

Exploring socially responsible purchasing in Swedish organisations

Oksana Mont

IIIEE at Lund University

JAOCC

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Problem statement

- Gap between the **societal desire** of SRP and **the slow implementation and uptake** across organisations.
- The **extent of deployment and integration** of SRP policies differs significantly.

Purpose

- To empirically examine **how social issues are addressed** in the narrower context of the **purchasing** function in **Swedish public and private** organisations.

Method

- Literature analysis
- Interviews with 20 organisations: business-to-business companies, producers of final products and public organisations, including state-owned companies, municipalities and regional authorities.
- Each interview – 1-1,5 hours
- 30 questions, with multiple-choice and close- and open-ended questions.

Main findings

- Still **risk management** rather than value creation
- **Big difference** between the level and extent of SRP development
 - private > public organisations
 - B2C > B2B
- **Expertise and customisation of tools**
 - depend on the level of progress
 - problematic
 - monitoring business practices of suppliers
 - tailor-made tools

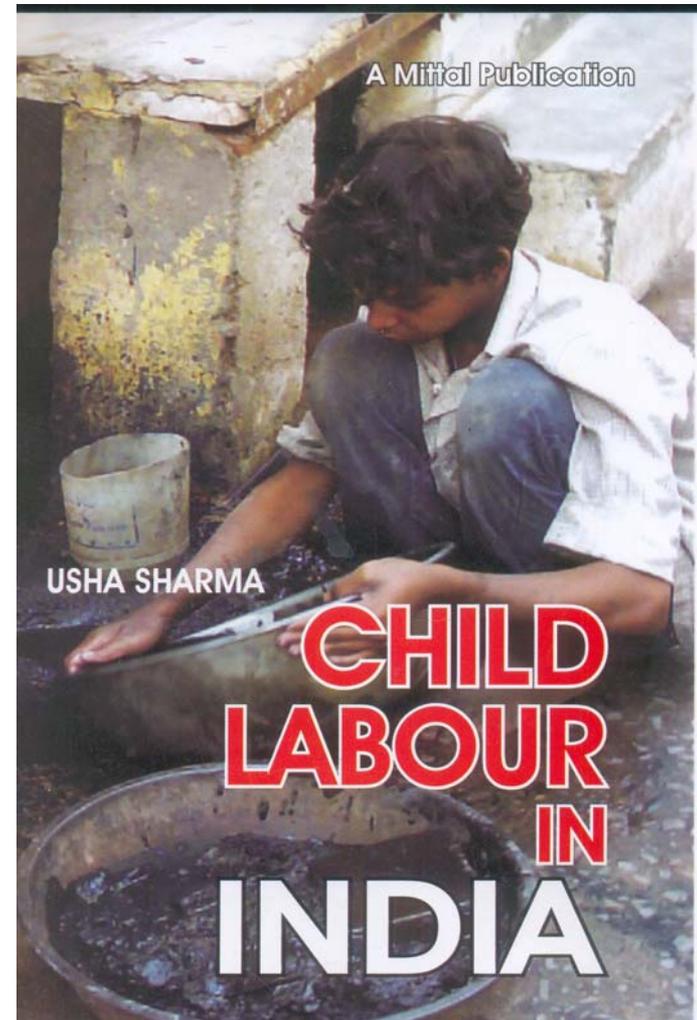
Recommendations

- Coordinated approach for **monitoring of suppliers**
- Clearer position and the **text of law**
- Self-evaluation and **benchmarking tool**
- Continuous dissemination of **best practises**

Socially responsible purchasing in Swedish organisations

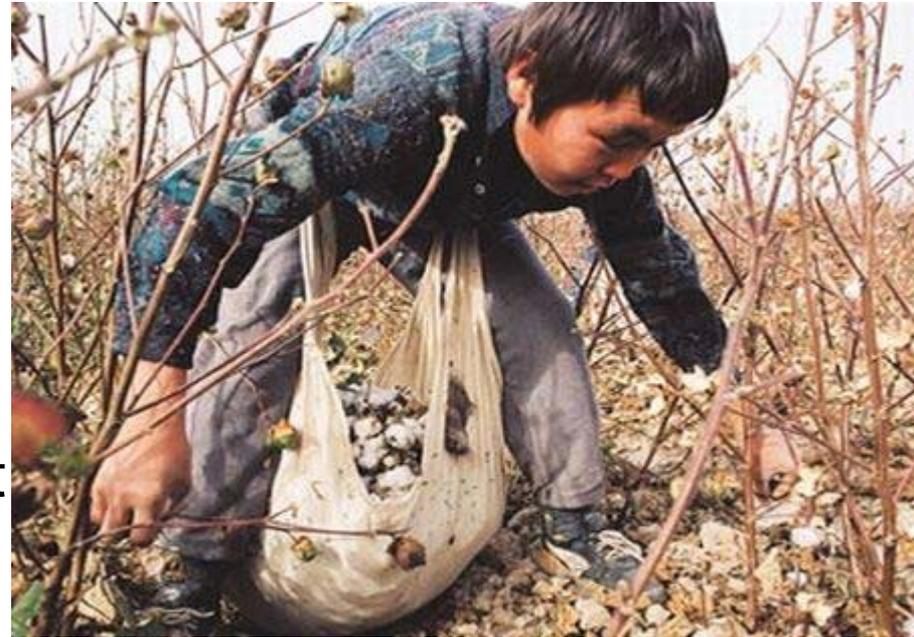
External drivers for SRP

- **Expectations** of stakeholders, especially customers
- **Public opinion** and messages from opinion formers, NGOs and media
- Maintaining **legitimacy**
- Need to **report on sustainability** issues
- Participation in **tenders**
- **External evaluation** and rating indexes
- Participation in development of **international standards** on social issues
- For public organisations - **political vision** in Sweden and **decision of politicians**



Internal drivers for SRP

- Risk reduction and => cost reduction
- Organisation's vision, policy or Code of Conduct
- Protecting the brand name
- Employees feel proud about set of values
- A champion in organisation



<http://www.stolenchildhood.net/entry/ejf-report-children-behind-textile-products/>

External barriers for SRP in Sweden

- The **market is not ready** for strict purchasing criteria
- **Impossible to ensure** compliance of all suppliers
- **Lack of court cases** for interpreting the the text of law
- **Absence of legislation** that would demand European or Swedish companies to include social and ethical criteria in purchasing



External barriers for SRP outside Europe

- Different cultures of working
- Low level of environmental and social standards and expectations
- Suppliers' workers themselves become a barrier
- Barriers for companies to verify information presented by suppliers - false information and double accounting
- High level of corruption in different countries
- Concerns about legality of social public purchasing - social criteria can be seen as barriers to free trade and fair competition



http://www.chinaherald.net/uploaded_images/cotton2-707361.jpg

Internal barriers for SRP

- **Top management** may lack understanding of SRP consequences for organisation
- **Information availability** and time consuming internal information collection
- **Lack of cooperation** between different purchasing units
- **Lack of knowledge and time** for developing purchasing criteria and tailored training kits
- **Lack of resources** for auditing all suppliers
- **Lack of practical tools** and updated information

Products in focus

- **Strategic products** and products and materials related to production
 - Volume or size of purchase
 - Level of risks associated with product performance
 - Societal attention to specific products
- Products **visible to employees** in Swedish companies - office supplies and equipment, transport and food
- **Consultancy** services

Social aspects in focus

Aspects of labour practices and decent work	employment	10
	labour/management relations	9
	occupational health and safety	12
	training and education	7
	diversity and equal opportunity	3
Human rights performance indicators	investment and procurement practices	1
	non-discrimination	9
	freedom of association and collective bargaining	10
	child labour	12
	forced and compulsory labour	12
Society performance indicators	community	3
	corruption	5
	public policy	1
	compliance	7
Product responsibility performance indicators	customer health and safety	2
	product and service labelling	4
	marketing communications	-
	compliance	3

Developing Code of Conduct and setting goals

- Purchasing Policy and/or Code of Conduct with social aspects
- Action Plans for integrating social aspects into purchasing criteria and procurement guidelines
 - Attach to every procurement contract
 - Suppliers signing the contract with social criteria
 - Access through IT system

Assurance practices

- Public organisations and many private companies - **few audit suppliers**
- The critical suppliers are chosen based on
 - importance in process quality
 - customers value
 - business considerations (production volume)
 - from social point of view
- Developed own procedures and tools for:
 - supplier requirements
 - supplier audits and development
 - evaluation of sub-suppliers

Examples of assurance practices

- SKF regularly audits 200 of **critical suppliers** (100%) and plans to evaluate the rest of suppliers (5000)
- IKEA - **almost 100% of all first-tier suppliers** being audited (1300), the level of compliance differs
- Indiska is starting work with **second tier suppliers**

External vs. Internal auditors

Pros for internal auditors	Pros for external auditors
Creates internal capacity and skills for extracting information	Provides credibility to focal organisation - external verification
Higher possibility to establish long term relation	Creates possibilities for economies of scale and for auditing 100% of suppliers
Might be cheaper in the long run	Might be cheaper in the short run
Cons for internal auditors	Cons for external auditors
Audits might be biased	Missing out on “silent information”
Difficult to guarantee the results – who audits the auditors?	

Need for tools for socially responsible purchasing

- Initial stage – tools for translation of Codes of Conduct into purchasing criteria
- Basic stage – implementation tools
- Advanced stage – internal expertise and customised tools

The cost of socially responsible purchasing

- Not easy to link to financial performance
- Initially might lead to increased prices, but in the long run should not have much impact
- Production costs of suppliers are $< 10\%$ of the final product price – not much impact
- What is the cost of lost reputation?



<http://fashioninganethicalindustry.org!/file/Protest+about+the+working+conditions+in+factories.jpg/>

Best practices: integrating SRP in focal organisation

- **Cascade** implementation of the Code of Conduct
- Finding the **tipping point** (time or argument) to win veterans
- **Education and training** in the organisation
- Identifying **clear messages**
- **Collaboration** for learning on social issues

Best practices: integrating SRP in supply chain

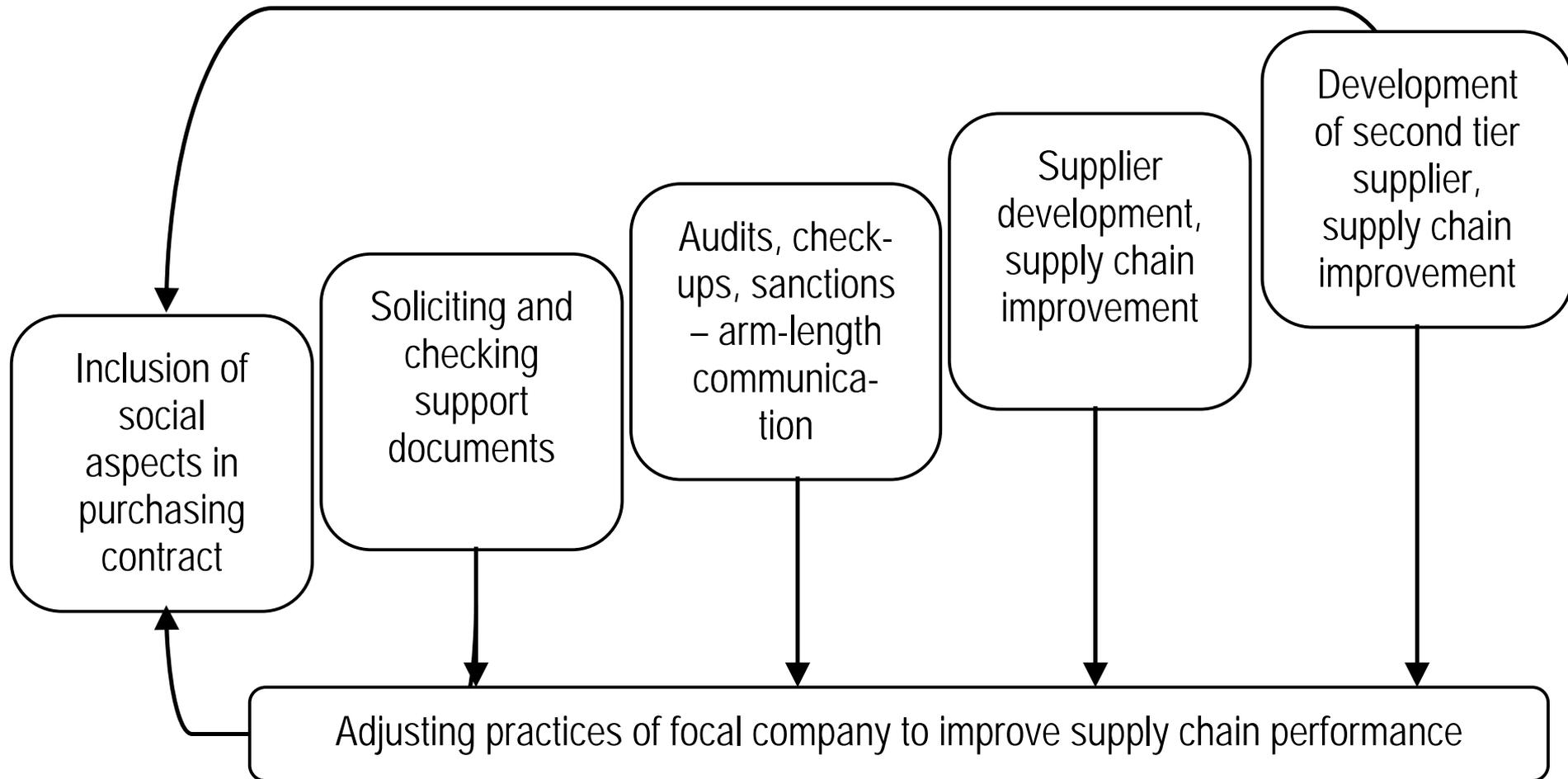
- **Collaboration** with suppliers, not just putting demands
- **Encouraging** suppliers – award
- **Empowering** workers of suppliers by informing about their rights
- Help companies work with **SMEs** through bringing them into associations
- **Coordinated follow-up** of suppliers
- **Shorten supply chains** by reducing the number of intermediaries

Information sources

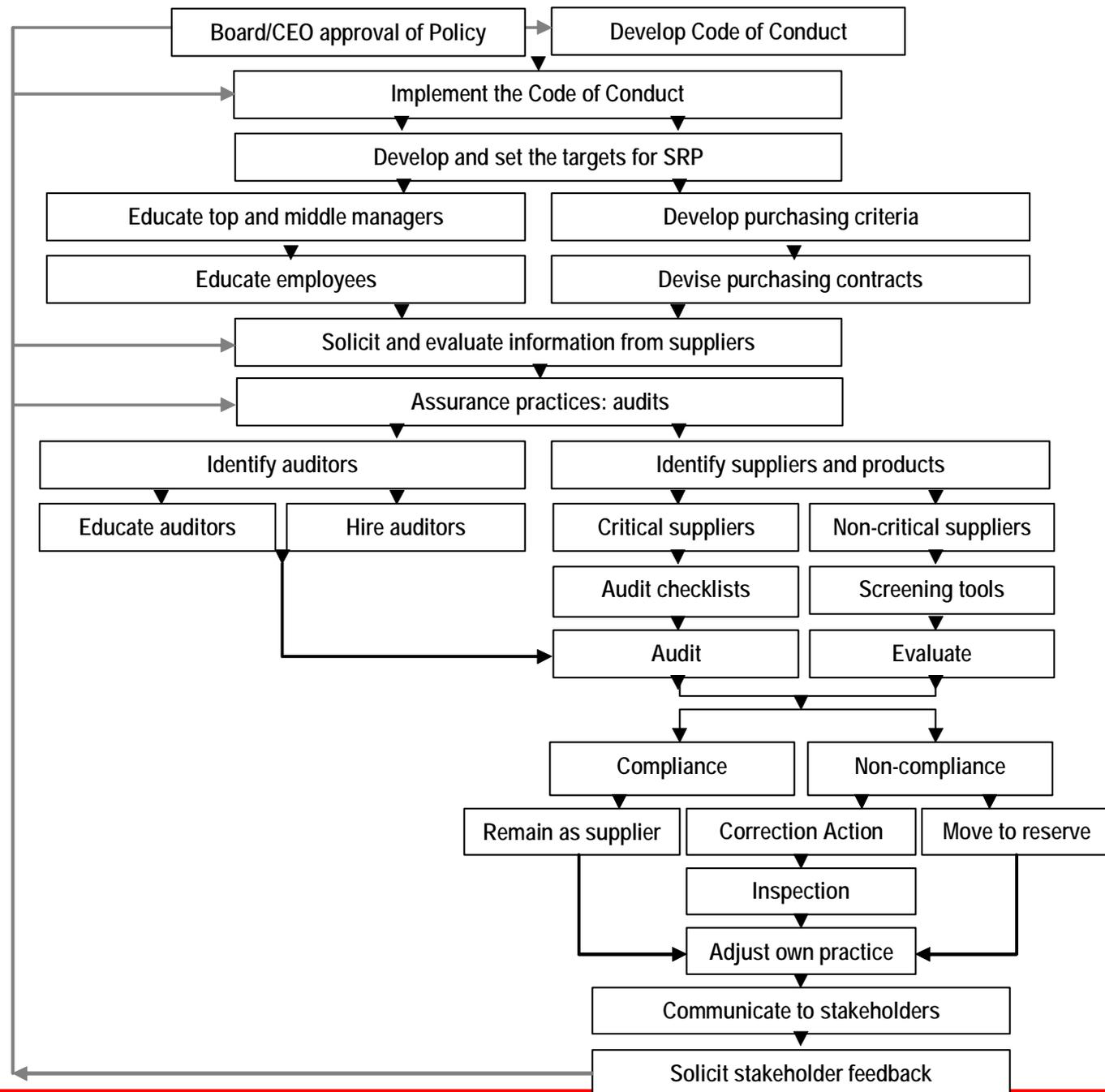
- **General international principles**, such as UN conventions, ILO principles or Global Compact
- **Industry associations**, e.g. FBWW & ITGLWF
- **Sector-oriented initiatives**, BASTA & FWF
- **Social and Fair Trade labels** and GRI guidelines
- **Leading companies**: Levi Strauss
- **Business forums**: BSCI, BSR, BLIHR, Teknik Företagen and MSR
- **NGOs**: SwedWatch, Global Utmaning
- **Standards**: ISO 26000 or SA 8000
- **Consultancies**: e.g. KPMG & PriceWaterHouseCoopers

How to further socially responsible purchasing?

Development stages of SRP in supply chain



SRP process



Self-evaluation and benchmarking matrix

Human rights and labour practices		Scale 1-10			
		0	1-3	4-6	7-10
Specific themes	Indicators	Reactive	Defensive	Accommodative	Proactive
Decent wages	Requires suppliers to provide fair compensation (a living wage) to workers				
Training and education	Ensures that supplier's workers are provided with training				
Freedom of association	Percentage of employees participating in trade union or workers association				
Freedom of collective bargaining	Percentage of employees covered by collective bargaining agreements				
Child labour	Conducts supplier visits to ensure that suppliers are not using sweatshop child labour				
	Ensures that suppliers comply with child labour laws				
Forced and compulsory labour	Conducts supplier visits to ensure that suppliers are not using forced and compulsory labour				