

ISVC Project Proposal

"Integrating Sustainability into Regular Procurement"

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revision based on the ISVC Annual Meeting 22 October 2015

0.) Summary

Procurement has been actively upgraded to become the central unit responsible for the buyer-supplier-interface, supplier selection, and supplier management. The procurement function not only determines the commercial conditions of the procurement transactions on behalf of the buyer, but plays a pivotal strategic role in both the composition of the supply chain and the business practices used therein. However, procurement functions in companies often struggle with balancing cost reductions versus sustainability standard compliance. In many companies, the procurement function lacks important capabilities, capacity, structures, objectives, or incentives to manage sustainability performance in the supply chain - of direct suppliers and beyond of upstream sub-suppliers and of subcontractors.

This project addresses the fundamental question: "How to integrate sustainability standards into operative procurement practices and adjust procurement capabilities, capacity, structures, objectives, and incentives?" It seeks to develop hands-on tried-and-tested approaches for business practice to align structures, objectives, and incentives, develop new capabilities, and extend capacities in the regular procurement function of Western buying companies to establish and maintain sustainability standard compliance in their supply chains.

1.) Project Objectives

1.1) Problem Description and Evaluation

Western companies, experiencing rising stakeholder expectations and growing regulation on the social and ecological characteristics of their procured material and services, currently adjust their capabilities, capacity, structures, objectives, and incentives to better ensure compliance in their supply chain with their sustainability standards. They aim at increasing both knowledge about suppliers and sub-suppliers' business practices and influence on organizations identified as non-compliant. Yet despite substantial efforts invested, many companies have neither achieved their own objectives nor their stakeholder requests - suggesting that new solutions are required.

Procurement has been actively upgraded to become the central unit responsible for the buyer-supplier-interface, supplier selection, and supplier management. Other business functions, such as quality, logistics, or R&D, typically interact with suppliers on either project basis (e.g. to solve urgent problems) or operational level, while procurement has the responsibility for the supplier relationship. In this new role, procurement far exceeds its traditional role. The procurement function not only determines the commercial conditions of the procurement transactions on behalf of the buyer and further reduces procurement prices. With its decisions in supplier selection and the rules in the relationship with the supplier, it plays a pivotal strategic role on both the composition of the supply chain and the business practices used therein.

In many companies the procurement function struggles with balancing cost reductions versus sustainability standard compliance. The current set-up of aiming at continuously realizing supply cost reductions hinders integrative approaches to supplier development with a mid-term perspective. In such situations, companies face artificially intensified "sustainability versus cost"-conflicts.

The rapid and fundamental expansion of the procurement function's responsibility as well as the drastic increase in supply chain complexity is often not accompanied by required organizational changes. These procurement functions report lacking new capabilities, sufficient capacity, integrated structures, comprehensive objectives, or balanced incentives to adequately manage sustainability

performance in the supply chain. Various organizational forms emerged in business practice that channel sustainability requirements in specialized new organizational entities (e.g. ethical sourcing). The typical separation of these new from traditional entities often create more internal power play than improving sustainability in the supply chain. To keep pace with business leaders, companies are required to integrate sustainability requirements as equally important as other requirements like cost, quality, availability, innovation, or legality.

This project aims at improving both the effectiveness and the efficiency of procurement functions' activities in improving not only sustainability but also other objectives in their supply chain.

1.2) Benefit / Deliverables for Business (Value Chain Members)

Participants will obtain hands-on tried-and-tested guidelines on how to best integrate sustainability into their procurement function. Results are applicable at final manufacturers and retailers as well as producers, traders and intermediaries. Companies benefit from collective action reducing necessary investments, sharing of experiences, and scientific support and legitimizing. Sector initiatives and other industrial organizations obtain access to tools they can recommend among their membership.

1.3) Benefit / Deliverables for Government

Regulators gain a better understanding of current business practices, the drivers for such behavior, as well as the impact of existing or potential regulation. They further obtain access to tools they can recommend in their respective economy.

1.4) Benefit / Deliverables for the Civil Society & Public

The public and civil society benefit from better understanding of current business practices, the drivers for such behavior, as well as the options available. This provides them higher alignment in language and problem understanding to better influence the development and adoption of solutions.

1.5) Benefit / Deliverables for Science

The participating scientists can scientifically publish the generic project results they were part of in the development.

2.) Project Content

2.1) Status-quo of Best Practices in Practice

Various industries have extensive experience in dealing with sustainability issues in their supply chain and have successfully established extensive portfolios of adjustment and development activities. Food and textiles but also consumer electronics are in constant critical discussion in the public while chemicals, pharma, and raw materials (e.g. conflict minerals) face strong government regulation. Highly successful companies make use of the many sector initiatives and government activities, run their own corporate activities, and communicate appropriately. They differ from the average by aligning all these activities and by integrating them equally into their regular structures, by having developed and implemented new capabilities (e.g. understanding the supply chain and their suppliers' situation), or by having extended the return period for supplier development investments.

2.2) Status-quo of Knowledge in Science

Research in supply chain management, operations management, or procurement has over two decades of knowledge development on sustainability matters. The integration of sustainability in supply chains was found to largely depend on the purchasing function, pursuing responsible buying practices. However, the state of the art in sustainability in the procurement processes puts major focus on supplier evaluation and selection. Supplier auditing is analyzed upon how to ensure audit validity and reliability, as well as sharing of audit results. Supplier capacity development, although a major field in general supplier management, received less attention on the specificity of sustainability. Incentives in procurement have been identified as predominantly being focused on cost reduction instead of more comprehensive or balanced objectives. The changes required within the procurement organization itself to cater to the demand of sustainability still require major analysis.

2.3) Guiding Questions / Knowledge Gap

The main question defines the project theme:

How to integrate corporate sustainability standards into operative procurement processes and adjust procurement capabilities, capacity, structures, objectives, and incentives?

Sub-questions are to be defined by the project board and could be:

- a) How precise should sustainability requirements be specified for procurement purposes? What organizational structures are effective to specify these sustainability requirements?
- b) How is the procurement function, with its impact on the sustainability performance in the supply chain, interlinked with other business functions and their respective impact? What factors improve alignment and joint action?
- c) How can procurement targets be derived from corporate sustainability objectives? What elements in corporate strategy and culture are needed to effectively consider sustainability in procurement?
- d) What procurement practices systematically harm the sustainability performance in supply chains?
- e) How to integrate sustainability requirements into the supplier management processes (i.e., supplier selection, contract design, supplier evaluation, supplier development, supplier phase-out)? How to extend the perspective to suppliers and the supply chain?
- f) How to integrate sustainability into the purchase to pay process (i.e., order planning, ordering, payment)? How to extend the perspective to suppliers and the supply chain?
- g) What structures allow a company to effectively respond to sustainability problems in the supply chain identified by procurement (e.g. by changes to product design, production processes)?
- h) Which organizational structures for procurement are most suitable to achieve multiple (conflicting) objectives (i.e. cost reduction, social standard compliance, quality improvement etc.)? Which incentive and internal control systems effectively allow controlling performance?
- i) Which tasks, decisions and responsibilities should be performed by procurement internally, by other business functions internally, or by other organizations externally? Which capabilities are needed in procurement to achieve sustainability objectives?
- j) Which change approaches allow transforming organizational structures and employee behavior in procurement towards sustainability?
- k) What supplier relationship elements allow suppliers to better adjust their business model to the buyer's sustainability requirements (i.e. new forms of contracts, inclusion of 3rd parties)?

2.4) Limitations

The project puts its focus on "how to" instead of "why" or "for what benefit". The project further requires that the participating companies have defined specific measurable sustainability standards for their supply chain, yet does not evaluate whether the levels of those standards are "good".

3.) Project Description

3.1) Knowledge Generation (Research)

The research part of the project comprises of three major steps: (1) analyzing the current structures and practices in procurement and the sustainability commitments made, (2) identifying benchmarks / good practices, (3) identifying current gaps in current structure and practices, and (4) developing new procurement structures and practices. Simultaneously, issue-driven workshops with the participating organizations shall be run.

3.2) Pilot Application

In the pilot application of the project, participating companies apply the new developed structures and practices in field experiments. Sharing experiences among the users as well as scientific comparison

of the different pilots allows optimizing the recommendations developed in the research project part to ensure not only effectiveness and efficiency but also practicability in business environments.

3.3) Solution Development

The solution development part of the project takes the developed recommendations and transforms them into practical solutions for business practice for day-by-day use. This project part creating scalable support might be strongly supported by sector initiatives, government organizations, or even private organizations with the objective to add this service to their commercial portfolio.

3.4) Communication of Results

The final communication part of the project plays an important role in disseminating the developed solutions to the many different parts of society across the world. ISVC collaborates with media experts, journalists, and artists to transform the problem and its proposed solution into the unique language, culture, and mindset of the respective target audience. That way, the project fuels the societal debates legitimizing both problem and proposed solutions. ISVC will further collaborate with organizations enjoying highest legitimacy in the respective target audiences.

4.) Project Plan

4.1) Time Plan

The project is planned for an initial duration of two years, and shall be extended upon need. Project part 3.4 (communication of results) is planned to start with the 18th month of the project for one year, and shall also be extended upon need.

4.2) Work Packages

The four project parts follow a logical sequence. The project parts start once substantial results have been achieved by the prior project part, and shall run concurrently to allow mutual adaptation.

4.3) Estimated Project Efforts and Costs

The project efforts consist of predominantly labor costs for the academic researchers and artists, some out of pocket expenses (e.g. travel, communication), limited investments (e.g. data), and some service sourcing (e.g. media expertise). In project parts 3.1, 3.2, and 3.3 academic researchers and representatives of the participating organizations work together under the lead of an academic project manager. Project part 3.4 shall be run by media experts, in collaboration with journalists and artists.

4.4) Funding Plan

The required financial resources shall be covered by the participating organizations and other sources. Government funds and other potential financial sources shall be explored and used whenever possible or available. The labor cost for the participating company representatives or journalists shall be covered by the respective employers. The labor cost for the academic researchers or artists shall be covered by individual grants for the respective person. The service providers shall work on a fixed contract.

4.5) Participant Qualification and Collaboration History

All participating organizations and individuals are required to have a proven track record on either sustainability in procurement or required methodological capabilities. Successful prior collaboration among the participants is preferred.

4.6) Potential Project Risks and Risk Mitigation

To be evaluated and developed once the project plan and project members are defined.

4.7) Potential for Collaboration (only if needed)

To be evaluated once the project plan and project members are defined.

4.8) Intellectual Property Rights on Project Results (only if needed)

To be evaluated once the project plan and project members are defined.

5.) Project Organization

5.1) Project Governance

The project will be overseen by a project board consisting of one senior representative per project participant under the lead of an ISVC council member. The project board meets at the project start, at the project end, and at least every 12 months. The project board defines project content, monitors and evaluates project progress and success, suggests strategic adjustments, and decides on the project's funding and budget.

5.2) Project Management

The project shall be managed by a senior academic scientist with a specified (realistic) workload. Project management shall make use of state-of-the-art project management practices.

5.3) Project Reporting

The project manager reports the project current status and next steps every six months to the project participants and the project board members.

5.4) Participants

The project shall consist of companies of different sectors, regions and supply chain positions, government organizations, sector initiatives, academics, and other organizations interested in constructive development of recommendations for procurement.

5.5) Advisory Board

An advisory board of experts shall be established. The role of the advisory board is to critically reflect the project approach and results, support the project with constructive recommendations, link the project team with experts in a required domain, and help in disseminating project results.

5.6) Role of Funding Organizations

The funding organizations separate by (a) participating organizations, (b) project financing organizations, and (c) sponsors & donators. All participating organizations (a) have their interests represented in the project board. The project funding organizations (b), supporting the project based on a contract with clear definition of project content and expected results, are only involved in a project board meeting in case the project board intends to substantially alter the project content definition. Donators & sponsors (c) have no role in the project.

5.7) Project Success Evaluation

The project plan defines specific measurable objectives. The project management evaluates completion and fulfillment. The final evaluation is in the responsibility of the project board.