

A Call to Action: Developing a Social Responsibility Business Case

INSTITUTE FOR SUPPLY MANAGEMENT™

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Introduction

Every day, we encounter evidence that we are living in a global world, with boundaries extending well beyond those of our local community. Some organizations have discovered that linking social performance to product differentiation gives them an important source of competitive advantage. ISM believes that supply management is a key contributor in the development and implementation of social responsibility principles.

The ISM Committee on Social Responsibility has created a set of business-case documents designed to help you work through the process for developing or enhancing a social responsibility program where you work. As with any initiative, you need to gain executive support and internal consensus. This document is designed to walk you through the considerations of building a compelling business case to do just that. It begins with two introductory sections:

- **Description of Principles:** Brief explanation of each of ISM's Principles of Social Responsibility
- **Why Are the Principles Important?:** Overview of the value of the Principles of Social Responsibility

The remainder of this document is a template for your business case:

- **Reason for Change:** Examples of motivation for transformation

- **Problem to be Solved:** Examples of consequences of prior actions or maintaining the status quo
- **Expected Outcome:** Questions to be answered to articulate expected outcome, future state or goal
- **Key Steps to Implementation:** Suggestions for policy; planning; processes/procedures; measurement, tracking and reporting; and dedicated resources
- **Costs, Benefits and Risks:** This includes key costs to consider for each of the Principles, potential benefits from program implementation and potential risks involved in not having social responsibility programs.
- **Resources:** Additional resources for building your business case and for further information and links for each of the Principles of Social Responsibility.

This is your call to action. Please respond. Whether you select one or more of the Principles for program implementation, you will be:

- Contributing to the well-being of our planet
- Improving your organization's competitive edge
- Enhancing your own career

Description of Principles

Social responsibility is described as a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization and the community in the following areas (in alphabetical order):

- **Community** initiatives are generally developed in the context of a program of activities that provide cash, equipment, people or other resources to nonprofit organizations, educational institutions or other groups supporting the community in which the company or organization operates. Initiatives can be diverse, both

internal and external, one-time or ongoing, and at local, national or international levels.

- **Diversity** in supply management typically refers to an organization's efforts to include different categories of suppliers in its sourcing process and active supply base, and to address the opportunities and challenges that arise from differences and similarities. It also may include diverse employment practices within the organization and throughout the supply chain.
- **Environment** refers to any impact or change to the surroundings (including air, water, land, natural

Description of Principles (continued)

resources, flora, fauna, and humans and their interrelation) in which an organization operates, whether adverse or beneficial, or wholly or partially resulting from an organization's activities, products or services.

- **Ethics**, a major branch of philosophy, refers to the values and customs of a person or group. It covers the analysis and employment of concepts such as right and wrong, good and evil, and responsibility. The standards of supply management conduct are well-established within a number of different countries; however, today's international context of business brings new issues, such as cultural relativity of ethical values, and a search for universal values as a basis for international commercial behavior.
- **Financial Responsibility** refers to the ways in which individuals, businesses and organizations raise, allocate

and use monetary resources over time, taking into account the risks entailed in their projects.

- **Human Rights** refers to the concept of human beings as having a universal natural right, or status, regardless of legal jurisdiction or other localizing factors. These factors would include but are not limited to ethnicity, nationality, gender, culture, religion, age and sexual orientation. As is evident in the *United Nations Universal Declaration of Human Rights*, human rights are conceptualized as based on inherent human dignity, retaining their universal and inalienable character.
- **Safety** refers to the condition of being protected or free from the occurrence or risk of injury, danger, failure, error, accident, harm or loss.

Why Are the Principles Important?

Implementation of a comprehensive program dealing with any one of the Principles of Social Responsibility is important because it:

- Strengthens an organization's culture
- Helps ensure that actions are lawful
- Reduces risk
- Supports greater consistency in standards and quality of products and services
- Lowers total cost of operations
- Cultivates sensitivity to the impact of the organization's values and messages
- Facilitates strong public relations
- Helps recruit and retain customers
- Guides managerial actions and commitments
- Supports employee growth
- Guides employee actions
- Helps recruit and retain employees
- Guides supplier actions
- Improves trust in both internal and external (suppliers, customers and others) relationships
- Provides a clear and unambiguous message, both internally and externally

In addition to the above, implementation of comprehensive programs for ethics, human rights and safety are important. Ethics helps ensure that policies and actions are ethical. In addition:

- **Human Rights:**
 - Ensures that all individuals are treated with dignity and respect
 - Provides for support, respect and development of international human rights
 - Avoids complicity in human or employment rights abuses
 - Allows for equal opportunity and nondiscriminatory treatment
 - Protects the right of personal security
 - Allows for the right to family
 - Prohibits the existence of child labor and forced labor
 - Promotes the inherent dignity and the equal and inalienable rights of all members of the human family
- **Safety:**
 - Fulfills legal responsibilities to ensure the health and safety of employees, customers, suppliers and others
 - Ensures requirements to protect the environment

Reason For Change

The business case should describe the event or other catalyst that brought about its development. In other words, it should detail the reason for the change being contemplated. Among the reasons that organizations decide to implement social responsibility programs are to:

- Communicate values and hold all to stated standards of conduct
- Enhance market share, business volume and revenue
- Become a favored supplier
- Positively influence the community
- Earn respect from suppliers, customers, employees and other stakeholders
- Improve morale of employees
- Improve reputation to attract and retain customers and employees
- Improve public image
- Counteract negative press
- Reduce legal costs
- Manage risk

PROBLEM TO BE SOLVED

The business case must clearly articulate the problem(s) to be solved. For example, what are the consequences of prior actions or maintaining the status quo:

- Loss of business
- Negative publicity
- Costs of settlement and litigation
- Need to provide clear direction from the top down
- Need to satisfy court findings
- Substandard level of organizational morality
- Compromised employee and community morale

EXPECTED OUTCOME

The business case must clearly articulate the expected outcome(s), future state or goal. There are soft as well as hard benefits in most business cases, and the more measurable the benefit, the easier it is to sell to the organization. Questions to be answered include:

- How is “principle” defined in the workplace?
- Are there tangible benefits that can be identified?
- What are the hard costs of implementing a program?
- What resources does it demand?
- What are the drivers?
- What are the barriers?
- How should “good” practice be measured?
- How will outcomes be measured?
- Who will collect data and be responsible for reporting?

In addition to the above, with safety programs consider where the concept of “accident” fits.

The following table provides some additional examples of reasons for change specific to each of the Principles of Social Responsibility.

POSSIBLE REASONS FOR CHANGE		
PRINCIPLES OF SOCIAL RESPONSIBILITY	Community	<ul style="list-style-type: none"> • Relationships with community stakeholders and key publics
	Diversity	<ul style="list-style-type: none"> • Fair and equal treatment of all suppliers • Increased competition • Enhanced supplier base • Enhanced diversity within organization • Equal access to employment and promotion opportunities • Encourage diverse employment practices throughout the supply chain
	Environment	<ul style="list-style-type: none"> • Environmental impact • Sustainability • Legal and regulatory requirements
	Ethics	<ul style="list-style-type: none"> • Counteract past unethical actions and prevent future occurrences
	Financial Responsibility	<ul style="list-style-type: none"> • Accounting and financial principles • Sarbanes-Oxley (SOX) and other legal and regulatory requirements
	Human Rights	<ul style="list-style-type: none"> • Provide equal opportunities to all internal and external associates • Protect individual identity and privacy • Protect maternal employment rights • Ensure right to freedom and safety • Provide for a living wage • Enhance relations with indigenous people
	Safety	<ul style="list-style-type: none"> • OSHA regulations • International ISO Standards • British Standards Institution regulations (BSi) • Trade union rules • Prevent/lessen exposure to environmental hazardous waste • Reduce insurance costs • Reduce cost of absenteeism • Cost of medical coverage/care • Reduce mental and emotional anguish and loss

Reason For Change (continued)

In addition, there may be considerations specific to the principles as shown in the following table:

PROBLEMS TO BE SOLVED		
PRINCIPLES OF SOCIAL RESPONSIBILITY	Community	<ul style="list-style-type: none"> • Lack of trust by community stakeholders and key publics
	Diversity	<ul style="list-style-type: none"> • Lack of diversity in supplier base • Lack of diversity within organization • Lack of diversity throughout the supply chain • Past discriminatory practices with suppliers, employees or others
	Environment	<ul style="list-style-type: none"> • Prior infractions • Need for sustainability • Lack of environmental responsibility • Inattention to opportunities for disassembly, reuse or recycling
	Ethics	<ul style="list-style-type: none"> • Past unethical actions • Potential exposure of unethical actions
	Financial Responsibility	<ul style="list-style-type: none"> • Compliance with Sarbanes-Oxley (SOX) or other legal or regulatory requirements • Substandard financial responsibility
	Human Rights	<ul style="list-style-type: none"> • Prior human rights abuses • Lack of provisions for the instrumental value of creating the necessary conditions of human well-being • Potential exposure of human rights compromises
	Safety	<ul style="list-style-type: none"> • Compliance with OSHA or other legal or regulatory requirements • People hurt or killed • Dangerous conditions

Key Steps to Implementation

POLICY

Executive management defines and establishes the organization's program policies, including goals, standards, acceptable actions, rewards for exemplary behavior and sanctions for improper behavior. Some of the key best practice policy elements include:

- **Organization Policy:** Executive management has established, documented and is maintaining a program policy as a means of ensuring behavior reflecting the organization's values. The policy is aligned with the organization's values and all applicable laws. It is updated as new challenges emerge.
- **Management Support:** Executive management subscribes to the program policy and acts accordingly. Further, it communicates, both internally and externally, its expectations for compliance with program standards.
- **Management Review:** Executive management reviews the organization's policy and its impact at defined intervals to ensure continuing suitability and effectiveness. It maintains records of reviews.
- **Policy Considerations:** Executive management recognizes the need to accommodate different cultural and legal systems and changing technologies. It also appreciates the value of engaging others such as the board of directors or other social responsibility functions.

PLANNING

Best practice in program planning includes:

- Developing clear definitions of organizational values
- Defining who should have input into the program
- Securing adequate funding and staffing
- Establishing program components, for example,
 - Policy and/or code of conduct
 - Internal and external communications
 - Training
 - Rewards and sanctions
 - Whistle-blowing
 - Hotline or help line
 - Audit and evaluation programs
 - Reporting and tracking mechanisms

PROCESSES/PROCEDURES

The organization has clearly defined and documented processes that implement policy and achieve specified goals. Some of the key best-practice process elements include:

- **Training:** The organization has developed a comprehensive training program that enables employees to become active participants in their own learning. Training is regularly updated and includes practice preventing, eliminating and resolving problems. It is an ongoing, not one-time, occurrence. As applicable, the organization has developed a comprehensive training program to educate and develop suppliers and other members of the supply chain.
- **Internal communication:** The organization integrates program sensitivity into all aspects of communication to demonstrate that it is an integral part of all operations and decision-making. It has identified a person responsible for the program that monitors and implements the initiative internally and externally. It may have established a hotline or help line. The organization ensures that the program is a regular agenda item for the board of directors.
- **External communication:** The organization publishes its program policy and incorporates it into its communications with customers, suppliers and the public. It regularly publishes detailed reports on performance and responds openly to inquiries from stakeholders, investors and activist groups. The organization assesses practices of its suppliers to ensure that its trading partners are aligned with its values.

MEASUREMENT, TRACKING AND REPORTING

The organization has established a system to monitor, document and report adherence to the program. Key elements include:

- **Performance:** The organization includes program elements as a dimension both in employee and supplier performance appraisals. It recognizes the value of having a program committee within its leadership core.
- **Evaluation:** The organization follows up on training with regular evaluations to ensure employees retain and act on what they have learned. It also demands compliant behavior from its suppliers and considers this in supplier selection.

Key Steps to Implementation *(continued)*

- **Audit:** The organization has established and maintains documented procedures for the audit of both internal and external programs to determine the effectiveness of program policy, planning, processes and metrics. It tracks changes and enhancements as required due to audit findings. Audits are used for learning and enhancing performance. The organization also has established mechanisms for investigating potential program lapses

and holding management, employees and suppliers accountable for transgressions.

DEDICATED RESOURCES

The organization determines requirements for and then allocates sufficient staff and funding to coordinate, lead and promote its program.

Costs, Benefits and Risks

The scope of social responsibility programs can be very broad and, therefore, resources and costs are dependent on the particular program(s) involved. Key costs to consider for each of the principles include:

- Program officer or manager
- Maintenance and updates of policy, code and/or other documentation
- Program management
- Legal counsel
- Membership fees
- Insurance
- Training and certification
- Communication
- Hotline or help line
- Evaluation
- Audit

In addition to the above, possible costs components of community and diversity programs include:

- Community
 - Charitable or community donations and matching donations programs
 - Sponsorship funding for charitable events
 - Contributions to internal clubs and events that have community-related goals
 - Salary of staff when providing voluntary support to external groups or causes
- Diversity
 - Utilization of benchmarking groups — minority consulting groups if necessary
 - Travel and expenses for conferences and trade shows
 - Promotional items

BENEFITS

Benefits of social responsibility programs may include:

- Eliminate/mitigate risk
- Positively influence community, for example, promote corporate/organizational citizenship
- Strengthen the organization's culture
- Become a leader in the organization's industry
- Earn respect of customers and suppliers
- Attract superior employees, suppliers and customers
- Guide managerial actions
- Support employee growth
- Guide employee actions
- Lead supply chain partners by example
- Influence supplier actions
- Enhance market share
- Improve public relations
- Reduce legal costs
- Focus on long-term results

RISKS

Risks involved in not having social responsibility programs may include:

- Lost market share (or downfall of organization)
- Consequences of failure to eliminate or mitigate risk
- Loss of employees, suppliers, customers and investors
- Bad publicity
- Lack of leadership
- Unpredictable employee behavior
- Substandard level of organizational morality
- Compromised employee and community morale
- Increased legal, insurance or other costs
- Focus on short-term gains

Costs, Benefits and Risks (continued)

Additional benefits and risks specific to each of the seven Principles may include those shown in the following tables:

POTENTIAL BENEFITS		
PRINCIPLES OF SOCIAL RESPONSIBILITY	Community	<ul style="list-style-type: none"> • Trust and support of community groups and key public figures (facilitating organization development programs) • Support and value-add to organization's communities and those of supply chain • Increased employer of choice for staff recruitment • Closer integration of the organization with targeted communities • Enhanced reputation with suppliers and customers
	Diversity	<ul style="list-style-type: none"> • Reduced costs from increased competition — savings depend on previous prices and impact on the level of competition • Innovation from new sources of supply, for example, new minority suppliers • Enhanced reputation from final consumers • Because certification is required, some pre-screening will occur • Increased access to employment and promotional opportunities
	Environment	<ul style="list-style-type: none"> • Sustainability • Legal and regulatory compliance • Protect environment • Maximize opportunities for disassembly, reuse and recycling
	Ethics	<ul style="list-style-type: none"> • Ensure consistent treatment of suppliers and customers
	Financial Responsibility	<ul style="list-style-type: none"> • Spend visibility • Legal and regulatory compliance • Improved fiscal management
	Human Rights	<ul style="list-style-type: none"> • Ensure that individuals are treated with dignity and respect • Allow for equal opportunity and non-discriminatory treatment • Ensure consistent treatment of suppliers and customers
	Safety	<ul style="list-style-type: none"> • Reduce insurance costs • Prevent injury/death • Protect environment • Ensure safety of employees, suppliers, customers and others • Improve union relationships • Ensure consistent compliance

POTENTIAL RISKS		
PRINCIPLES OF SOCIAL RESPONSIBILITY	Community	<ul style="list-style-type: none"> • Negative reaction from some shareholders, customers or community members to specific outreach initiative • Staff could be hurt while traveling to or from a location or while performing community services • Recipient organization may suffer if a change in support or support level is made • Recipients may misuse resources • Political risks
	Diversity	<ul style="list-style-type: none"> • Complacency with current suppliers resulting in lack of competition, compromised quality and/or increased costs • Lost opportunity for superior employees • Potential exposure of past discriminatory practices
	Environment	<ul style="list-style-type: none"> • Substandard level of environmental compliance • Lack of sustainability • Environmental damage
	Ethics	<ul style="list-style-type: none"> • Inconsistent treatment of suppliers and customers • Potential exposure of unethical actions
	Financial Responsibility	<ul style="list-style-type: none"> • Substandard level of financial compliance • Substandard level of fiscal management
	Human Rights	<ul style="list-style-type: none"> • Potential exposure of human rights compromises • Inconsistent treatment of suppliers and customers
	Safety	<ul style="list-style-type: none"> • Unsafe conditions and/or actions • Injury or death • Damage to environment • Inconsistent treatment of suppliers and customers • Low productivity • Damage to equipment

Resources

For additional resources and links to other organizations for each of the Principles of Social Responsibility, go to the ISM Web site (www.ism.ws/sr), select Principles of Social Responsibility from the list at the right side of the screen, and then select the Business Case link. Tools available at this site include:

ISM SOCIAL RESPONSIBILITY CASE DIAGRAM MODEL

This diagram was built to provide a summary of information for making the business case for a social responsibility program. The four pillars address:

1. Corporate culture
2. Compelling events
3. Business opportunities
4. Personal beliefs

SOCIAL RESPONSIBILITY PROGRAM DEVELOPMENT PROCESS

Use this document to work through a series of steps to build the case for a program.

The social responsibility program development process is supplemented by two tools to support your social responsibility planning efforts:

- ISM Social Responsibility Process Flow Chart can be used to address matters of planning and execution.
- ISM Social Responsibility Prioritization Tool is an Excel spreadsheet that can be used to prioritize your activities related to social responsibility initiatives and to identify gaps that may require your attention.

(NOTE: You will need to enable macros within Excel to use the Prioritization Tool.)

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