and safety.



ACTION POINT

Look to ensure that suppliers' anti-corruption programmes are up to speed. Train their staff to ensure a zero-tolerance standard is applied across their all their dealings with governments, rivals and their own suppliers.



EMERGING REPUTATIONAL RISKS: BRIBERY AND CORRUPTION



Topic

Corruption has long dogged the performance of the supply chain. Indeed, procurement fraud – that is, buyers accepting bribes from suppliers to illicitly secure contracts – has been a long-standing risk area for white-collar crime. However, as corporations have grown in size and geographic reach, their exposure to highly corrupt countries has expanded. US prosecutors have been particularly vigorous in the enforcement of a zero-tolerance approach to corporate corruption. Many companies have fallen foul of the US Foreign Corrupt Practices Act (FCPA) over the years, and have multi-million dollar fines. More recently, the US Department of Justice has deployed its Racketeering and Corrupt Organisation Act (Rico) which was originally designed to take on the mafia, but has now been used to target the world governing body of soccer, Fifa. The organisation’s officials had previously been exempt from the FCPA, as its staff are not governmental officials, have now been charged for bribery-related offences under the Rico provisions, which makes no such distinction between private and public bodies.

This creates an increased vulnerability for all international organisations, as any instance of corruption between private entities can now be prosecuted with the same force that was previously applied under the FCPA. Procurement fraud, or any instance of a supplier engaged in transnational corruption, is now potentially result in legal action.

Alongside the potential exposure under US laws, there is regulatory risk under the UK’s Bribery Act. This is commonly considered the strictest anti-corruption law in the world. It effectively behaves as international law; a bribe, paid anywhere in the world, may lead to a prosecution under English law, as long as that organisation carries out a concern in the UK. The penalties are severe: an unlimited fine for the business and up to ten years imprisonment for the managers responsible.

CSR connection

Campaigning organisations, such as Transparency International, seek greater awareness of these issues among the general public. Through Washington Donors organisations, such as the World Bank and IMF, these NGOs aim to reduce instances of bribery within emerging economies and expose any corruption that does occur. The public is beginning to with corruption becoming a major political issue in many jurisdictions. Regimes in Brazil, South Africa, Ukraine and others have faced mass protests – or even revolutions – that have rocked each country’s establishment to its core.

Lawyers and advocacy groups are looking into the supply side of bribery and, as a result, the behaviour of corporations is coming under increasing scrutiny. Transparency International has launched its Bribe Payers Index, ranks the likelihood of companies from leading economies to win business abroad by paying bribes. Although companies of North American and western European origin tend to be less likely to offer such inducements, corporations such as Siemens have been embarrassed by repeated scandals surrounding their behaviour in winning contracts in the developing world. Often, they can escape full prosecution but the waves of negative PR generated by these negative headlines will ensure the brand remains tainted for some time in the eyes of the general public.

Lesson

First, procurement executives need to be aware of the problem. Corruption is not restricted to emerging markets, it is still a risk of internal compliance in relation to procurement fraud and an issue of unethical marketing tactics in sales campaigns abroad. Second, there is a reputational impact on those organisations found guilty of corruption. Consumers increasingly aware of the unethical behaviour of companies from which they buy. Charities are already highlighting the practices of companies in relation to the way in which staff are treated, as well as their environmental practices, so companies may in future be ranked by their propensity to pay bribes. Procurement can lead the charge to clean up the organisation’s supply chain and improve the business’s standing within the wider market.

INSIGHT

Bribery is a problem both at home and abroad, one that can cause long-lasting damage to a company’s brand.



ACTION POINT

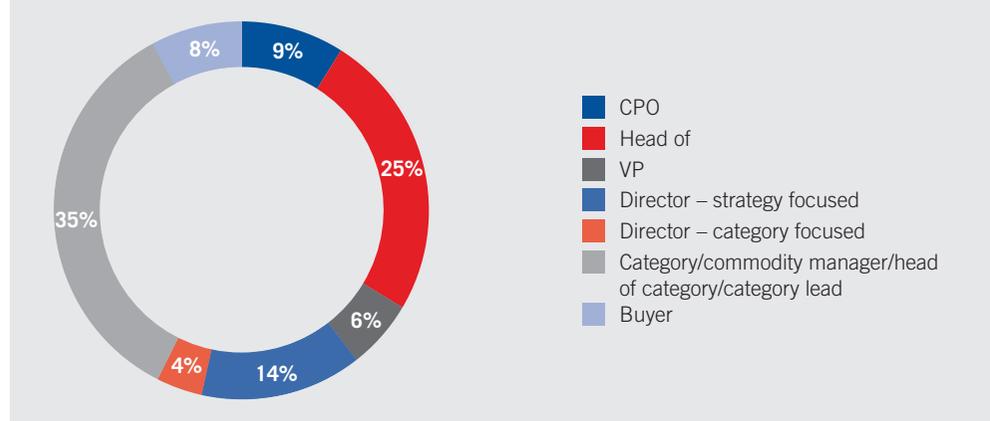
Look to ensure that suppliers’ anti-corruption programmes are up speed. Train their staff to ensure that a zero-tolerance standard is applied across their relations to governments, rival and their own suppliers.



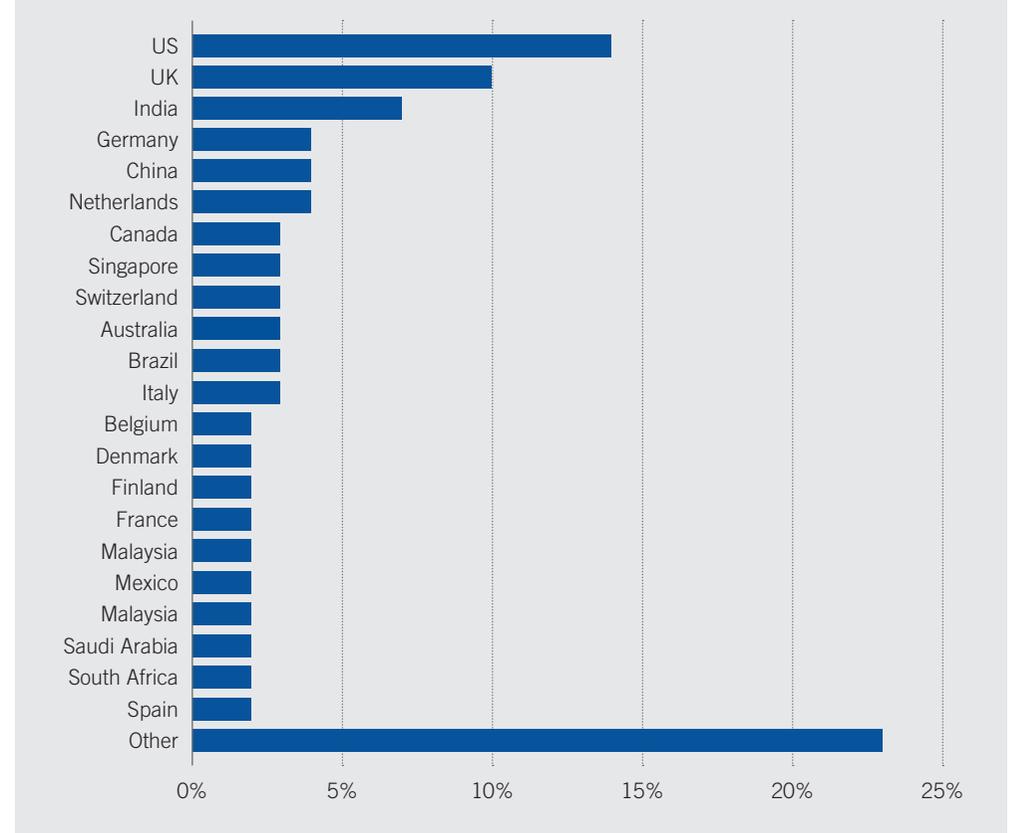
ABOUT THE RESEARCH

In early 2016, 237 procurement professionals completed a survey on which this report is based. As with all Procurement Leaders surveys, respondents cover a wide range of geographies, industry sectors and job titles.

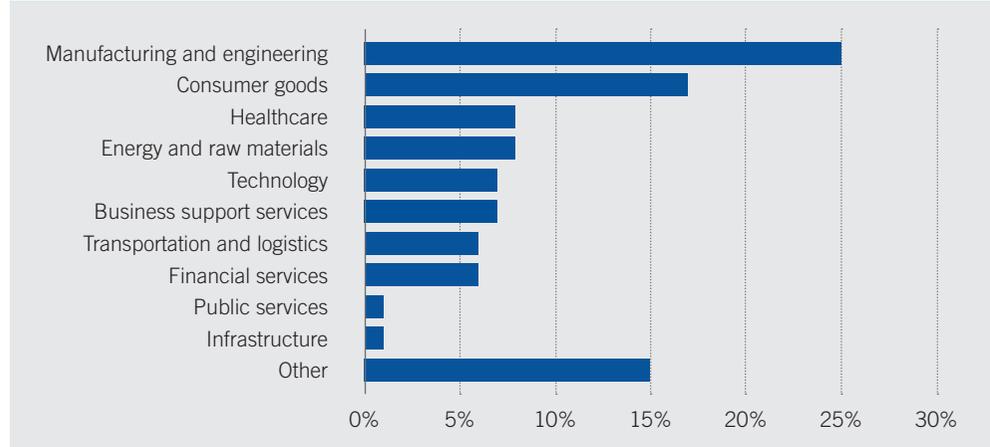
RESPONDENT BY JOB TITLE



RESPONDENTS BY GEOGRAPHY



RESPONDENTS BY INDUSTRY SECTOR



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