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Date Prepared:

September 2008

TRANSPARENCY & CONFIDENTIALITY WITH RESPONSIBILITY

# **Managing the Complexity of Corporate Responsibility (CR) in the Supply Chain**

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## INTRODUCTION

A company and its brand are only as good as the decisions its people make and the suppliers it uses. As many of the banks have found out to their cost, poor decision-making by key staff can be – quite literally – fatal to the business.

Any purchasing decision requires balancing of different factors, which need to be weighed one against another. Partners In Purchasing has a priority to help our clients do this, in order to make the right decisions in what they buy, who they buy from and what they pay for it.

Increasingly, making purchasing decisions is being complicated by the need to take so-called Corporate Responsibility into account.

What CR issues need to be factored into purchasing decisions, and how ought these to be balanced with other priorities? Some food costs have gone up by as much as 40% in the past year. How can operators balance the need to keep a tight rein on costs, whilst at the same time ensure that CR is considered in the decisions they take?

Moreover, there needs to be transparency both around procurement decisions and in the supply chain itself. Boards of directors need to know that their employees have taken decisions in the best interests of the company. Given the sensitivity and complexity of many CR issues, transparency validates the evidence that the relevant issues have been properly identified, understood and taken into account.

This report sets out how PIP can help its clients incorporate CR into their buying decisions. It explains what is meant by CR and then explores the CR issues associated with 6 significant product categories – water, meat, fish, tea and coffee, uniforms and contract cleaning. Finally it explains how these issues can be taken into account within a robust and transparent process that allows clients to balance CR considerations with other priorities. In this way our clients can take a responsible decision.

## WHAT IS CORPORATE RESPONSIBILITY?

Although CR is certainly complex, and requires companies to respond to diverse and changing issues, defining it is quite straight-forward. CR is about how a company identifies and manages its impacts in three areas:

### Environment

- How does a company manage the environmental impacts of its operations, for example emissions at its plants or safe storage and usage of chemicals and other potential pollutants? Do their suppliers do the same?
- What contribution does a company and its supply chain make to the challenge of climate change? What actions does it take to reduce its footprint of CO<sub>2</sub> and other greenhouse gases?

### Society, human rights and labour conditions

- Does a company operate a safe working environment for its employees and others? Does it pay fair wages and overtime rates? Do its suppliers do the same?
- What are the impacts a company has on the communities where it operates? Is it a good neighbour by adding value to local people by providing employment opportunities, investment and other benefits?
- Does a company, either directly or indirectly, through its operations, have a detrimental impact on human rights in the countries where it operates? What are the impacts of its suppliers' behaviours?

### Ethics

- Do a company and its suppliers operate in a fair and transparent way?
- Do a company and its suppliers avoid the payment of bribes and other payments that pervert the business process?

***Corporate Responsibility is about how a company identifies and manages the environmental, societal and ethics impacts of its businesses***

## CR-Why do it?

There is increasing evidence that companies that are good at CR perform well more generally. Examples of why CR benefits a company include the following:

- **Access to capital**  
An increasing number of fund managers are taking CR performance into account in their investment decisions. Morley Fund Management, for instance state that it is “increasingly important for companies to demonstrate that they understand their corporate social responsibilities.”
- **Improved financial performance**  
According to research undertaken by the Institute of Business Ethics “companies with codes of business ethics/ conduct produced an above average performance when measured against a similar group without codes.”
- **Staff retention and motivation**  
Increasingly people want to work for companies which they believe behave well. A study in the UK by the executive development organisation, *Common Purpose* concluded that employers who “provide opportunities for their staff to explore how society works and to get engaged in the wider world will hang on to their talent.”

As Lord Leverhulme once said, “I know that half my advertising is effective, the trouble is to know which half.” The same is true of many companies CR activities: they recognise that their programmes have some or all of the benefits above, but the link is not that clear.

However, those companies who are leaders in CR, and also those who derive the most significant benefit from their activities are those who proactively use CR as a tool for addressing defined and specific operational or commercial issues. Examples include:

- The mining giant Anglo American developed its SEAT (socio-economic assessment toolbox) tool to help understand and manage relationships with communities near its sites. These are critical both to the smooth operation of existing plants, and in bidding for new mining concessions.
- British Land’s Meadowhall Shopping Centre developed *The Source*, a skills-training centre on the site. This answers the need for suitably-qualified staff from stores at the Centre, and also demonstrates commitment to the local area, where unemployment is high.
- Marks and Spencer’s Plan A is aimed at developing its relationship with its core customers. By working to eliminate all potential CR issues related with their products, M&S provides reassurance to those who shop there.

## CR and the credit crunch

Sceptics will argue that CR is a fair-weather activity – companies can have the luxury of worrying about the social and environmental impacts of their activities when, literally, they can afford it. In these straitened times, these people argue, CR will recede as companies focus on the economic basics, or even on survival.

This argument misunderstands CR and, more importantly, misunderstands the lessons of the current economic turmoil. CR – at least well thought-through, commercially-relevant CR is here to stay. There are two main reasons for this

As the previous section demonstrates, for those companies doing CR properly, it is no longer an add-on, or a 'nice-to-do', it is a proactive strategy designed to address core commercial or operational issues. As such it cannot just be stopped or down-graded without significant wider impacts on the business. For mining companies, for instance, to focus less on community relationships would threaten their ability to win further contracts in the future.

Secondly, it is apparent from the current crisis in the financial sector, that irresponsible business practices can have significant negative impacts on wider society. In itself this demonstrates the value of CR. However, in the fallout from the current events, the calls for much tighter regulation of the financial and other sectors will become much louder, and for politicians difficult to resist. The more that the business world is able to demonstrate that it can act responsibly, the greater the chance that greater regulation can be avoided, or at least limited.

## **CR and procurement – why do it?**

But why extend CR to your supply chain? Why should companies not just work on getting their own house in order, and let their suppliers do the same? The M&S example in the previous section begins to explain why. Today's consumers are more likely to be aware of issues like global warming, bad labour conditions in emerging markets and corruption, and they expect the companies they buy from to manage these.

Companies also need to remember that they and their brands are only as good as their suppliers. In 2007, Mattel was forced to withdraw millions of toys sourced from China and Mexico because parts fell off and they were painted with lead paint. The immediate cost was significant, with an unquantifiable long-term loss of confidence in their brands.

The current situation with contamination of milk products in China demonstrates yet again the importance of transparency in the supply chain. The issue emerged in early September when a number of children became ill from drinking milk now known to have been contaminated with melamine. In the last month, some 50,000 children have been made sick, and four have died. The EU has banned baby foods from China that contain milk, and Cadbury has been obliged to recall 11 chocolate types from mainland China, Hong Kong, Taiwan and Australia that were found to contain traces of melamine.

Loss of confidence can be serious enough, but it may actually be that laws are being broken in your company's name. Are bribes being paid on your behalf by suppliers, for example? Unless you pay attention to the CR in your supply chain, it will be difficult to know whether you comply with legal requirements such as the US Foreign Corrupt Practices Act.

And anyway, whether or not you may be breaking the law, do you really want your company scrutinised adversely by the press and other media. Do you really want to be the headline on *Newsnight* or the *Sunday Times*?

## **CR and procurement – how to do it?**

The fact that a company might begin to consider the CR issues relating to the products and services it buys does not mean that it suddenly forgets about all the other issues that need to be taken into account. CR is an important issue to consider in taking procurement decisions, but so too are quality, delivery schedule and price. Making CR work in supply chain decisions requires an understanding that it is one of a number of factors that need to be weighed up against each other. It is up to the company and the procurement team to decide how much weight to accord these issues, and the position that needs to be taken on specific topics.

If the key to good CR is to focus on a small number of key issues, the same is also true in applying CR to the supply chain. Trying to manage everything is doomed to failure. The aim should be to focus on a manageable number of key issues. A procurement team can then be much more focussed on what issues it seeks to understand in relation to the different products and services it buys. It is then much more straight-forward to balance these issues against the other priorities of price, product, place.

The key tenets of a well-managed process to apply CR to the supply chain should be as follows:

- Risk-based
  - The aim is to identify the most significant 3-4 risks relating to each product category, and manage these.
- Focussed
  - The aim is to address a manageable number of issues relating to each product category. Sending lengthy questionnaires to suppliers wastes their time and yours.
- Non-bureaucratic
  - CR issues need to be managed as a part of the existing procurement system.

### **Effective procurement CR is based on two central pillars:**

- Procurement risk register
  - Such a register identifies the key CR risks related to each product category. The aim is to identify the 'big bets' and then to manage these. For example, a significant issue for a logistics supplier would be the CO2 impact of its fleet: for a contract cleaning company, the most important CR issue would be their treatment of staff.
- Evolution of the procurement process
  - In most large commercial organisations, a well-established process is in place to manage procurement. CR in the supply chain will work successfully if it is incorporated into these systems

The remainder of this report describes in more detail how these structures can work and what they contain.

## **CR IN THE SUPPLY CHAIN: different products, different issues**

The campaign lobby and some CR advisers would like to pretend that there are clear cut 'ethical' decisions that can be made by procurement professionals in the choices of products and services they buy. They like to pretend that some products are good and others bad.

This is rubbish.

Like so much in life, building CR into the supply chain is not about clear-cut black and white choices. There is a need to balance sometimes conflicting issues. Ceasing to buy a product out of Africa may have environmental benefits, but may also deny poor people a living. Buying free-range foods may improve standards of animal welfare but may prove financially or safety untenable.

By focussing on the most important issues relating to each product or service category, buyers can more easily take an informed, balanced decision which takes into account all relevant issues: CR as well as the usual consideration of price, specification, quality, delivery schedules and so on.

The following section outlines the key issues associated with a number of key procurement categories, and how these might be dealt with.

### **Meat - What are the issues?**

#### **Environmental impacts**

From the perspective of global warming, activists have pointed out that eating meat is a problem. Basically this is because meat production is a multi-layered process. It requires growing crops for animal feed (which has implications for pollution), as well as the inputs to the rearing of the livestock itself. Animals emit considerable quantities of methane: a cow produces up to 90kg of methane a year, which has 20 times the global warming impact of CO<sub>2</sub>.

Organic and grass fed meat addresses some of these issues – particularly use of pesticides and synthetic fertilizers in the production of animal feed. Nonetheless, the nature of meat production has significant global warming implications. A study by Carnegie Mellon University in the US found that for a family to switch from red meat to a vegetarian dish just one day per week would save the equivalent of 1,860 km of driving in a year.

#### **Food miles**

However, if an organisation does not want to reduce its meat protein, then the environmental impact that can most readily be managed are the so-called 'food miles' that meat travels from field to plate. The term was first coined by food academic Professor Tim Lang as a tool to compare the environmental impacts of different food stuffs. The logic is simple – the further a food travels from origin to consumer, the higher its impact.

However, it is apparent that the situation is not quite as straightforward as that. Food miles consider only one aspect of a product's environmental impact – the journey to market: what really needs to be looked at is the overall carbon impact of a products production process.



A 2005 Defra report indicated that it can be more energy-efficient to import tomatoes from Spain by lorry than to grow them in a heated greenhouse in the UK. Lettuce grown out of season in the UK also compared unfavourably with Spanish salad when total carbon emissions were measured.

A study carried out at Lincoln University in New Zealand concluded that rearing and distributing British lamb produces more CO<sub>2</sub> emissions than importing the meat 11,000 miles by sea. New Zealand farmers rely on fertile grassland and use less fertiliser, so agriculture is more energy efficient than the UK's, making up for the food miles.

## **Animal welfare**

The other significant issue relating to meat production relates to the conditions in which animals are reared. Consumer concern about this topic began over battery farming of chickens and subsequently spread to concern for welfare conditions of cattle and pigs. The result has been the development of many 'free-range' products derived from animals which are able to live more 'normal' lives before slaughter. Its proponents also argue that free-range meat is better tasting and healthier because the requirement for medical intervention is reduced.

## **What can be done?**

Some organisations may decide that the environmental impacts of meat production warrant a reduction in the amount of meat that they buy. Even a small reduction in the quantity purchased will have a significant impact on a company's carbon footprint. Switching to grass fed meat may reduce environmental impact, however production methods need to improve before costs are cut.

However, as the discussion of food miles makes clear, fewer food miles do not always mean a less environmental impact. Smaller, local suppliers may also be more expensive. It is therefore important to balance these issues in taking a decision.

Especially in the UK, issues of animal welfare are always going to be emotive: it was campaigners' images of battery chickens that did much to drive the development of free-range products. Many organisations will therefore want to specify that the meats they buy are free-range. Specific knowledge on stocking densities and production volumes are required before responsible decisions can be made.

Thus far, sourcing 'welfare' products would seem to be an obvious step forward for the responsible buyer. However there is a problem: the cost. Free-range and other similar products typically cost more than a conventionally-produced equivalent. Battery farming techniques, for example, allow people to buy fresh meat at low cost: a retailer deciding to switch to free-range product will price these people out of the market. Production methods will have to adapt to prevent vulnerability from cheaper less regulated imports.

### **What can be done?**

- Find out the provenance of the animals
- Check sourcing and traceability of the meat
- Check health implications from production methods
- Interrogate handling and supply chain at each stage

## **FISH - WHAT ARE THE ISSUES?**

### **Welfare issues**

Although the vast majority of fish is fished from the oceans, some is farmed. As with land animals, there are welfare conditions that should be considered. These include ensuring that stocking density is not too high; and that water is well oxygenated and of high quality.

### **Sustainability**

Many marine ecologists think that the biggest single threat to marine ecosystems today is overfishing: In 2003, 29% of open sea fisheries were assessed as being in a state of collapse, defined as a decline to less than 10% of their original yield. The UN's Food and Agriculture Organisation estimates that if current trends continue, sea fisheries will be extinct by 2050.

The problem is caused by modern, intensive fishing techniques such as the use of enormous drag nets and sonar systems that allow trawlers accurately to target shoals of fish. These techniques not only over-exploit commercial fish stocks, but also damage the wider marine environment and catch other species, whales for instance.

Despite this technology global fish catches fell by 13% between 1994 and 2003, clearly demonstrating that many fisheries are in serious decline. Government efforts to deal with the problem do not seem to be making the situation any better. EU quota levels, for example, result in fishermen throwing back fish they have caught above quota.

### **What can be done?**

- Find out the sustainability of the species sought after
- Choose species which have not been exhausted
- Choose fish from well managed fish farms
- Consult with the Marine Stewardship Council

## UNIFORMS - WHAT ARE THE ISSUES?

The UK imports 90% of its clothing and textiles, a business worth some £11 billion a year. Therefore, there are CR implications right along the value-chain of uniforms and other clothing bought by UK firms.

### Impacts of the production of synthetic fabrics

Self-evidently, man-made fabrics are manufactured. Some of them, polyester for example are derived from petrochemicals, and therefore their production has implications for the production of greenhouse gases.

### Impacts of cotton production

The growing of cotton has significant environmental impacts. Globally, although cotton accounts for less than 3% of the world's farmed land, it consumes a quarter of insecticides, 10% of herbicides and is the fourth most heavily fertilised crop in the world. Cotton-growing is also highly water-intensive with approximately 70% irrigated, and only 30% rain fed.

Although in developed countries, cotton production is a highly mechanised activity, in emerging markets it is much more labour intensive, with cotton picking, and even fertilisation of the plants, being done by hand. Campaigners argue that these farmers are discriminated against by international trade rules. The USA, for example provides subsidies to its cotton growers which amount to nearly \$12.5bn annually, about 3 times the country's overseas aid budget. The result has been the development of 'fair-trade cotton', which seeks to provide a market to smaller producers in emerging markets.

### Manufacturing impacts

By far and away the most significant issue in the clothing supply chain is the working conditions in the garment manufacturing industry. There have been a large number of exposés in the past few years of garments sold in the UK being produced by slave, forced or child labour.

Earlier this year for example, the BBC's Panorama programme uncovered the use of child labour in the supply chain of discount retailer Primark. The documentary uncovered footage of small children stitching sequins on a top which retailed in the UK for £4. Last year an investigation by The Guardian newspaper alleged abuses by factories in India supplying clothes to UK retailers including Mothercare, H&M and Matalan. They found that workers were being paid as little as 13p an hour, and were regularly forced to work as much as 18 hours overtime a week.

Working conditions are often very poor, with little attention paid to worker's health and safety. Interlocking guards on machinery, designed to protect the operator, are often removed; toxic chemicals are incorrectly stored; and ventilation is poor. There have been instances (especially in China) of workers dying when trapped in dormitories located above factories that caught fire.

#### What can be done?

- Find out where the fabric comes from
- Ask questions about the manufacturing process
- Interrogate the pay and the methods of payment
- Find ways to check for child labour
- Ask for recognisable Health and Safety systems and accreditation

## **WATER - WHAT ARE THE ISSUES?**

In CR terms, procurement of bottled water for consumption in the UK makes absolutely no sense whatsoever. In a country like the UK, where the municipal water supply is reliable and of good quality, the consumption of bottled water gives rise to entirely unnecessary environmental impacts. A recent study by the Swiss Gas and Water Association found that bottled water produces more than 100 times as much CO<sub>2</sub> than tap water.

Earlier this year the environment minister, Phil Woolas, said in an interview that the money spent on mineral water "borders on being morally unacceptable". The Government's natural resources advisor, Professor Tim Lang, has called for a campaign to make the consumption of bottled water as unacceptable as smoking, and then Mayor of London Ken Livingstone launched a drive to make tap water more easily available in the capital's restaurants. The issues are several-fold:

- Most bottled water is supplied in plastic bottles. In the US it is estimated that the production of plastic bottles for water requires 1.5 million barrels of oil per year – that's enough to generate electricity for 250,000 homes or fuel some 100,000 cars for a year
- Globally, it is estimated that 2.7 million tonnes of plastic is required to provide water packaging, and that 90% is not recycled and therefore ends up in landfill. In the UK, given that landfill is running out, this will be increasingly unsustainable.
- The transport implications of freighting water around the world are also substantial – Evian and Volvic for example have to travel 600 miles just to reach the UK. It is estimated that Fijian bottled water – the latest trend in the US – produces 250g of CO<sub>2</sub> per bottle.
- One recent study calculated that the bottled water industry in the UK generates annually about 33,200 tonnes of CO<sub>2</sub> emissions. That is just a little less than the electricity consumption of 20,000 households and the equivalent to the annual energy needs of 6,000 homes.

### **What can be done?**

- Stop buying bottled water
- Replace with attractive water jugs and a variety of accompaniments – plain – lemon – cordials or infusions
- Substitute with filtered systems
- Use provincial local bottled water if other systems are impracticable
- Interrogate the pay and the methods of payment
- Find ways to check for child labour
- Ask for recognisable Health and Safety systems and accreditation

## CONTRACT CLEANING - WHAT ARE THE ISSUES?

Of all the products and services not sourced out of foreign countries with poor human rights records, contract cleaning and other contracted external labour services are those where serious CR-related abuses are most likely to be found.

### De facto slave labour

There is good evidence that what amounts to slave labour exists in many contracted labour situations in the UK. A recent TUC report spoke of what amounts to human trafficking in low wage workers.

- National Insurance numbers were available only for very few of the workers, indicating that others were possibly illegal immigrants.
- Workers lived in crowded conditions in communal houses.
- Each house had one person to whom the wages for the whole house were paid.
- There is every reason to believe that correct wages were not paid onto others in the houses.

### Pay rates and deductions

Workers residing in the country illegally, or even legal immigrants working for some gangmasters, have no power of collective bargaining and are therefore often paid wage rates well below the minimum wage. There are examples of contract cleaning agencies charging out workers at well below minimum wage levels even including their on-costs, indicating that the workers themselves will receive very low rates of pay.

These wage levels are further eroded by 'deductions that some agencies make, for example for travel or accommodation. In one instance workers were being charged 3 weeks pay for 'training' that they had never received.

### Working hours

Workers in these circumstances are often required to work well in excess of the 48 hours per week (to include overtime) stipulated by the EU Working Time Directive. Although in the UK this stipulation can be waived, this has to be with the express consent of the worker.

### Health and safety

Cleaning services imply a number of health and safety risks, including the effects of incorrect use of cleaning products and other chemicals or injuries caused by incorrect handling/ use of machinery. Moreover, the risk affects not just the cleaning staff themselves, but also members of the general public. It is essential therefore that cleaning staff are correctly trained in relevant health and safety in order not to endanger themselves or others.

Chemicals permitted for use in cleaning products are regulated by law. It needs to be ensured that no illegal (and therefore hazardous chemicals) are used. Moreover, these chemicals need to be correctly stored and handled

Machinery that is either poorly maintained, or incorrectly used risks causing injury to operatives or the general public.

#### What can be done?

- Legal status of workforce – Home Office checks
- Traceability of workers hours
- Payment of wages into a visible UK bank account
- Evidence of paid overtime at agreed rates
- Health and Safety training certificates
- Interrogate the pay and the methods of payment

## TEA AND COFFEE - WHAT ARE THE ISSUES?

### Vulnerability to commodity prices

Many coffee and tea producers are small-scale farmers. The central problem for these people is that the price is set by the world commodity markets. If prices slump, so does their income. Given that many small producers live at or near the poverty line, price drops can have very serious impacts.

### Labour conditions and pay rates

On the other extreme, where tea and coffee are grown on large plantations, both labour conditions and pay rates can be poor. In Kenya, for example, campaigners found that coffee workers earn about US\$12 per month, only about a third of the minimum wage. In Guatemala, workers received \$0.87 - \$1.30 for a 10-12 hour day: the legal requirement is \$2.60 for an 8-hour day.

### Child labour

Child labour is a problem in both the tea and coffee industries. Reports suggest that in Kenya's central province, 60% of the workforce on coffee plantations are children. The tea growing industries in India, Sri Lanka and Malawi have all been hit by allegations of the use of child labour.

### Environmental impacts

For both tea and coffee production, the main environmental impact lies in the conversion of valuable natural habitat to plantations. In the case of tea, plantations are usually located in more rugged and remote areas, which tend to be those with the highest biodiversity. This obviously denies a natural habitat to many species. However, because of the slope of the land, considerable soil is lost before the plantations are fully established to protect the soil. As a consequence, a fair amount of soil degradation can occur.

In the case of coffee, the problem is de-forestation, with primary forest cut done to accommodate coffee production. According to the WWF, of the 50 countries in the world with the highest deforestation rates from 1990 to 1995, 37 were coffee producers.

### What can be done?

- Understand the difference between Fairtrade and other labour reward schemes
- Choose between labour led or environmental impact programmes
- Interrogate the methods of payments
- Look for evidence of community led initiatives
- Check all the regular health and safety issues and accreditations

## LABELLING SCHEMES

The rise in CR and the increase in popular awareness of issues associated with it have given rise to a plethora of different standards and labelling schemes. Such schemes seek to inform and aid buyers in making choices but, as the example above demonstrates, they need to be used advisedly.

### The Fair-trade debate

Of the myriad labelling schemes that try to help buyers through the CR maze, the logo of the Fairtrade Foundation has become one of the most ubiquitous and probably the best known. It would also be true to say that it has been the Fairtrade movement that has put the human and environmental impacts of commodity products like tea and coffee on the mainstream agenda.

It would seem obvious therefore that anyone wishing to demonstrate that they were managing the CR issues in the tea and coffee they bought should simply buy Fairtrade-labelled goods. According to the Fairtrade Foundation, “Fairtrade is a tool for development that ensures disadvantaged farmers and workers in developing countries get a better deal through the use of the international Fairtrade Mark.”

Central to its way of working is that growers get paid a higher price for their product than the prevailing world price – the so-called ‘Fairtrade premium’. However, the scheme also includes environmental considerations too, to ensure that commodities are produced in a sustainable way.

An easy answer? Would that it were as simple as that. The Fairtrade process has been criticised in a number of ways:

- Economists argue that the ‘Fairtrade premium’ distorts the market mechanism and encourages over-production.
- The Fairtrade process works through co-operatives. There have been allegations that those outside the Fairtrade system see their prices fall still lower.
- The co-operatives system excludes small producers, large plantations and family firms who cannot be certified. It also raises the question of the degree to which a higher commodity price benefits the wider local economy.
- *The Economist* estimated that only 10% of the premium paid for Fairtrade coffee in a coffee bar trickles down to the producer.

Conversely Café Direct, for example argue that it has enabled them to work with 39 grower organisations, encompassing 264,666 growers in 13 developing countries, which have a positive impact on the lives of 1.4 million people.

However, for those concerned about the criticisms of the Fairtrade mark, there is an alternative: the accreditation of the Rainforest Alliance. As its name suggests, it focuses primarily on tackling environmental impacts of commodity production. Unlike its competitor this scheme does not guarantee a minimum price to its producers. However it is available to all growers, not just co-operatives. By working with small businesses, it is also argued that the impact that the scheme has on the wider economy can be greater too.

However, as the debate about the relative merits of Fairtrade and Rainforest Alliance labelling demonstrates, the old adage of *caveat emptor* applies.

Of course such schemes are helpful, but it is important to be aware of precisely what a logo tells you, and what it doesn't. If you are going to use a labelling scheme to demonstrate that a CR issue you have identified is being addressed, then you have to ensure exactly what the scheme says it does, and that this will provide you with the assurance you need. In the case of the Fairtrade/ Rainforest Alliance logos, the former would be more likely to be relevant to those who decide that the immediate welfare of growers is the over-riding factor. On the other hand, those companies whose CR focuses more on environmental issues may find Rainforest Alliance certification more appropriate.

Similarly in the area of animal welfare, a Red Tractor Mark demonstrates good husbandry in food production. However it would not demonstrate that a product was free range. That said, the Red Tractor scheme might actually be a valuable scheme for those wanting to find a half-way house between the desire to demonstrate improved levels of animal welfare and the desire to provide affordable food to low-income households. This also applies to the LEAF agricultural system which operates environmentally safe procedures to protect biodiversity without compromising crop yields.

It is also important to know who is behind a labelling scheme. Does it have credibility, and is it adjudicated by a reputable organisation?

## **CR: Part of the decision-making in the procurement process**

### **The importance of transparency and traceability**

Ethical business practice, good corporate governance and avoidance of corruption are all central to good CR. How a company operates, and that it can demonstrate transparency in its business practices are all issues that need to be included in a robust approach to CR.

However, many of these issues are also a matter of legal compliance. The Combined Code sets out clear guidelines on a range of corporate governance issues including accountability and audit. Compliance with the Code is mandatory for companies listed on the London Stock Exchange, and encouraged as good practice for all companies.

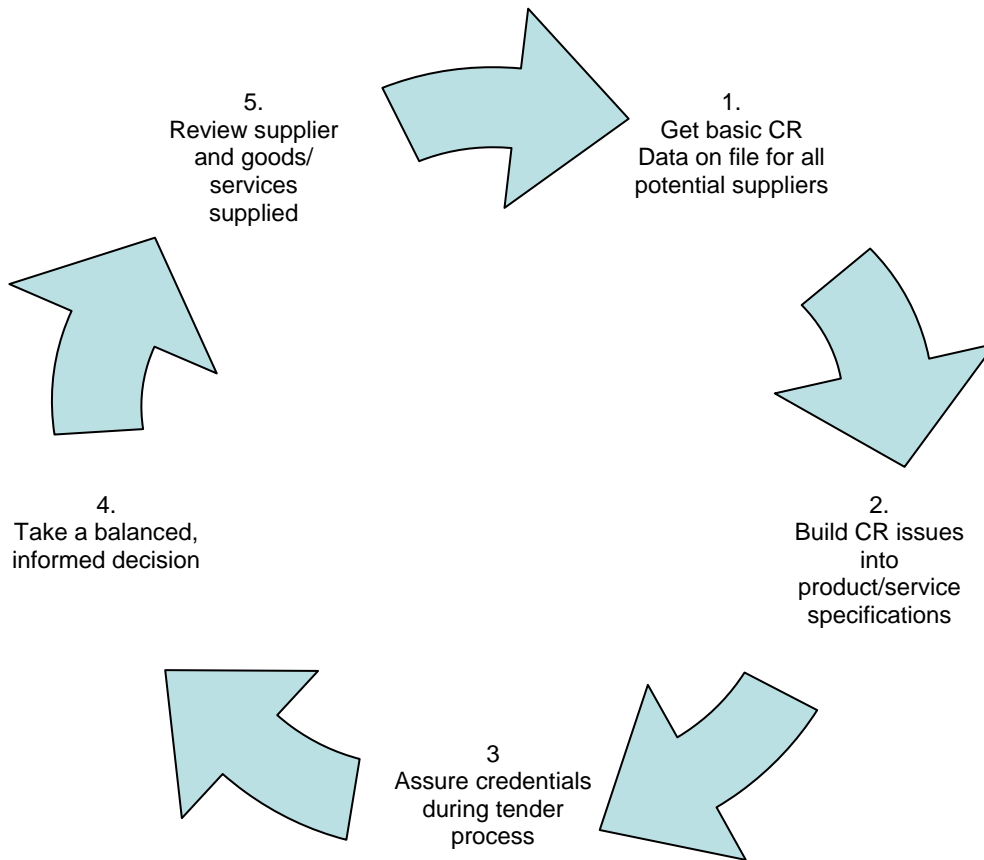
Moreover, directors have a fiduciary duty to ensure that their procurement process provides best value to the company and various legislation, including Money Laundering Regulations 2003, the Proceeds of Crime Act 2002, and the Security Act, 2001 all outlaw corruption and require companies to be transparent in their business processes. It has always been central to PIP's work with clients to ensure that there is transparency in the supply chain and that compliance with relevant legislation can be clearly demonstrated. This experience is also applied to the area of CR.

Clear process is obviously essential, both as an aspect of CR in its own right, and as a way of ensuring that CR issues relating to different products and services are being properly taken into account and properly balanced with other factors to arrive at an informed and responsible decision – responsible to society and the environment; to the company; and to the bottom line.

The bulk of this report has demonstrated that making CR manageable requires a focus on the most significant issues associated with each product or service. But just knowing the issues is not enough. This knowledge and understanding needs to be used to take procurement decisions that balances CR with the need to get the right product at the right price. How can this be done?"



## CR IN THE PROCUREMENT PROCESS



### Step 1: Get basic CR data on file for all potential suppliers

As part of a pre-qualification process, gather basic information about suppliers' awareness of and action on CR issues.

### Step 2: Ensure that product/ service specifications incorporate CR

When you have decided what CR profile you want to develop, ensure that this, and what proof of adequate performance might look like should be incorporated into product specifications. This ensures that CR is seen alongside and as important as more traditional issues like product, pricing, delivery schedules and so on.

### Step 3: Assure credentials during the tender process

A supplier's credentials on the product-specific issues should be verified as part of the tendered process.

### Step 4: Take a balanced, informed decision

Buying decisions need to be taken that balance CR and other relevant considerations.

### Step 5: Monitoring and evaluation

It is important to verify that the goods and services delivered meet the CR standards expected of them. However, it is also important to ensure that the experience of using a supplier is used to re-evaluate them.

## CONCLUSION

The report sets out the issues of significant considerations around decision making for your company which one can fall foul of through naivety on behalf of the buyer or opacity of the part of the supplier.

Three central decisions require examination on order to reflect your companies ethical and CR standpoint:

1. Protection of quality or safety in the face of cost cutting within the supply chain
2. Exploitation of the workforce in many manifestations
3. Adoption of environmentally devastating practices in the pursuit of profit.

The report has outlined a systematic process which can be integrated into the traditional procurement cycle with specific illustrative variations appropriate to each commodity or ingredient. Thus the CR process has been simplified, is based on risk, focussed and is non – bureaucratic.