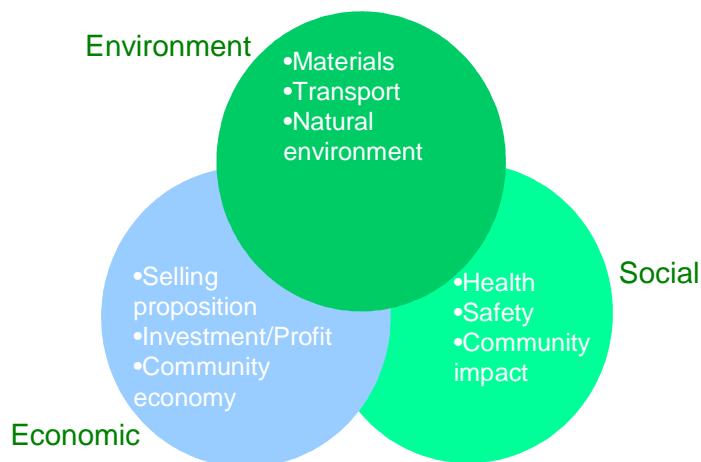


# Ethics and Corporate Social Responsibility

Ethics and Corporate Social Responsibility (CSR) is emerging as a leading issue for businesses from retailing to extraction and construction. This is of particular relevance to key account managers because the supplier's ethical policy and attitude is now becoming part of the customer's selection process. This trend will continue – ethics and CSR are firmly on the corporate agenda.

How, then, can suppliers understand their impact on society and on the environment and use this understanding to develop an ethical policy and positioning? One way to do this is to analyse the company against the "triple bottom line" of CSR (Elkington, 1997), which comprises the Environmental, Social, and Economic aspects of sustainable business practice (Figure 1).

**Figure 1: Components of the Triple Bottom Line**



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When businesses discuss "sustainability" they are referring to the extent to which the organisational impacts can be managed so as to minimize the negative impact on the Economy, Society and the Environment or conversely the possibility for positive impacts in these areas through initiatives such as responsible investment strategies (Economic), anti-

sweatshop policies (Social) or end of life product management (Environmental).

### **CSR Management and Performance Measurement**

There are now a number of accreditation (labelling) and measurement schemes in the CSR field. These include Fair trade (consumer products), carbon footprinting, GRI (sustainability), AA1000 (an independent audit of sustainability), ISO 14000 (Environmental management), SA8000 (verification of humane workplaces), FSC (Forest Stewardship Council).

Of direct interest to Sales and Account Managers is examining the impact of what we sell - 30% of the volume of waste from a construction site is packaging, for example. There are also the environmental and social impacts of what suppliers sell - the energy needs for the people who buy their product, the consumables they would need, and the end of life treatment of the products (recycleable?) as well as pollution.

An example of good practice in CSR measurement and management in practice is that of East Midlands airport, says **Ian Nicholson**, Managing Director of **Responsible Solutions Ltd.** At East Midlands airport, the airlines are given flight corridors for arrival and departure. The corridors are designed to minimise noise and inconvenience to the local community and adherence to the corridors is measured daily. Airlines receive fines if any of their planes are outside the lanes, the money from which is paid into a community fund for projects in the local area. The community benefited both from the projects and also from reduced nuisance because adherence to the corridors improved dramatically. In fact, performance improved to such an extent that the corridors have been tightened still further.

### **Achieving sustainability in the supply chain**

The core principle is to work as a single team across the supply chain, understanding each other's needs, and working for a fair price. This means an end to traditional adversarial supply chain relationships. Moreover, suppliers need to encourage creative thinking about sustainability issues. Finally, sustainability requires investment in people and in the supply chain.

### **Case study on Sustainable trading: Traidcraft**

Traidcraft Exchange is part of the Traidcraft operation which focuses on getting small communities into mainstream trade. It focuses on the development of 'normal' trading relationships, although with an emphasis on human rights and raising wages in the supply chain. Traidcraft has set up the Responsible Purchasing Initiative, a multi organisation network, to try and achieve this. As **Fiona Gooch**, Private Sector Policy Advisor at **Traidcraft** comments: "Trade reduces poverty when the right circumstances are in place", e.g. legal systems, processes etc. As well as

money workers get skill development, which might well be one of the most valuable things that Traidcraft provides.

Traidcraft reports on its social performance through social accounts ([www.traidcraft.co.uk/socialaccounts](http://www.traidcraft.co.uk/socialaccounts)). In 2000 it became one of the early adopters of social accounts in the UK. Its social accounts report on strategic objectives and stakeholder interests and views. The latter captures suppliers' and customers' views of the company. A specific example is that it is particularly important for suppliers in vulnerable communities to have consistency of orders, so Traidcraft has an objective for their order volume always to fall within a certain percentage (plus or minus) on the previous period. They have also put in fast communications to suppliers. As well as financial metrics, Traidcraft annually reports on a survey of 100% of its employees about what it is like to work for the organisation.

Although Traidcraft is clearly very supportive of its suppliers, it does part company with suppliers it cannot trust or where the supplier does not care enough to improve. Part of the Traidcraft ethos is consultation with suppliers to try and improve their performance. Traidcraft is particularly concerned about a major issue in international Trade, which is forced overtime (this is not just a problem in manufacturing; it includes call centres, services, etc). However, the reason for forced overtime is often the behaviour of international buyers, who will not commit long enough in advance for suppliers to plan their production or logistics. In response to this uncertainty, the suppliers take too many orders. Fiona Gooch warns that international buyers need to be more astute about suppliers over-committing.

Another area of concern for Traidcraft is the very low prices that UK retailers pay their suppliers for crops and food products, so that the suppliers cannot afford to pay domestic workers and have to employ (often illegal) migrants at much lower wages. There are a number of ways that companies using cheap foreign suppliers could improve matters: the main one is only to change for better suppliers, not cheaper ones. In some ways, the impact of the internet has been negative for CSR, because electronic trading means that fewer buyers travel to see the source of their products and hence the impact of their decisions.

Traidcraft points out that there is a clear business case for Responsible Purchasing:

- 1) Business reasons: Improved productivity / Improved quality / Good relationships and trust with suppliers (priority access to new products)
- 2) Reduced reputational risk
- 3) Point of differentiation with competitors

Traidcraft's view is that the current system encourages competition *within* a supply chain, but that over time this will move to *co-operation* within the supply chain and competition *between* supply chains.

One major company that takes its ethical stance very seriously is **BP**, says **David Bickerton**, General Manager of Brand and Group Communications. About ten years ago, John Brown, then Head of BP, made a groundbreaking speech about climate change. Three years later came the insight that 'people like to do business with a company with a conscience' led to the development of the BP brand 'beyond petroleum'.

As well as developing smarter fuels and lubricants (including a hydrogen fuel station at Munich Airport), BP has launched innovative campaigns such as its 'carbon footprint counter' on the web supported with a TV ad campaign. This was a huge success in the US with massive numbers of hits on the website and was launched in China in spring 2007, achieving a similar response with opinion leaders.

Drivers of opinion formation are different for BP than other oil giants and now include integrity and helping to transform the sector. Despite some recent issues, BP is very much seen as an environmental opinion former and has developed a positive perception gap versus the other oil majors. The company believes that this is an important business advantage for them, because of the impact of positive word of mouth. Explaining this, David Bickerton notes: "The reference point for word of mouth has moved from leaders and experts to the man on the street, friends and family". For BP, ethics and CSR are linked to business performance.

### **Further Reading**

Elkington, John (1997), *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*, Oxford: Capstone.

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