Sustainable procurement

1. Introduction

Globalisation has brought unparalleled opportunity for economic growth, but also highlights widening income gaps between rich and poor. Business leaders and the public opinion increasingly acknowledge that private companies need to engage in poverty alleviation. Whereas sustainable development used to be the playing ground of academics and policy makers, it now has moved to the level of value chain players. Sustainable business has become a real concern of the private sector. The Millennium Development Goals (MDGs) of the United Nations (see glossary section for an overview of the goals) triggered the development of the Corporate Social Responsibility (CSR) movement, that expressed its concern about the social and environmental effects of global business.

The UN and the business community will have to work together to reach the MDGs. All goals are relevant to today’s global economy in which companies play an increasingly important role. Within this context, the International Business Leaders Forum (IBLF) and the United National Development Program (UNDP) underline three tasks of the business society (IBLF, 2003).

1. Investing in a sound environment in which to do business, i.e. an open, non-corrupt and well-governed economy;

2. Managing the direct costs and risks of doing business, including environmental costs and costs on the negative effects of HIV/AIDS and little developed educational systems;

3. Harnessing new business opportunities and applying CSR to achieve innovation, value creation and competitiveness.

2. Corporate Social Responsibility

The principles of CSR are nowadays widely used by the business community. A wide range of definitions for CSR is used in literature and on websites about the concept. In its frame of reference, CSR Netherlands (MVO Nederland), a Dutch foundation promoting CSR, describes the concept, for instance, as ‘a process in which an enterprise takes the responsibility for the social, ecological and economical impact of her actions in the whole chain, and participates in a dialogue about this with stakeholders’ (www.mvo-platform.nl).

In general, there is a division between two CSR schools. The first school sees CSR as the voluntary responsibility of businesses, while the second understands CSR in a way in which the government enforces companies to be responsible (IIED, Ward, H. and C. Smith, CSR at a crossroads: Future for
CSR in the UK to 2015). Either way, there is no legal framework to commit enterprises to CSR, neither one single framework is used for applying CSR principles to an enterprise’s activities. In fact, CSR is a collection of several international norms, decisions and guidelines, made and maintained by several international organizations. To clarify the principles of CSR and to come to a single use of the concept in the Netherlands, CSR Netherlands (MVO Nederland), brought all principles together in its frame of reference (‘MVO referentiekader’). In order to be socially responsible, these principles should not only be applied within an organization, but throughout the whole supply chain, from the level of production up to the level of consumption. Consequently, CSR is also very important with regard to procurement.

CSR goes beyond internal responsibility within an organization. It also covers responsibility within supply chains of organizations up to the producer level. Hence, it is important to know to what extent your suppliers (suppliers of core production inputs but also stationary, catering products etc.) are responsible and sustainable, e.g. do suppliers respect human rights, how are the labour conditions in their companies, do they apply environment friendly production processes etc.

In a globalizing world, the business environment is getting increasingly competitive. As a result, companies aim to reduce transaction costs in their value chains. With a value chain we mean ‘the full range of activities that are required to bring a product or a service from conception, through the intermediary of production, delivery of final consumers, and final disposal after use’ (Kaplinsky, 2000). Two strategies exist in increasing the competitiveness of a value chain. The first is cost-efficiency, i.e. to make a value chain more efficient, and the second is to differentiate products in order to better respond to customer needs, or, in other words to make a value chain more effective. In general, the cost of procurement is the largest of the total costs of goods sold (COGS) in manufacturing industries. Reducing costs on procurement, therefore, has a high impact on a company’s return. This was also the main outcome of the study by A.T. Kearny amongst 69 Dutch companies: by professionalizing procurement Dutch companies could increase their profitability (EBIT) with 20%. Hence, procurement is therefore one of the most important activities in today’s business.

A major part of the products used by Western companies originate from developing countries. By sourcing products from low cost, developing countries, companies can reduce costs. Nonetheless, global sourcing is not without restrictions and companies are challenged by the public to increase quality and traceability, produce environment friendly and to pursue business integrity overseas. In other words, there is a trend towards ethical sourcing.

A concept very much related to CSR is sustainable procurement (SP) which will be dealt with more explicitly in the next section.

3. Sustainable procurement

A universal definition for sustainable procurement (SP) does not exist. Several guidelines, however, do exist in which the common factor is a focus on profit as well as on people and the planet (PPP). SP is usually associated with fair, social, and “green” production of goods and services taking into account a proper balance between price, quality and availability of these supplies and services. In other words, besides striving for profit, SP takes the effect of business activities on the environment (planet) into account and considers the human aspects within and outside a company (people). It is
all about searching a balance between, people, planet and profit which often seems to lead to better results for the business as well as the society at large.

Four European Fair Trade Organizations developed the Responsible Procurement Initiative, outlaying six steps towards responsible sourcing (www.responsible-procurement.org):

1. Understand existing legislation
2. Establish a senior management champion
3. Train buyers
4. Collect data and set benchmarks
5. Assess and reward buyers and suppliers performance on responsible procurement

Indicators to measure responsible procurement by this group are:

1. Good relationships with suppliers
2. Clear, timely communication
3. Sustainable prices and pricing
4. Clear lead-times and payments
5. Respect for human rights in the supply chain
6. Support for small scale producers and homeworkers

In the same line, the European organization Business Social Compliance Initiative (BSCI) conducts social audits of suppliers in developing countries to meet requirements of high quality, low prices and socially fair produced goods (www.bsci-eu.org). The audits are open to retailers and processing industries in the West. A code of conduct based on CSR principles needs to be signed by the audited suppliers.

The Fairtrade Standards go one step further (www.fairtrade.net). They do not only ask companies to intend to be socially responsible, but also make it obligatory to certified fair trade buyers to pay a minimum price which is considered fair to producers. On top of that, a premium needs to be paid that is invested by the producers in programmes that enhance social, economic or environmental development. Payments need to be partially paid in advance and contracts need to enable producers to practice long term planning and sustainable production. One can recognize fair trade products by their fair trade certificates. Other sustainability certifications are, for instance, organic certificates, e.g. those of the International Federation of Organic Agriculture Movements (www.ifoam.org), and Utz certified (www.utzcertified.org ), etc.

References

• Kaplinsky, 2000
• KIT, Faida MaLi, IIRR (2006). Chain empowerment: Supporting African farmers to develop markets. Royal Tropical Institute, Amsterdam; Faida Market Link, Arusha; and International Institute of Rural Reconstruction, Nairobi.
• OECD (2001), DAC Poverty Reduction Guidelines, Paris
• Walker H. and Neil Jones, Sustainable procurement, Lessons from the private sector
• Weele, Arjan J., Procurement & Supply Chain Management, 2005