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## Highlights

- Corporate Social Responsibility (CSR) has a major impact on brand perceptions and is increasingly seen as a key area of risk that needs to be managed.
  - With best-in-class procurement and supplier management at its center, a business is much more likely to achieve its CSR goals.
  - According to the IBM IBV CPO Study, high performing and influential procurement organizations are almost always significantly involved in CSR initiatives.
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# Procurement: Leading the Way in Corporate Social Responsibility

What kind of Chief Procurement Officer (CPO) gets a seat at the corporate leadership table? According to the latest CPO study conducted by IBM, one of the largest known surveys of procurement leaders, the key attributes of leading procurement organizations are that they are (1) influential, (2) capable, and (3) innovative.

Influential, capable and innovative procurement organizations earn a seat at the leadership table.

The IBM CPO study also found a specific strategic area in which these successful procurement organizations operate—Corporate Social Responsibility (CSR). Ninety-seven percent of high performing procurement organizations are significantly involved in sustainable and environmentally responsible business initiatives.

This paper explains why CSR is strategic imperative, how procurement can play an optimal role in CSR and how technologies, existing and new, can be applied to these initiatives.

## Why Procurement Should Lead the Way on Corporate Social Responsibility (CSR)

According to the Harvard Business School definition, CSR “encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance, to addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.”

CSR is an increasingly important area of focus for evolving procurement organizations, and only those procurement executives who understand this imperative and act on it will advance their organization’s standing within the business.



There are a number of very compelling reasons why procurement should take a leadership role in Corporate Social Responsibility initiatives. We delve into three of those reasons below:

### **CSR leadership helps procurement gain influence in the business**

In late 2013, IBM Institute for Business Value conducted one of the largest known surveys of procurement leaders, in order to find out what a procurement organization must do to continue to be successful in the post-global-economic-downturn environment. This study surveyed 1,128 CPOs from organizations with annual revenue in excess of US\$1 billion.

Of the many insightful findings, the result showed that the key attributes of successful procurement organizations are that they are (1) influential, (2) capable, and (3) innovative.

The study documents a very high correlation between procurement being influential and being successful at other business objectives, including sustainably reducing costs and mitigating risk. Of course, CPOs intuitively know this—in order to tackle more complex categories, deepen compliance and protect against risks, procurement must build and maintain relationships with other parts of the business. Influence helps procurement integrate more deeply with the business, and thus attain more impactful results.

Over the past decade, procurement organizations have worked and invested in improving on the fundamentals of delivering sustainable spend savings and cost reductions. No doubt there have been numerous achievements at most procurement organizations in these areas, yet many still struggle with gaining greater influence in the business.

The IBM CPO study shows that over 50 percent of companies have robust procurement capabilities, but only one-third of those procurement organizations report significant influence. What has caused the gap?

The anecdotal evidence, shared by procurement leaders at industry conferences, suggests that some procurement organizations, in their laser focus on delivering savings, may not have adequately responded to the strategic changes in the market and business environment over the last decade.

Leading procurement organizations are evolving from the traditional mindset—a focus on cost savings—and learning to think of delivering broader “business value”—and aligning with the strategic goals of the business.

At a CPO Roundtable held at the IBM Smarter Commerce Global Summit earlier this year, the assembled CPOs ranked expanding their influence in the business as one of their top priorities. Given its impact on success in so many other areas, increasing procurement’s influence should be a key objective for all procurement leaders.

The IBM CPO study also found a specific strategic area in which successful and influential procurement organizations operate—Corporate Social Responsibility (CSR). Ninety-seven percent of high performing procurement organizations are significantly involved in sustainable and environmentally responsible business initiatives; versus only 61 percent of all companies.

Taking an active role in CSR is part of redefining procurement’s role and value proposition in a new era of business. It is a vehicle which procurement can leverage to move from the traditional “back-office” role to being perceived as a modern, strategic asset for the business.

### **CSR is a critical component of managing risk**

A study by a leading management consulting firm found that senior executives at 7 out of 10 Global 2000 companies feel that risk has “significantly increased” over the past ten years. Globalization, cost pressures, financial sector instability, volatility, and emerging market suppliers are all contributing to an acceleration of risk.

This, of course, translates into increased pressure to improve supplier risk management programs. These programs are no longer geared just to avoid supply disruptions; they must proactively enforce compliance and mitigate risks. The definition of supplier risk management is expanding to encompass numerous operational, legal and financial objectives.

The risks that produce the biggest headlines, and garner the most attention from the C-suite, are those that impact a company's reputation or brand.

Thirty years ago as much as 95 percent of the average Global 2000 Company's value was derived from tangible assets; today 75 percent of that value is based on intangibles, according to Forbes magazine. Put simply, today, a company's most valuable asset is its brand.

Protecting the corporate brand has become one of the top priorities for CEOs at Global 2000 companies, according to another survey by the IBM Institute for Business Value (IBV).

The costs of brand-related risks can be staggering. According to one study, a one point decrease in reputation is associated with an average market loss of \$5 billion, when the methodology is applied to the top 50 companies in the U.S. Analysts say that brand value could worth as much as 22% of a company's market capitalization.

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*Corporate Social Responsibility is not only an ethical imperative, but a business imperative as well. Studies show companies with committed CSR and sustainability programs have stronger brands and greater profitability.*

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The biggest and most common threat to corporate brand is a failure to live up to customer expectations and perceptions. As Howard Schultz, chairman and CEO of Starbucks notes, "Authentic brands don't emerge from marketing or advertising agencies. They emanate from everything the company does."

Perceptions of corporate responsibility and performance play a significant role in the intrinsic value of a brand. According to Nielsen, the research and ratings company, in a survey of more than 25,000 global consumers, more than half of respondents said they would be willing to reward companies that give back to society by paying more for their goods and services.

Another study by a leading marketing firm revealed that more than 90 percent of shoppers worldwide are likely to switch to brands that support a good cause, given similar price and quality.

Corporate social responsibility has a major impact on brand — and correspondingly, a major impact on the risks to that brand. Thus, corporate social responsibility is one of the key areas of risk that needs to be managed.

Of course, the first focus for companies is always their internal operations and potential risks under their direct control. However, given that on average, businesses spend nearly half of their revenue with their ecosystem of partners and suppliers, it follows that at least half of all risk is external, contained within the supply base.

There are countless instances where a company has faced scrutiny or suffered damage to their brand as the result of a supplier.

An active supplier risk management program, with CSR compliance as a central objective, goes a long, long way in mitigating such risks.

Further, an active CSR program tends to build goodwill with consumers and suppliers alike, providing a reservoir to draw upon when needed. CSR in a sense inoculates a brand and company from future risks.

### **CSR impacts the bottom-line and creates business value**

The IBM Emptoris Supplier Management, Risk and Compliance (SMRC) on Cloud solution suite combines the strength of best-in-class contract management, supplier information management and program management to provide increased transparency into supplier relationships, tighter compliance and proactive risk mitigation. The suite of solutions, which can be deployed individually or collectively, includes:

## 7 Ways Procurement Can Optimize CSR Initiatives

Once a business and its procurement organization understand the value of, and are committed to, a Corporate Social Responsibility program, the key question becomes: Where and how can procurement most effectively assist in furthering CSR objectives and programs?

The organization will likely have its most significant impact in terms of (a) the company's purchasing decisions, for instance in choosing to put a preference on the purchase environmentally sustainable cleaning supplies; (b) in compliance, in ensuring suppliers adhere to CSR standards and conditions; and in terms of (c) managing the supplier relationship.

Supplier management can enable CSR success in a number of ways because, at its core, the principles of supplier management align directly with the needs of many CSR programs: working with the right suppliers, effectively managing supplier risk and compliance, leveraging supplier ecosystem to maximize benefit for all parties, and developing suppliers for long term CSR value.

With procurement, and best-in-class supplier management, at the center, a business is much more likely to achieve its CSR goals. Below are seven ways in which procurement can support a stronger CSR program:

### 1. Keep CSR top-of-mind when developing supplier strategies

As a first step, procurement needs to ingrain CSR in its culture and its planning. That means giving CSR objectives early and strong consideration when developing sourcing and supplier strategies. A CSR-minded strategy not only considers lowest cost, but also the greater value derived for the business through contribution to, and compliance with, CSR objectives.

Procurement must be familiar with, and align itself with, the corporate CSR objectives; then it can consider what values and attributes are essential to reflect in purchasing decisions and the supplier relationship.

Many corporations will have a clearly defined CSR policy and objectives; at other companies those values may be less clearly documented, but still evident in broader business objectives and communications, such as the company's annual report. Procurement needs to ask key questions to determine the CSR priorities and its role in furthering them: Is it important in your corporate culture to ensure sound and fair labor practices in emerging markets? Is promoting supplier diversity a critical goal? What is your corporate policy on gender and racial equality, and is that reflected in the supply base? How highly does the company value ensuring environmental sustainability and at what cost? Is that value reflected in purchasing decisions? How does the company support local social and economic development?

After aligning with the company's CSR objectives, procurement needs to map a strategy for supporting these objectives. Key questions in this process are: How does CSR focus intersect with sourcing strategy? How can supplier development intersect with CSR? How can procurement effectively ensure supplier compliance with CSR standards?

CSR objectives should be directly reflected in sourcing and supplier management strategies, particularly regarding preferred suppliers, supplier diversification and RFP response evaluation.

Procurement executives should keep in mind that often there is no corporate CSR infrastructure. Thus, it is particularly critical that procurement take an active CSR role by communicating the vision and benefits of CSR to internal and external stakeholders, of course with suppliers in particular focus.

### 2. Establish a comprehensive supplier selection and on-boarding process

In terms of implementation and achieving practical results, the most significant thing procurement can do to support the CSR program is to ensure that CSR values are reflected and enforced in the supplier selection and on-boarding process. This is the linchpin for a well-developed supplier management program to dovetail with a CSR program.

Of course, these processes are critical to ensure you have the right suppliers in your system in the first place. In the supplier qualification process, in addition to the traditional assessment, even the inclusion of a few supplier CSR criteria can considerably advance a program.

Procurement should work closely with the internal CSR team to identify the appropriate criteria on which to evaluate suppliers. While those criteria may be somewhat subjective, these elements of your assessment should be considered on par with the supplier's technical capability.

The CSR team will likely have guidance on the criteria and how to effectively screen or measure the criteria. Often, there are outside industry or advocacy groups that will provide guidance, in published form or in personal consultations, on these criteria. For instance, IBM currently includes set of eight requirements based on the Electronic Industry Citizenship Coalition (EICC) during its supplier qualification. The EICC is a non-profit coalition of electronics companies committed to supporting the rights and wellbeing of workers and communities worldwide affected by the global electronics supply chain. The EICC publishes a Code of Conduct which provides guidance in five areas of CSR performance: labor, health and safety, environment, management system, and ethics.

Another internationally recognized standard on is the International Organization for Standardization. The ISO is an independent, non-governmental membership organization and the world's largest developer of voluntary international standards. The ISO 26000 "provides guidance on how businesses and organizations can operate in a socially responsible way...Acting in an ethical and transparent way that contributes to the health and welfare of society."

Once procurement has determined what code or standards to base their CSR criteria upon, the organization can incorporate those standards in the supplier qualification and onboarding process.

### 3. Categorize suppliers based on CSR qualities

A key objective of one's supplier management strategy may be to categorize the suppliers in the network. Knowing

which suppliers to develop, which to leverage and which to build a stronger strategic relationship with is critical for best-in-class supplier management. Categorization critical to manage suppliers efficiently and such categorization can be leveraged as a next level of value for the CSR program, as well.

Categorization will help businesses to allocate limited resources to critical areas to ensure the best ROI. Based on value and risk ratings, suppliers may be put into one of four quadrants: strategic (high value, high risk), leverage (high value, low risk), routine (low value, low risk) and bottleneck (low value, high risk). Suppliers may be (a) categorized according to CSR objectives and criteria, (b) have CSR criteria included in overall categorization or (c) an organization may simply apply CSR tasks according to existing supplier categorizations. For instance, you may determine to apply CSR screening or evaluations to only strategic and leverage categorized suppliers.

A good supplier categorization program not only allows you to label suppliers, but also provides a process to evaluate suppliers in a systematic way—and sets the foundation for other supplier initiatives such as a CSR program.

### 4. Proactively monitor supplier performance on CSR criteria

Robust, proactive supplier performance monitoring, even for strategic suppliers, is all too often considered a luxury for organizations. However, the data on these programs demonstrates that higher-value supplier programs, from supplier development and innovation to risk mitigation and CSR initiatives, benefit greatly from proactive, structured and routine monitoring.

A study by Aberdeen Group found that only 20 percent of organizations tracked supplier CSR compliance and performance. Further, the IBM CPO study found that 73 percent of top performing procurement organizations are effective in gathering insights from the supplier base, compared with 16 percent for lower performing counterparts. Top-performing teams mine information for insights to continuously enhance performance.

The level of proactive monitoring required will vary based on the CSR value and criteria to be monitored, the frequency and depth of monitoring and the expectations and standards in the industry. Much of the inertia in starting proactive monitoring can be in the fact that no such program existed previously, so CPOs with active programs urge their peers to set a goal and begin to implement. These CPOs say organizations will begin to see the benefits and be driven to get more ambitious with their program. Internal programs can be augmented by external monitoring tools and services, many which will not only benefit the CSR program but also surface any supplier problems that can disrupt the supply chain.

#### **5. Marry CSR initiatives with supplier development and collaboration**

In general, building stronger supplier relationships pays off with lower costs, faster delivery, higher quality, and supply chain resilience, while also laying the groundwork for innovation.

Sound supplier development programs provide the framework to support proactive management, development and innovation from prospective and current suppliers. Such programs not only improve performance, but also ensure compliance and reduce potential risks. They also ensure synergies across lines of business by providing transparency to preferred supplier relationships and by recommending stronger performing regional suppliers to other business units. Due to the nature of CSR compliance, supplier development and collaboration is particularly important when it comes to CSR programs.

Developing suppliers in CSR values and compliance is particularly critical in developing markets, where many corporations are growing their supply base—and where some suppliers are not considered performing to criteria, or social and ethical standards, of suppliers in developed markets. Suppliers chosen for geographical\market or cost considerations in developing markets, analysts say, may not be as up to par on certain CSR standards.

Procurement, working hand-in-hand with the CSR team and other business units, such as HR for labor issues, will likely need to develop guidance and training for strategic suppliers that are falling short on CSR requirements.

Technology can be a particularly useful enabler for supplier development and such non-conforming but strategic relationships. At a minimum, a technology solution may provide a simple and clear process, and an effective communication venue, for cross-border, cross-organization project management.

Working with supplier on CSR initiatives can open doors and prove to be of benefit for further supplier collaboration and development initiatives. It's important to realize that CSR is strategic in nature, and thus requires a long term engagement.

#### **6. Make CSR a priority in supplier risk management**

As discussed above, one of the most critical aspects of risk to the modern corporation is brand or reputational risk—and CSR plays a significant role in brand and corporate image.

Aberdeen Group reports that the majority (70 percent) of companies rated as best-in-class in procurement had defined and structured supplier risk management programs; as compared to just 5 percent who were rated as “laggards” in procurement.

The key first steps in managing CSR related risks are to define and assess CSR risks. CSR related risks may take many forms, but the biggest risks are likely those that will effect perceptions of the company across either (a) issues that are important to a large percent of the company's customer base—or (b) those CSR transgressions that relate directly to the product or service provided.

Think labor violations in developing countries for clothing manufacturers—or environmental violations for energy companies. The biggest challenge that many organizations have with CSR-related risk is that they lack a structured framework for risk management, and lack the resources and expertise to build one across a disparate and complex environment.

The CSR risk management program should be part of a holistic process to identify, assess and mitigate CSR related risks. It should leverage both internal and external sources of information in risk calculations and monitoring. As with any supplier risk management program, the goal of the CSR risk management program is not to completely eliminate all potential risks, but to prevent likely problems and minimize impacts from certain events, at lowest cost.

## 7. Supplier intelligence is the key to supplier CSR programs

At the root of success to all of the above initiatives is supplier intelligence. Not only is supplier intelligence and visibility essential to a robust CSR program, it is also essential to other higher-value supplier programs from supplier risk management to supplier development and innovation.

In the IBM CPO study, top-performing procurement organizations reported that their primary focus in technology investment over the next three years would be on implementing supplier information management solutions, specifically technologies that provide a 360-degree global view of suppliers.

There are a range of solutions and services, and a range of sources, both internal and external, that can provide the intelligence needed for a CSR program with suppliers. The degree to which supplier intelligence is integrated and supplier information processes are streamlined and connected, will impact the organization's capacity and scope of the CSR program.

A good supplier information or supplier lifecycle management system is a significant enabler to a robust supplier management program.

The IBM CPO study found a strong correlation between being a top performing procurement organization and effectively leveraging technologies: 94 percent of top performing companies are highly effective in their use of procurement technologies—comparatively 44 percent of all surveyed companies are average or below average in their technology effectiveness.

Those top-performing organizations reported that their primary focus in technology investment over the next three years would be on implementing supplier information management solutions, specifically technologies that provide a 360-degree global view of suppliers.

A best-in-class supplier management system, one that can optimally support CSR, supplier risk management, supplier development and innovation, be (1) integrated, (2) process-oriented, and (3) intelligent.

## Conclusion

Corporate Social Responsibility is not only an ethical imperative, but a business imperative as well. Studies show companies with committed CSR and sustainability programs garner greater brand strength and greater profitability.

To align with the business, CSR should be a procurement priority as well. Efforts to support the corporate CSR program will not only accumulate value to the business, but they will also demonstrate procurement's value to the broader organization—and earn procurement greater influence.

CSR programs are a hallmark of best-in-class procurement organizations—and an efficient and robust supplier management program can readily extend value to achieving CSR objectives for the business.

Leading CPOs report the quickest way to achieve value is to integrate CSR principles and objectives into the supplier management process from onboarding and qualification to risk management and development.

## For more information

To learn more about this offering, contact your IBM sales representative or visit the following web site: [ibm.com/software/products/en/category/procurement](https://ibm.com/software/products/en/category/procurement)



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<sup>1</sup> The 3rd Annual Future of Cloud Computing Survey, GigaOM Research



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