

CIPS Supplier Sustainability Review – July 2015



CIPS 6 Monthly Supplier Sustainability review – first issue July 2015



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1. Introduction to this new report

“I am delighted to introduce the very first CIPS Supplier Sustainability Review. I am sure that the insights it provides will add to the body of knowledge in this area and support both buyers and suppliers in their ongoing efforts to improve their performance in this important aspect of procurement and supply management.

“I would like to personally thank our partners PRGX and the University of the West of England (UWE) for their outstanding contributions towards making the CIPS Sustainability Index (CSI) such a success and the foundation for this report. The level of participating buying and supply organisations has already reached a critical mass that provides both robust and reportable data, and all the signs are that this will continue to grow over the coming months and years to establish this report as a key source of practical information. Though this review is most relevant to the UK, we are launching the CSI in other geographical locations shortly, and we look forward to reporting on how results compare and contrast in participating countries.

“Please enjoy and make good use of this latest addition to CIPS’ analytical reports - all designed to enhance your contribution and professionalism in procurement and supply management.”

David Noble, Group CEO, CIPS

2. Background to our data source - The CIPS Sustainability Index (CSI)

In April 2013 the Chartered Institute of Procurement and Supply launched the CIPS Sustainability Index (CSI).

Why was this important? Well, supply chains are now longer and more integrated than ever before. This means buyers need to know more about their suppliers to help them manage supply chain risk. Suppliers receive questionnaires from buyers asking for all sorts of background info. Many of the questions are standard across an industry. So, to prove their credentials, suppliers end up being asked by their buyers to answer the same questions in different ways. The CIPS Sustainability Index asks the common set of economic, environmental and social questions that buyers need information on, reviews those questions and provides a scoring that’s independent, easy to understand and in a way that brings huge efficiencies to the whole supply chain.

Some of its key attributes are-

- Produced by a Purchasing Professional Body (CIPS) for the UK purchasing profession
- Delivered in conjunction with PRGX – one of the world’s leading data audit companies.
- Underpinned by sound independent academic research from the University of the West of England
- Supported by industry mentors from the public and private sectors including higher education
- Produces scores by sustainability pillar and benchmarks by cluster within pillar
- Supports smallest SME to largest corporate
- Supports all industry sectors
- Has developed specific ‘how to improve’ support material for all the areas covered.

With 2013 being a period of pilot testing and ‘bedding down’ of the questions sets 2014 saw the index usage expand significantly with this trend continuing into 2015. There are now 200 plus registered buying organisations the public and private sectors which in turn has led to over 1000 supplier registrations with a large number of these completing the questionnaire and scoring process to arrive at a CSI score for each of the three Sustainability pillars (Social, Environmental and Economic) It is this data that we have been able to use to form the basis of this first CIPS Supplier Sustainability Report.

You can find more details on the CSI web site - www.cips-sustainabilityindex.com

3. Data analysis and commentary

Introduction

The Purchasing Innovation Team at the University of the West of England, led by Professors Andrew Douglas and Mohammed Saad, are the group providing the Academic underpinning for the CSI. Whilst continuing to provide such support they now also provide commentary and analysis to the data extracts that form the basis of this six monthly CIPS Supplier Sustainability Report.

This report takes all the available data from the CSI in respect of supplier performance within each of the three pillars of Sustainability ie. Environmental, Social and Economic. Using extracts of this data it will take the reader through graphical illustrations which contrast and compare suppliers scoring within the CSI by organisation size (employees and turnover) for each of these three pillars. It will also look at ‘cluster’ scoring within each pillar. This is where a pillar is broken down into sub sections that reflect a specialist area within the overall grouping. For example in the Economic pillar there are 4 clusters – Corporate Governance, Financial Robustness, Innovation capacity and Business Integrity and Ethics. Also highlighted are questions that Suppliers scored particularly well or conversely badly on.

Whilst this report is based on the first years actual data from the CSI and so is unable to identify trend related to year on year changes within the data subsequent reports will contain this analysis.

SECTION 1 - Environmental Supplier Performance

a) Average total Environmental scores by supplier employee numbers

Row Labels	Average of ENVIRONMENTAL SCORE
A: SMALL (<50)	61
B: MID (50-250)	71
C: LARGE (250-1000)	77
D: VERY LARGE (>1000)	85

Commentary

A higher average score corresponding to a higher no. of employees is not in itself unexpected with the much larger organisations investing in improved environmental performance as a result of legislative, customer and business financial performance pressures. Whereas the smaller organisations lower average scores seem more down to a lack of awareness of what they could be doing in this area that is appropriate to the nature and size of their business.

b) Average scores per pillar by supplier annual turnover (£)

Row Labels	Average of ENVIRONMENTAL SCORE
Less than 2 million	61
2-10 million	66
10-100 million	68
100-500 million	80
Over 500 million	79

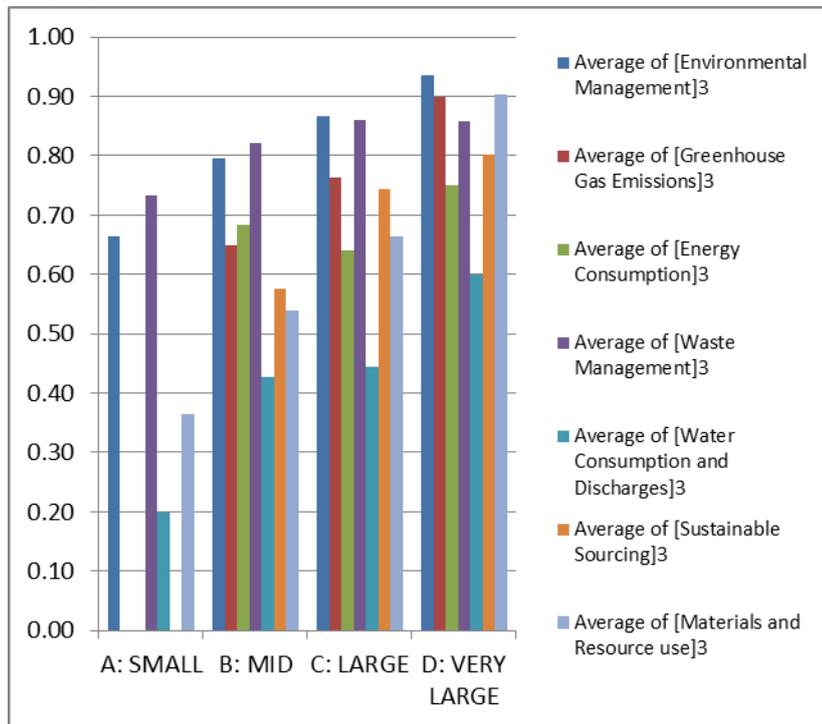
Commentary

Here we see a similar pattern to those reflecting employee numbers however it appears that once a threshold of circa £100m turnover is reached there is a levelling out of any incremental performance gain in this area.

c) Average scores by organisation size for each of the Environmental clusters

Row Labels	Average of [Environmental Management]3	Average of [Greenhouse Gas Emissions]3	Average of [Energy Consumption]3	Average of [Waste Management]3	Average of [Water Consumption and Discharges]3	Average of [Sustainable Sourcing]3	Average of [Materials and Resource use]3
A: SMALL	0.67			0.73	0.20		0.37
B: MID	0.80	0.65	0.68	0.82	0.43	0.58	0.54
C: LARGE	0.87	0.76	0.64	0.86	0.44	0.74	0.66
D: VERY LARGE	0.94	0.90	0.75	0.86	0.60	0.80	0.90

Note – where there are blanks in the table it is due to the lack of data in respect of the selected grouping usually because the question set was not asked to that particular sub set of respondents.



Commentary

This as expected reflects the overall scoring trends shown previously by employee size / business turnover. However when reviewing the scores by cluster we immediately see stronger performance within the areas of environmental management and waste management whilst in the areas of water consumption and discharge and to a lesser extent

energy consumption the results show a much weaker picture. Our thinking on this is that we have seen to date a surprising number of suppliers who have yet to develop any meaningful energy reduction targets with an accompanying plan of how they are going to achieve it. Recently these reductions have been encouraged by the financial gain that accompanies reductions in usage, it will be interesting to observe that with the current significant fall in fossil fuel pricing there is any weakening of organisations resolve to reduce their energy consumption. When we look at reducing water usage we see it not an area of focus for many organisations regardless of size. This is more understandable in smaller organisations where their usage is small (and the CSI scoring process takes this into account) however medium and larger organisations similarly disregard this area and often do not see it as an element of their financial performance. It's only the very large organisations, driven either by their usage and/or external certification needs that we see anything approaching an acceptable average score.

d) Individual question trends

Environmental questions that organisations **score highest** on are those seeking assurance that they have not either been successfully prosecuted or served prohibition / improvement notices by the relevant agency within their operating geographies.

This is an encouraging feature of our first year's results with a very small number of organisations 'testing positive' in respect of this environmental monitoring by the appropriate government agencies. It may well be a result of strong legislation coupled with robust enforcement powers in the UK and other developed countries around the world.

Environmental questions that organisations **score lowest** on are those relating to water consumption and discharges

Whilst organisations are working hard in the main to reduce their environmental impact through lower energy usage and reduced CO2 emissions they seem to be largely ignoring how they use water in their business. The exception being organisations that have a usage level where a significant reduction will directly impact their profitability.

SECTION 2 - Social Supplier Performance

a) Average pillar scores by supplier employee numbers

Row Labels	Average of SOCIAL SCORE
A: SMALL (<50)	77
B: MID (50-250)	82
C: LARGE (250-1000)	86
D: VERY LARGE (>1000)	86

Commentary

This table shows a much closer outcome between the smallest and largest organisations. This is probably down to a mix of the need for all organisations to comply with legislative requirements in respect of certain employee related policies /actions coupled with the relative ease all sized organisations find implementing good social practice should they be minded (or compelled) to do so.

b) Average scores per pillar by supplier annual turnover (£)

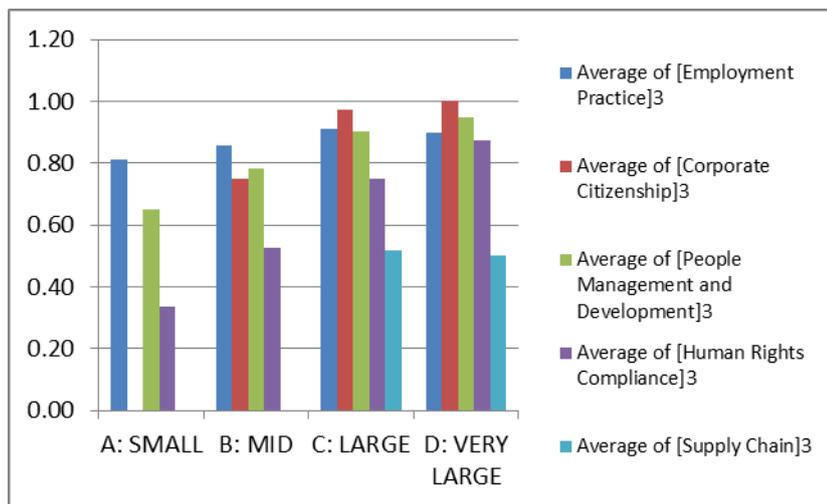
Row Labels	Average of SOCIAL SCORE
Less than 2 million	77
2-10 million	78
10-100 million	81
100-500 million	88
Over 500 million	86

Commentary

This mirrors the findings by employee numbers and supports the view that the size of an organisation does not have a very strong influence on an organisation's ability to adopt good social sustainability practice.

c) Average scores by organisation size for each of the Social clusters

Row Labels	Average of [Employment Practice]3	Average of [Corporate Citizenship]3	Average of [People Management and Development]3	Average of [Human Rights Compliance]3	Average of [Supply Chain]3
A: SMALL	0.81		0.65	0.33	
B: MID	0.86	0.75	0.78	0.53	
C: LARGE	0.91	0.97	0.90	0.75	0.52
D: VERY LARGE	0.90	1.00	0.95	0.88	0.50



Commentary

Despite the strong consolidated averages shown in the tables above when we look at the performance by question cluster we see marked differences. Employment practices and corporate citizenship are in the upper quartile for all organisations regardless of size again reflecting the legislative and ease of compliance influences. However the averages slide downwards for all organisation groups when it comes to human rights compliance. One of the key reasons for this is the reduction in organisations who allow any form of employee collective bargaining and instead just impose changes in pay and working conditions. When we look at how organisations try to influence the social conditions of employees in their supply chains we see barely half of the large and very large organisations are making attempts to achieve this either directly or through relevant third parties.

d) Individual question trends

Social questions that organisations **score highest** on are those relating to basic employment practice ie. Written terms and conditions, mandatory breaks and checks on validity of a potential employees details.

Not too surprising as much of this practice is dictated by statutory requirements in most developed countries.

Social questions that organisations **score lowest** on are those investigating how they encourage their key suppliers to have programmes in place to provide employment, training and skills development for economically inactive and disadvantaged groups / individuals

Whilst many organisations, particularly those who have key public sector customers, are making strides in this area it is still quite a stretch to extend this thinking down their own supply chain.

SECTION 3 Economic Supplier Performance

a) Average pillar scores by supplier employee numbers

Row Labels	Average of ECONOMIC SCORE
A: SMALL (<50)	65
B: MID (50-250)	73
C: LARGE (250-1000)	86
D: VERY LARGE (>1000)	85

Commentary

Here as with the other pillars a higher average score corresponding to a higher no. of employees is not in itself unexpected with the larger organisations as we will see below scoring particularly highly against the smaller ones in the areas of corporate governance and business ethics and integrity. As we go forward it will be interesting to see if the slightly higher average scores for large over very large organisations develops into a feature worth exploring in more detail.

b) Average scores per pillar by supplier annual turnover (£)

Row Labels	Average of ECONOMIC SCORE
Less than 2 million	64
2-10 million	66
10-100 million	73
100-500 million	82
Over 500 million	88

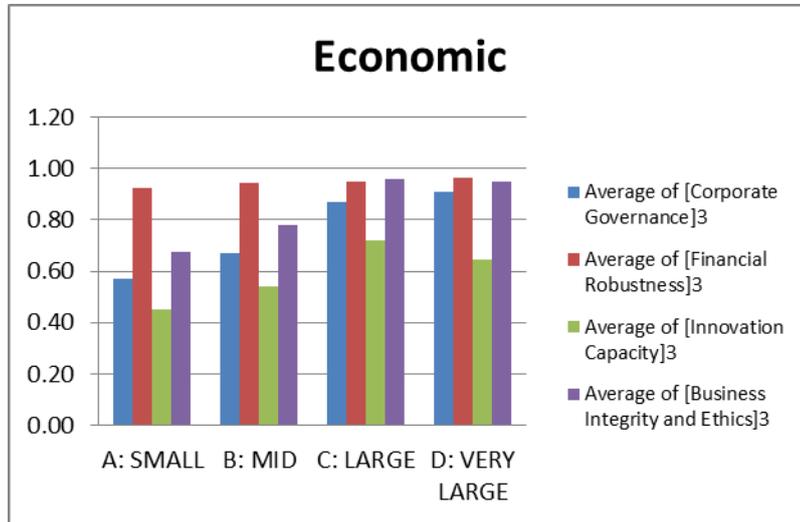
Commentary

Here we see a similar pattern to those reflecting employee numbers however it appears that unlike employee numbers a higher turnover does seem to lead to a higher average score which indicates that organisations with a larger employee size but not a corresponding turnover are not so strong overall in the Economic pillar. This does seem to have some logic to it and is an area we will explore further in future reports.

c) Average scores by organisation size for each of the Economic clusters

Row Labels	Average of [Corporate Governance]3	Average of [Financial Robustness]3	Average of [Innovation Capacity]3	Average of [Business Integrity and Ethics]3
A: SMALL	0.54	0.95	0.45	0.63
B: MID	0.68	0.94	0.54	0.78

C: LARGE	0.88	0.95	0.73	0.96
D: VERY LARGE	0.87	0.97	0.66	0.95



Commentary

In some ways this is the most interesting set of results to analyse. We see that financial robustness is not linked to organisation size and the results are particularly strong for all groupings however corporate governance and integrity and ethics do show a link to organisation size. In respect of corporate governance we do see that smaller organisations are less inclined to seek any external help /guidance excepting the use of an accountant. This may be down to the owner / directors taking the view that ‘it’s their business and they know how to run it!’ It may also be down to any appropriate external influencers not being easily accessible or highly visible. Innovation capacity has become a very interesting discussion area between suppliers and the CSI audit team as many suppliers, regardless of size, have difficulty understanding that business innovation is not just research and development and covers the whole spectrum of organisational activity. It has also been the most frequent area where supplier feedback has indicated they have been encouraged; post their CSI score, to ‘beef up’ their efforts in this area.

d) Individual question trends

Economic questions that organisations score highest on were the ones relating to bribery and corruption and also the longevity of their business.

No real surprise here as we would expect the vast majority of businesses to have a blemish free record when it came to bribery and corruption. In addition we think that most organisations have developed a policy document in relation to this often following encouragement by their key customers.

Economic questions that organisations on average **score lowest** on were the ones relating to Innovation capacity.

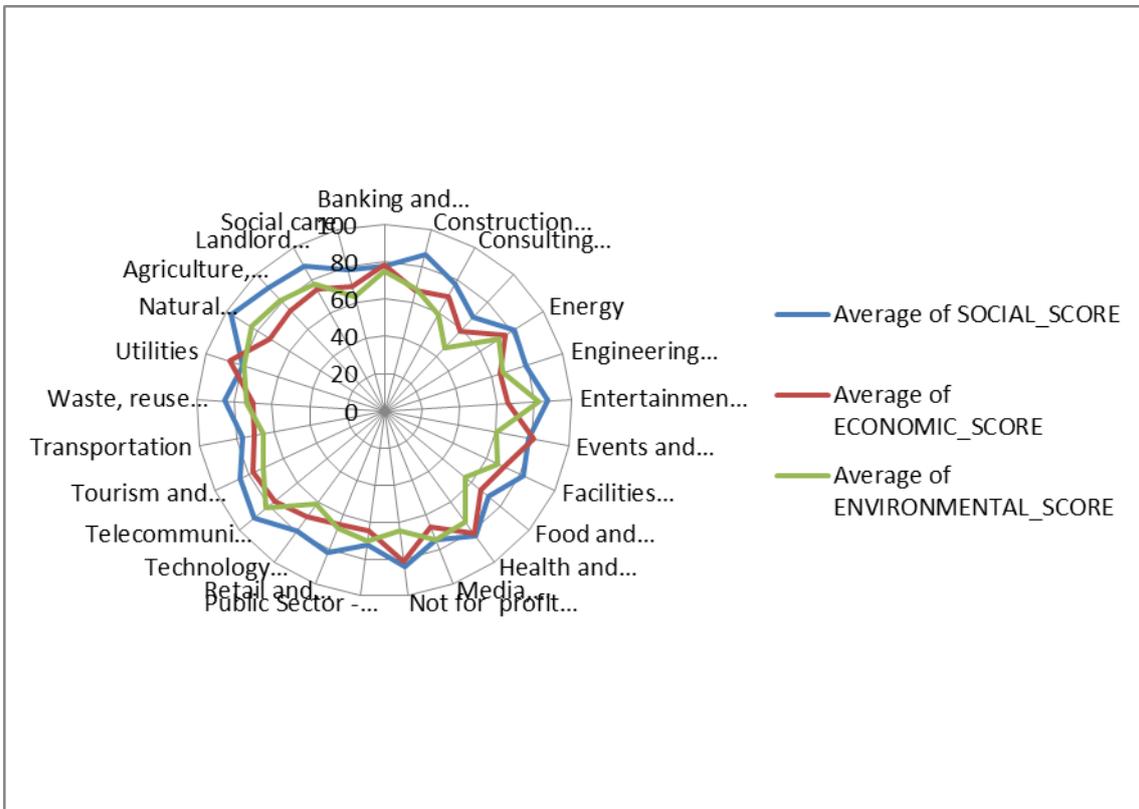
It appears that many organisations have difficulty recognising when they are ‘innovating’ most likely because they think this term applies only to product research and development activity whereas innovation can happen throughout an organisation covering the whole spectrum of business activity / processes.

Section 4 - Analysis by Business Sector

Average score per sustainability pillar by business sector

Business Sector	Average of SOCIAL SCORE	Average of ECONOMIC SCORE	Average of ENVIRONMENTAL SCORE
Banking and financial services inc. insurance	78	78	75
Construction and civil engineering	87	67	67
Consulting and professional support services (inc. legal services)	78	70	59
Consumer goods	69	59	47
Energy	82	76	72
Engineering (not civil engineering) inc. manufacturing	79	65	66
Entertainments and leisure (not including tourism and hospitality)	87	66	82
Events and conferences	78	81	61
Facilities management	82	70	67
Food and beverage processing	72	67	56
Health and pharmaceuticals	83	81	73
Media, advertising and communications	74	67	74
Not for profit / Charity / Third Sector	84	81	64
Public Sector - Health	73	65	71
Retail and wholesale	82	66	68
Technology inc. computer hardware and software	79	70	62
Telecommunications	90	76	82
Tourism and hospitality (inc. catering)	85	78	71
Transportation	77	70	65
Waste, reuse and recycling	85	70	73
Utilities	79	87	79
Natural resources, mining and aggregates	97	72	84
Agriculture, horticulture and land management	91	73	81
Landlord services (social, residential and commercial)	89	75	78
Social care	78	69	63

And expressed graphically



Commentary (on graph)

The above graph brings together the average overall results for each of the three Sustainability pillars by business sector. It brings together much of the individual analysis earlier in this report and helps us understand areas of relative strength and weakness. The most striking feature is that the social averages are highest for almost all business sectors with the economic just coming out second strongest with environmental just coming out lowest by sector. What this confirms to us is that social elements are scoring more highly due to legislative pressures coupled with the relative ease that changes can be made both financially and practically. In respect of the economic positioning this appears to be down to the overall financial robustness of most participants along with reasonably strong performance in the areas of business ethics and corporate governance. As these factors have been widely recognised as key to an organisations success for many years it is not surprising to see such scoring.

However, when it comes to the Environmental pillar it was surprising to see average scoring below that of the other pillars for many business sectors especially given the high profile that environmental issues have been given over the last 10 years or more. So why is this? Our thinking is that whilst many organisations have recognised the need to improve their environmental performance the timescales to achieve this are relatively long as they often require significant capital investment or in some cases a complete change of premises. That is not to say there is not more education and encouragement needed, particularly in the smaller sized organisations, to plan environmental related improvements appropriate to their business activities.

SECTION 5 - Overall Summary

This first CIPS Supplier Sustainability Report has laid down the foundation for future reports by both identifying areas for analysis and discussion, suggesting potential rationale for results to date and proposing topics worthy of further review going forward. This biannual report will also be significantly enhanced by the comparison of year on year data that will provide the ability to identify and analyse trends within each of our data sets. That said we are very encouraged by the quality and clarity of the data used to produce this first report. It has enabled us to identify strengths and weaknesses by organisation size for each sustainability pillar and sub clusters. The structure of the CSI question set and its requirement for supporting evidence coupled with an audit and evaluation team with a strong skill set in the subject areas gives us confidence that we are using honest and accurate supplier responses to base our analysis and assumptions on.

We look forward to providing you with the second of these reports towards the end of 2015 but for now we hope you have enjoyed reading the above and find it useful in helping to understand this important yet challenging subject area.

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