

**SUPPLY CHAIN CORPORATE RESPONSIBILITY  
IN THE BANKING INDUSTRY IN SOUTH AFRICA**

by

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# DECLARATION

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I unambiguously confirm that the entire dissertation ***SUPPLY CHAIN CORPORATE RESPONSIBILITY IN THE BANKING INDUSTRY IN SOUTH AFRICA***, unless specifically indicated to the contrary in the text is my own work, and that this dissertation has not been previously submitted.

  
\_\_\_\_\_  
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April 2007  
\_\_\_\_\_  
DATE

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## **ABSTRACT**

The power and influence that large businesses enjoy in the areas of wealth creation, and in broader societal and environmental issues generally, is unprecedented in human experience. This dominance however, has its detractors in the form of diverse stakeholder groups, some of whom are sceptical about the social, environmental and corporate governance behaviours and performance of large organisations. High-profile cases of corporate misconduct have fuelled a crisis of legitimacy in the minds of some of these stakeholders. As a consequence, these stakeholders are demanding higher levels of transparency, accountability, trust and integrity from organisations, whilst also acknowledging the fact that these organisations must remain economically viable.

Business leaders and analysts are increasingly appreciative of the potential value that can be created or conserved through visibly endorsing incrementally higher standards of social, environmental and ethical behaviour in their organisations. Progressive and responsible organisations across the world are either contemplating, or have already implemented, corporate responsibility programmes. These organisations include banks operating in the South African financial services industry.

This research contends that various issues and trends are driving changes in banks operating in South Africa. One driver of change is an imperative to reduce the reputational risk profile amongst these banks, and has caused most of the larger South African banks to embrace corporate responsibility programmes to some extent. This research deals with an emerging and important dimension of corporate responsibility in the banking industry in South Africa, namely supply chain corporate responsibility.

The primary objective of this research was to explore and describe the state of supply chain corporate responsibility programmes and practices in the banking industry. Specifically, it investigated and analysed how these programmes have been structured and implemented, the challenges that such programmes have encountered, the maturity of these programmes in these banks, and the outcomes of these programmes.

The research was conducted in a phased approach, and followed a typical business research methodology. A literature search was conducted in order to reflect on the context, background and components of the wider field of corporate responsibility, the major drivers of change in the banking industry in South Africa, and the emerging role

of procurement functions as the champions of supply chain corporate responsibility in these institutions. This included procurement departments' roles as facilitators of supply chain corporate responsibility programmes in their organisations. In addition, the literature search identified potential opportunities, challenges and pitfalls associated with supply chain corporate responsibility, and cited examples of best-practice supply chain corporate responsibility programmes in various companies. The research problem statement, the research framework, and the primary and secondary research objectives for this research were then compiled. A questionnaire was drafted, seeking to elicit views and comments on the state of supply chain corporate responsibility amongst selected respondents in the banking industry in South Africa. Once responses to this questionnaire had been received, the results were recorded and analysed, conclusions were drawn from these results, and recommendations were compiled for future research in this area.

The research revealed and concluded that supply chain corporate responsibility programmes are not mature or extensively developed in banks operating in South Africa. An aspiration-adoption gap exists, between what banks aspire to do in regard to supply chain corporate responsibility, and the programmes that they have implemented in practice. While banks that implemented supply chain corporate responsibility programmes have identified those areas in their procurement cycles that corporate responsibility impacts upon, important and best-of-breed supply chain corporate responsibility steps and practices have not been implemented in these institutions. Supply chain corporate responsibility programmes were considered to be able to create or conserve business value amongst banks operating in South Africa. There was a broad appreciation amongst these banks that supply chain corporate responsibility programmes should deliver nett positive results and value in their organisations. However, supply chain corporate responsibility programmes do face various significant challenges and pitfalls. These challenges and pitfalls need to be addressed and resolved if supply chain corporate responsibility programmes are to deliver their rightful value.

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# CHAPTER 1

## INTRODUCTION

- 1.1. BACKGROUND TO THE RESEARCH STUDY
- 1.2. RESEARCH METHODOLOGY
- 1.3. SIGNIFICANCE OF THE RESEARCH
- 1.4. RESEARCH ASSUMPTIONS

### 1.1. BACKGROUND TO THE RESEARCH STUDY

Since the 1980s, large businesses have realised the importance of attaining and maintaining high standards of corporate citizenship, referred in this research study as *corporate responsibility*. This study focuses on one of the emerging dimensions of corporate responsibility, namely supply chain corporate responsibility, and examines supply chain corporate responsibility from the perspective of the banking industry in South Africa.

The primary objective of the research is to explore and describe what supply chain corporate responsibility programmes and practices exist in the banking industry in South Africa, how these programmes have been implemented, and what the results of these programmes have been.

Figure 2. details the framework for the lay-out of this research study. This framework illustrates that supply chain corporate responsibility in the banking industry is informed and underpinned by corporate responsibility as a overarching concept and set of principles and standards (Chapter 2); also, by the emerging trends and drivers of change in the banking industry in South Africa (Chapter 3), and the influence of the modern, strategic procurement function (Chapter 4).

In conducting the literature search for this study, various examples of successfully implemented SCCR programmes were identified. These examples are cited in Chapter 5 (Supply Chain Corporate Responsibility) of this research. Most of the examples cited however, occur in companies outside of South Africa, and in industries outside of the banking industry. The researcher is not aware of other research having taken place in the area of supply chain corporate responsibility in the South African banking industry.

It was therefore decided that a study into this area of commercial endeavour would yield worthwhile and interesting results and conclusions.

The banking industry in South Africa was selected due to its overall importance and status in the economy as a holder of assets, a provider of capital, a significant employer in South Africa, and a large procurement spender on third party goods and services, estimated to be in excess of R20 billion per annum.

This research study is influenced and informed by various fields of business study, deemed to be relevant to this research study. These fields of business study include:

- Corporate citizenship;
- Sustainable development;
- Business ethics;
- Supply chain management;
- Strategic sourcing management;
- Banking management;
- Economic history; and
- Business research methodology.

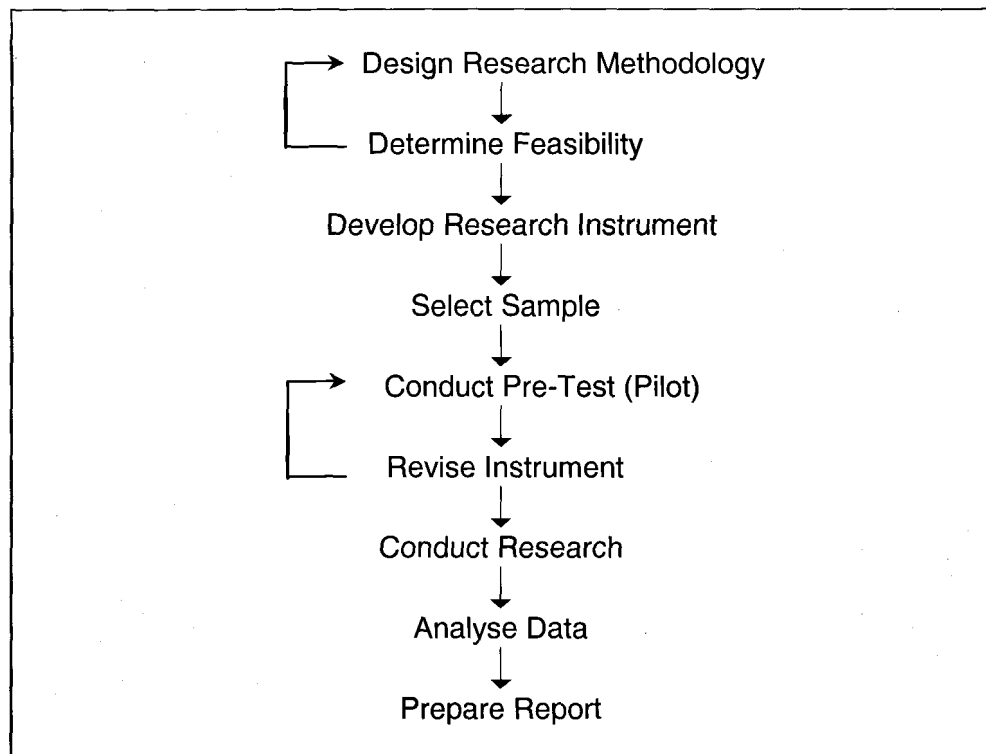
## **1.2. RESEARCH METHODOLOGY**

A typical business research methodology is represented in Figure 1. This research study reflects that methodology and tracks it as follows:

- A literature search was conducted in order to establish and reflect on the context, background and foundation for the research. Chapters 2 to 5 were drafted in an iterative fashion, as information and findings emerged during the course of the literature search.
- The research problem statement and research objectives were defined.
- A framework for this research was defined (refer Figure 2.)
- Various research designs and methodologies were considered, and a preferred design and methodology was defined.

**FIGURE 1.**

**TYPICAL BUSINESS RESEARCH METHODOLOGY**



**Source: Statpac (2006)**

- A sampling frame of was identified from amongst the total population of banks operating in South Africa. The rationale for the selection of this sampling frame is presented in Chapter 6.3.3.
- A questionnaire was drafted, seeking to elicit responses that would shed light on the research objectives.
- The questionnaire was pre-tested (piloted) on two respondents in order for refinements and revisions to be made to the questionnaire.
- The questionnaire was remitted to the targeted respondents.
- Once responses had been received to the questionnaire, the results were recorded and analysed, and conclusions and recommendations for further research drafted in Chapters 6 to 8.

### **1.3. SIGNIFICANCE OF THE RESEARCH**

This research is of interest and importance to the researcher, who is currently employed in the banking industry in South Africa. As described in the study, the banking industry in South Africa is increasingly realising the potential for creating or conserving business value by adopting various dimensions of corporate responsibilities. It was therefore interesting to understand how this emerging focus on corporate responsibility is being applied, specifically in the procurement function in the banking industry.

This research should contribute to new knowledge, by indicating how South African banks have adopted supply chain corporate responsibility in their organisations.

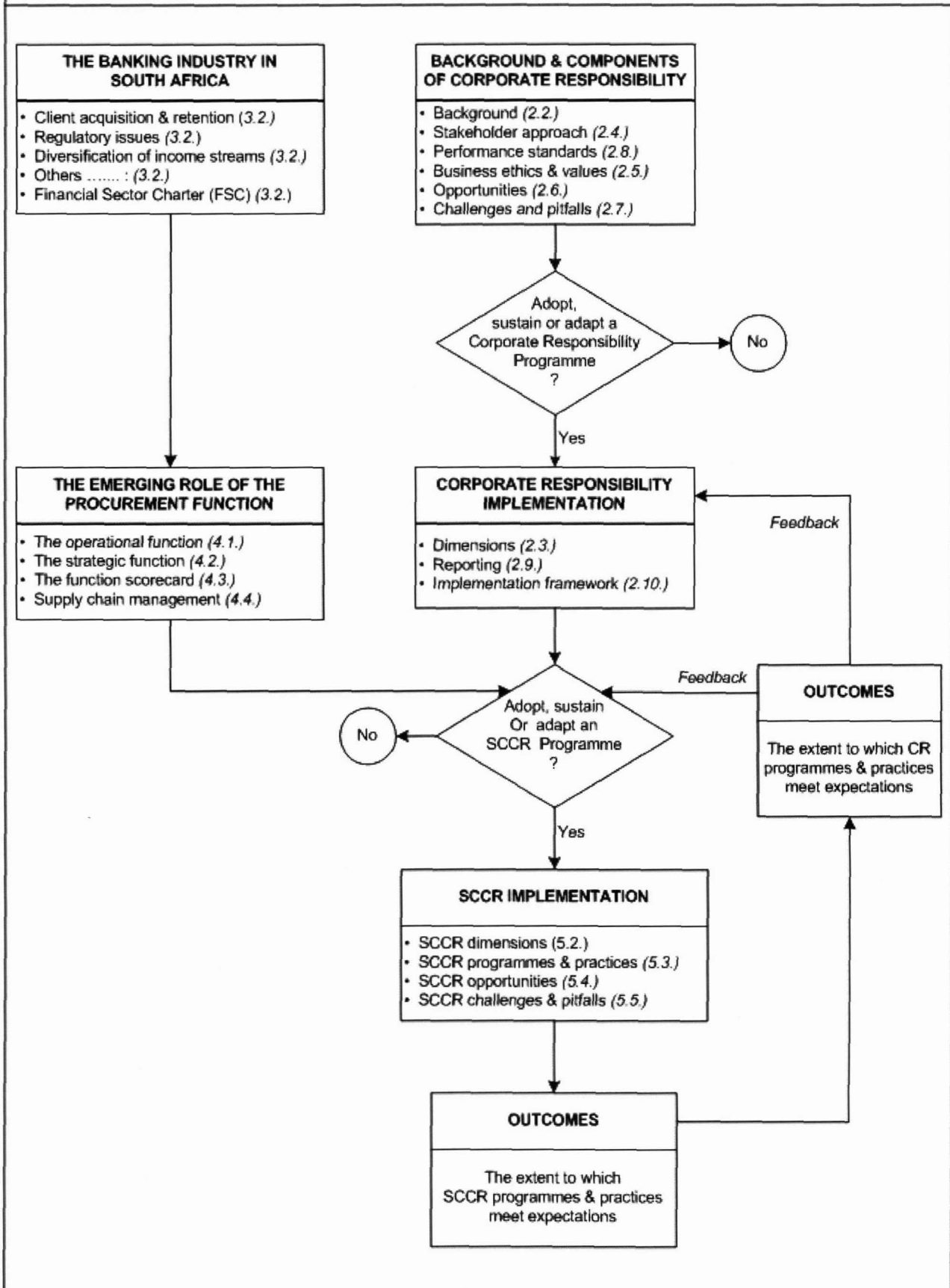
### **1.4. RESEARCH ASSUMPTIONS**

The following assumptions were made during the preparatory and planning phases of this research:

- The research would be feasible: there would be sufficient resources, time, information and expertise to conclude the study proposed in the area of supply chain corporate responsibility amongst banks operating in South Africa.
- Sufficient information would be available to conduct the literature search, providing the context, background and foundational basis for this study.
- Most organisational focus, resources and responsibility for supply chain corporate responsibility, would reside within the procurement departments of the banks participating in this study.
- A sampling frame could be identified, out of the total population of all 40-odd banks operating in South Africa. This sampling frame would yield representative, valid and reliable results.
- Suitable survey respondents would be identified in the targeted banks, and could be contacted to take part in this survey,

- The survey respondents would be knowledgeable and appropriately qualified to respond to the questions posed in the survey, and would be willing and able to respond to the questionnaire.
- A response rate of at least 25% of the sampling frame would be achieved.
- Research bias would not prove to be a significant source of sampling error.
- It would be possible to draw conclusions and recommendations from the responses received from the institutions participating in this study.

**FIGURE 2**  
**A FRAMEWORK FOR SUPPLY CHAIN CORPORATE RESPONSIBILITY IN THE BANKING INDUSTRY IN SOUTH AFRICA**



Sources: Adapted from Global Environmental Management Initiative (2004);  
 Developed from the Text

## **CHAPTER 2**

### **BACKGROUND AND COMPONENTS OF CORPORATE RESPONSIBILITY**

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| <b>2.1. INTRODUCTION</b>                                       |
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#### **2.1. INTRODUCTION**

This chapter attempts to situate the research study within to the framework and the principles of the evolving corporate responsibility movement. Corporate responsibility is discussed in this chapter and key principles and dimensions of corporate responsibility are included in here, including the stakeholder approach, the linkage between business ethics and corporate responsibility, a framework for the implementation of corporate responsibility programmes, and the performance and reporting standards commonly adopted by firms embracing corporate responsibility programmes. The chapter includes some of the most common opportunities (that is, positives or benefits) and challenges and pitfalls (that is, negatives, risks or threats) of corporate responsibility programmes.

Supply chain corporate responsibility is one of the components falling under the umbrella corporate responsibility framework. Supply chain corporate responsibility shares many of the principles, opportunities, challenges, and reporting standards of the wider corporate responsibility framework (detailed in this chapter), but also has its own unique characteristics that are specific to supply chain corporate responsibility (detailed in Chapter 5).

## 2.2. BACKGROUND AND HISTORY OF CORPORATE RESPONSIBILITY

As the effects of the Cold War have waned and the momentous struggle between communism and capitalism was decided, the magnitude of the impact of contemporary laissez-faire free-enterprise is unprecedented in the history of commercial endeavour. Modern organisations now possess unparalleled power; not only are they the dynamos of social upliftment and economic development, but they are also the custodians of resource allocation and life chances. Their burgeoning influence is strongly felt across local and national boundaries (Warren: 1999).

Yet despite the enormity of this influence, there are concerns about how business will adapt to increasingly complex and volatile operating environments: the *terra incognita* described by Drucker (1989). The way business is organised, operates and competes is undergoing scrutiny and profound change (Lenssen: 2006). Various diverse and destabilising forces and drivers of change are impacting upon organisations: globalisation (Giddens: 1999); deregulation; outsourcing; advances in technology and communications (Rogaly: 1999); collaboration by multiple enterprises using e-business tools; erratic economic growth patterns; capital flight into and out of equity markets; job delayering, down-sizing and re-structuring; and, the emerging pre-eminence of knowledge worker jobs in service industries, often at the expense of the unskilled.

While the future of modern business holds out the promise of continued growth, prosperity and rising living standards, sobering realities and challenges for business also exist: conflicts caused by cultural and ideological polarisation; unmanageable debt and trade deficit burdens; huge increases in human populations; the disproportionate distribution of wealth between rich and poor nations; disputes over ownership of scarce sources of energy, water and other resources. Other challenges include: the HIV-Aids epidemic; corruption and mismanagement; social inequality; the exploitation of women, the elderly, youths, and immigrants; and ecological degradation and the impact of mass extinction of species and habitats in the natural environment; global climate change; and the depletion of the earth's natural resources at a faster rate than its ability to replenish them (WWF-UK: 2003).

It is unfair to lay the blame for these realities and challenges exclusively at the door of large business. It is increasingly recognised however, that big organisations possess the power and influence to assist in ameliorating some of these. But while business is unable to solve these challenges it can, by acting more responsibly, foster a sense of



order, trust and accountability in a world in need of such virtues and values. This is the essence of corporate responsibility.

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The history of corporate responsibility may be traced back to the era of the early Industrial Revolution. Neoclassical economist Adam Smith (1937) extolled the virtues of liberalised, market economies: this was the 'invisible hand' in action. Others, however, vigorously disagreed about the benefits of free enterprise and capitalism. In the 1840's, Karl Marx advocated that capitalism owed its survival to its domination and monopolisation of institutions (such as the law, education, arts, and media) by the ruling elite, and that contradictions within the capitalist economic system would inevitably lead to its collapse, leading to an order in which goods and services would be distributed according to people's needs (Marx: 1848). The socially polarised world of the industrial revolution was vividly portrayed in the writings of Dickens and Disraeli. Later, postmodernist writers painted a bleak vision of a world in which morality and political freedom were seduced by endless rounds of production and consumption, the acceptance of meaningless work, and increasing isolation of people from each another (Robinson and Garratt: 1999).

The practice of economic liberalism rose to prominence amongst the political right (including Thatcher and Reagan) during the 1980s, with policies of tax cutting, privatisation, and the freeing of business from government restrictions. Until the 1990s, it was received wisdom within the ruling conservative Western governments that the driving force of economic progress was 'enlightened self-interest', where the self-seeking efforts of capitalist wealth creators would eventually lead to greater prosperity for the good of society (O'Leary: 1995). Under this philosophy, the primary focus of business was to gain competitive advantage, and maximise profits, market share, and sales volumes. This view was shared in South Africa, where, according to Williams and Theobald (2005): 'the SA business culture until 10 years ago was quite simple: keep your head down and make money for your shareholder'. Most companies believed that, while the law should be obeyed and basic social ethics observed, sustained success in business was largely a function of healthy profit margins achieved.

In support of this approach, businesses were counselled not to become distracted with activities deemed to be non-core, such as philanthropy. This position was advocated by

Carr (1968), Hayek (1969) and the minimalist Milton Friedman (1970). They held that the making of profits is the social contribution of business, and that furthermore, notions of stakeholder accountability and corporate responsibility were dangerous socialist philosophies that could damage the wealth creation process (Warren: 1999) or threaten the viability of the free enterprise system (Friedman: 1972). Social investment initiatives that were undertaken were often dismissed as gratuitous public relations opportunities, or were criticised for perceived levels of paternalism displayed by organisations (Cowe: 2000a).

From the 1990s onwards, as business entrenched itself as a 'powerful and pervasive force of social and environmental change' (Davies (ed): 1997), some observers became concerned about the 'unregulated' activities of multi-national organisations that operate beyond the reach of single national regulatory systems, and which are often responsible for the bulk of foreign investment in developing nations (Varley (ed): 1998; Bhagwati: 2001). Other writers (Hutton: 1995, Warren: 1999) worried that big business faced a genuine crisis of legitimacy. Union Carbide India Ltd's Bhopal disaster, killing thousands, and the Exxon Valdez oil spill, polluting vast tracts of Alaskan coastline, helped fuel levels of public concern and dismay (Neef: 2004). Since then, media attention has focussed more strongly on what businesses say and do. Negative sentiment against large business was inflamed by well publicised examples of corporate governance failures, defrauded consumers, unfairly treated employees, and excessive management and directorship salaries and benefits (Gregg *et al*: 1993). The anticapitalism and antiglobalisation movements of the late 1990s were mobilised by a deepening sense of frustration and anger created examples of corporate recklessness, venality, dishonesty, opportunism and negligence (Neef: 2004).

Visser and Sunter (2002) highlight the reputation damage caused to some high-profile organisations due to corporate responsibility scandals: Nike procuring goods manufactured in sweatshops staffed by child labourers; Shell accused of human rights and environmental abuses in Nigeria; Coca-Cola put under the spotlight at the 2000 Olympics for using ozone-damaging refrigeration; and McDonald's sourcing beef raised on clear-cut tropical rainforest lands. This list of companies 'named and shamed', was augmented by revelations of improprieties involving Enron, Andersen, Tyco and WorldCom in the United States, Elf, Vivendi and Barings Bank in Europe, and Saambou and Unifer in South Africa. Many of these companies experienced sharp increases in stakeholder activism against them, and in some cases, a decline in share prices (KPMG: 2001). Some were accused of having inflicted permanent damage upon

the communities and natural ecosystems in which they operated or traded (Bhagwati: 2001). Attention was similarly focused on the state of ethics inside organisations, both inside South Africa and internationally. Business consultancy KPMG speculated that 80% of white-collar crime in South Africa went unreported (Honey: 2003). The organisation Business Against Crime reported that commercial crime convictions in South Africa rose from 119 cases in 2000 to 397 in 2003.

In response to the crisis of legitimacy precipitated by these scandals, companies have been ineluctably obliged to mend their ways by behaving in a more socially and environmentally responsible manner (Sethi: 1981; Swift: 2001; de Jongh and Pienaar: 2004; Thomas: 2004). This trend has been accelerated by the realisation that governments in the developed world are becoming more reluctant to intervene in society than in the past (WWF-UK: 2001), and those that governments in the developing world face inadequate regulatory and enforcement capabilities. (Neef: 2004).

Increasingly, organisational observers and practitioners are coming to appreciate that effectively implemented corporate responsibility programmes may yield some of the following results:

- *create business value* ('push' factors), by harnessing opportunities presented by implementing corporate responsibility programmes; or,
- *conserve business value* ('pull' factors), by avoiding risks and threats that exist because corporate responsibility is not implemented.

This development is succinctly summarised by Andrews (ed) (1989):

When the corporation is defined, not primarily as a profit-maximising agent of the shareholders, but as a socio-economic institution with responsibilities to other constituencies (employees, customers, and communities, for example), policy is established to regulate the single-minded pursuit of maximum immediate profit.

### **2.3. DIMENSIONS OF CORPORATE RESPONSIBILITY**

Corporate responsibility is defined as the degree of responsibility manifested in a company's strategies, decisions and operating practices as they impact and contribute to the welfare and interest of both stakeholders and itself (Szwajkowski: 1986). Some level of responsibility is integral to any corporate decision made or action taken. It is through a company's decisions, actions, and impacts on stakeholders and the natural environment, that a company's corporate responsibility profile is established and manifested (Waddock: 2004).

Various terms have been used over the years in the development of what is now broadly referred to as corporate responsibility. Related terms and topics that frame the corporate responsibility discourse include: corporate social responsibility, corporate citizenship, sustainability, the triple bottom line, corporate governance, and corporate reputational risk management. Some of these terms are described in some detail below.

Corporate social responsibility deals with a company's voluntary/discretionary relationships with its societal and community stakeholders. It is typically undertaken with some intent to improve conditions in society, or relationships between organisations and communities or non-governmental organizations (Waddock: op. cit). Corporate social responsibility is however no longer limited to acts that are purely altruistic or philanthropic in nature: it now involves harmonising and integrating the various facets of philanthropy, social and environmental awareness, financial profitability, ethical behaviour, and legally responsible behaviour (Carroll: 1998).

Attaining the status of a responsible corporate citizen is regarded by many as a licence for an organisation to operate and to continue to trade, both locally and increasingly, internationally. Organisations which take their corporate citizenship responsibilities seriously, increasingly embed and institutionalise social and environmental responsibilities as an integral part of their core business values and strategies (KPMG: 2005). According to Zadek (2001), doing so may be one of the secrets of organisational success and sustainability.

The concept of sustainability, or sustainable development, combines considerations of the developmental needs of the present generation, with those of futurity (World

Commission on Economic Development: 1987). Several common themes resonate within the sustainability agenda. These themes include (WWF-UK: 2001):

- reviewing the time horizon for strategic planning activities to reflect the timescales over which potentially significant environmental and social impacts are likely to manifest;
- looking beyond current market conditions and identifying strategic options that anticipate and offset environmentally or socially-driven sources of potential business impact;
- integrating ethical, environmental and social considerations into mainstream business processes and operations;
- accepting greater whole life-cycle accountability for processes, products and services;
- adopting values and behaviours that are consistent with the objectives of public policy and the expectations of society;
- transparency in relationships with stakeholders about the implications of business activity and behaviour for the environment and society.

Corporate governance is concerned with establishing a balance between economic and social goals, and individual and communal goals. The overall aim of corporate governance is moral performance (Rossouw: 2002), and the alignment of the interests of individuals, corporations and the rest of society (Cadbury: 1999).

Risk is defined as the measurable possibility of losing or not gaining value; different from uncertainty, which is not measurable (Corporate Executive Board: 2003a). Corporate reputation refers to the 'overall net image' of a company as assessed by external stakeholders (Waddock: 2000; Fombrun: 1996). A good corporate reputation enhances the value of what an organisation says and does, while a bad reputation devalues its products and services and acts as a magnet for further castigation (Roberts: 2003). There has been a marked increase in the number of press mentions of corporate reputation. For example, in the United Kingdom the number of mentions of corporate reputation rose from 224 in 1998 to 881 in 2004, and the risk of corporate

reputational risk management is now regarded as one of the greatest risks facing large organisations (Corporate Executive Board: 2006a). Consequently, firms are recognising the need for active reputational risk management in order to mitigate possible damage that that could cause.

There are various components of corporate responsibility. These generally comprise how the business relates towards its customers, its employees, the environment, the communities in which it operates, and its suppliers. Warhurst (2003) lists corporate responsibility components, as:

- Human rights;
- Stakeholder consultation and engagement; 'the social license to operate';
- Working in zones of conflict and security;
- Corruption; lack of law enforcement;
- Environmental protection; and
- Supply chain management, including labour standards in the supply chain.

This research focuses on how the final item in Warhurst's list, the supply chain management component. It specifically focuses on the implementation of corporate responsibility in the supply chains of procurement functions in the banking industry in South Africa.

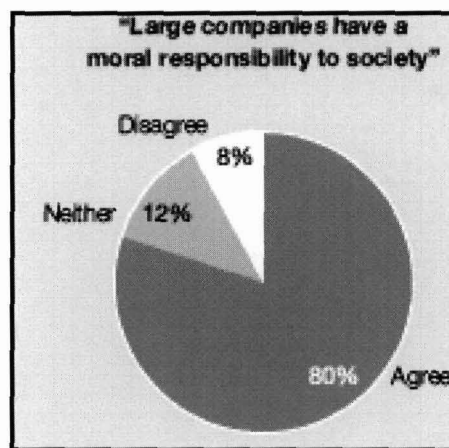
#### **2.4. STAKEHOLDER DIALOGUE**

Large business is aware that its decisions and behaviours are increasingly influenced by the expectations, perceptions and reactions of an ever-enlarging group of stakeholders. The expectations of non-shareholder stakeholders on corporate responsibility has expanded rapidly in recent years. Stainer *et al* (1998) points out that stakeholders, particularly in the West, are increasingly expectant of higher standards of corporate responsibility from organisations. Examples of this include public and scientific concern about the detrimental impact of business on the environmental

(Kennedy: 1993; Welford: 1995). It is now estimated that at least 50% of consumers form an impression of a company based on that company's perceived level of social responsibility (Corporate Executive Board: 2003b). A poll by MORI conducted in the United Kingdom in July 2002 (Market & Opinion Research International; Lewis: 2003), suggests that 80% of the UK population surveyed believe that large companies have a moral responsibility to the society in which they operate and trade. The results of this survey are represented in Figure 3:

**FIGURE 3.**

**CORPORATE RESPONSIBILITY POLL RESULTS: 2002**



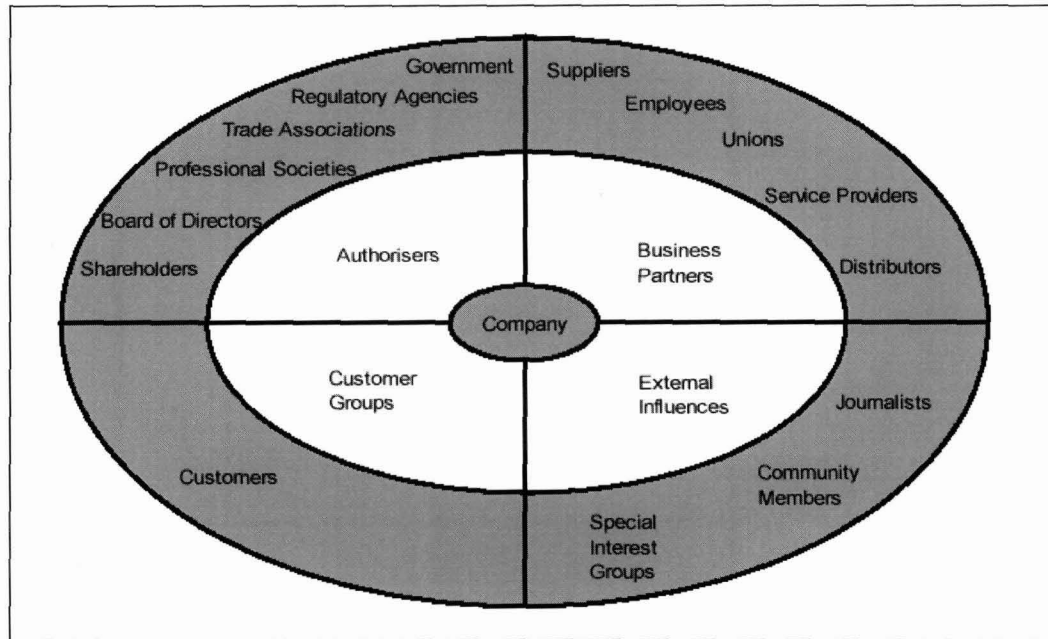
**Source: WWF-UK (2003)**

Stakeholders of a firm broadly include those who are positively or negatively affected by a focal firm, either directly or indirectly (Greenwood: 2000; Windsor: 2002). The typical list of organisational stakeholders is wide and diverse, ranging from authorisers-regulators, customer groups, external influencers, to business partners (refer Figure 4.).

Apart from institutional and social investors, stakeholders may also include: environmental, human rights and labour activists, academics, (Waddock: 2000), advocacy groups, and indigenous peoples (Global Environmental Management Initiative: 2004). Non-governmental and not-for-profit organisations, amongst other stakeholder groups, are no longer a fringe movement, having developed in sophistication and influence (Neef: 2004). In certain cases, stakeholders may be deemed to include non-sentient beings (for example, trees and plants), non-human species (for example, animals and insects), and even future human generations.

**FIGURE 4.**

**THE RANGE OF CORPORATE STAKEHOLDERS**



**Source: Roberts (2003)**

Frooman (1999) points out that stakeholders exercise their power upon corporations by means of two main strategies: either a *withholding strategy* (for example, withholding resources such as labour by unions or capital by investors, or by organising consumer boycotts), or a *usage strategy* (for example, allocation of resources to an organisation may be conditional upon the organisation meeting certain compliance standards before a licence to operate is granted by a regulator). Stakeholders generally raise specific social or environmental issues, such as the prevention of the use of child labour (Bansal: 2005). The U.S. activist group Investor Responsibility Research Centre (IRRC), confronts firms accused of violating standards in areas such as human rights, employment opportunities, or safety standards in the production of genetically modified food (Waddock *et al*: 2002).

A key issue in stakeholder management is that of establishing *which* stakeholders concerns and interests are material enough to require the attention and action of an organisation. Zadek and Merme (2003) propose mechanisms to assist organisations to do this.



Increasingly, stakeholder interest and pressure groups are demanding that business recognises its roles and responsibilities by behaving ethically, that is, by adopting values, principles and practices of stewardship, accountability, transparency, conformance, including fair trade practices (Rossouw: 2002). According to Rossouw, the destinies of organisations and society are shared and inextricably intertwined. More organisations are becoming aware that, from a systems dynamics perspective (Checkland: 1993), they constitute a systemic part of society and the natural environment. Organisations are both impacted by, and have an impact on, society and the environment. Business can no longer afford to act in isolation from the world around them that nurtures and sustains them.

Warren (1999) notes that business is subject to society's moral norms, and society's consent to operate. He emphasises that a company's legitimacy is largely dependent upon society's acceptance of the impact of decisions and actions made by the business, in terms of its firm's corporate governance principles and framework, and its record of accountability to its stakeholders. This is the proposition of a social contract: that business owes its existence to society, and also that market forces serve to regulate and control businesses by either rewarding or punishing their behaviour (Donaldson: 1982; Gray *et al*: 1988; Donaldson and Preston: 1995). An important implication of the social contract is that moral indifference displayed by companies in regard to their stakeholders, is unsustainable. Zadek (1999) writes about an idealised stakeholder corporation that seeks to establish a social contract by integrating trust and integrity into the fabric of its social relationships.

In corporate social performance theory, the goals of achievement of shareholder wealth are balanced against stakeholder expectations that the organisation should behave in a responsible manner (Wood: 1996). There is in this, a strong emphasis on the trustworthiness of organisations (Hosmer: 1995). Pearson (2000) notes that once a company's ethical reputation is damaged and it is seen to be untrustworthy, it may suffer the wrath of various stakeholders, which in turn negatively affect that firm's sales, financial viability, and investment sentiment. In this environment, transparency by the organisation is paramount. Transparency requires an organisation to make its actions and decisions visible to its stakeholders (Waddock: 2000). According to Mcbeth *et al* (2005), companies either enhance or diminish the respects that others hold of their organisations, by virtue of their performance and transparency over areas such as marketing, financial management, human resource management, and also, corporate

responsibility. Insufficient transparency in any one of these dimensions may significantly weaken the reputation of the organisation.

Accountability is defined as the duty to provide information to another parties, where the one party who is accountable, explains or justifies actions to the other party, to whom an account is owed (Gray *et al*: 1997). Accountability theory, which in turn is largely based upon economic agency theory, assumes that agents (organisations) are not trustworthy enough to act in the best interests of their principles (society). In the absence of such trust, Hosmer (1995), and Huse and Eide (1996) advocate the adoption of formal mechanisms such as agreements, standards, conventions, statutes, and regulations, in conditions where management opportunism and violations against society would otherwise occur, or where management is not trusted enough to provide information which may best serve their stakeholders (Swift: 2001). Where such assumptions or uncertainty exists, legalistic instruments simulate or artificially create, trust and predictability of information flow (Blois: 1999). Under these circumstances, accountability is less motivated by voluntary disclosure, and is more often the result of the formal institutionalisation of stakeholders' legal rights.

In the view of the not-for-profit organisation, the Institute of Social and Ethical Accountability (AccountAbility: 1999), accountability has three separate components:

- transparency of information sharing with organisational stakeholders;
- responsiveness in developing the organisation's capacity to continuously improve its performance, and
- compliance with accepted standards regarding organisational reporting standards and practices.

It is AccountAbility's contention that, in order to validate their corporate responsibility credentials, organisations are increasingly accountable for their decisions and actions. To exercise accountability to their stakeholders, organisations are required to account thoroughly for their acts and omissions. Organisations can enhance the quality of accountability and transparency to their stakeholders by communicating more clearly and effectively with them (de Jongh and Pienaar: 2004).

## **2.5. CORPORATE RESPONSIBILITY AND BUSINESS ETHICS**

Business ethics is defined by Donaldson (1989), as:

The systematic study of moral matters pertaining to business, industry or related activities, institutions or practices. Beliefs can also refer to actual standards, values or practices of beliefs.

Expectations of ethics in business have been on the rise since the 1980s (Andrews (ed): 1989), with ethical considerations receiving serious attention at levels in organisations where strategies and policies are determined (Selly: 1994). Organisations that include corporate responsibility standards in their strategic and business planning, find that they are required to re-examine their ethical standards at the same time.

There is a linkage between how an organisation behaves, its standards and policies of business conduct, and its core values and principles. As such, business ethics and standards of corporate responsibility in an organisation are connected. Maddux and Maddux (1989) write that business ethics assists managers to better understand and exercise their corporate responsibilities, and in raising their awareness of how their organisation's activities affect others.

Verschoor (2002) also observes a linkage between business behaviour and standards of corporate citizenship. He advocates that ethical behaviour contributes to the creation of business value (by means of: increased public acceptance, investor confidence, customer loyalty, employee performance, and employee pride), and the mitigation of business risk (that is, avoidance of litigation, or increased regulatory oversight). These benefits are not dissimilar to those that a corporate responsibility programme can bring to an organisation.

An example of the effect that an ethical culture can have in an organisation is the inclination for ethically-predisposed job seekers to seek employment with like-minded businesses (McKinsey Quarterly: 1998). This is an extension of Scott and Harker's (1998) ideal of work providing meaning for workers whose values align with and complement the values of their employer.

## 2.6. CORPORATE RESPONSIBILITY OPPORTUNITIES

Companies that introduce a successful corporate responsibility programme, may *create value* for their business in the following ways:

- Easier access to finance from capital markets.
- Opportunities for differentiation over competitors in public relations and advertising, based on a record of good corporate responsibility.
- Stronger customer loyalty, brand awareness and opportunities to increase customer acceptance.
- Opportunities to expand operations and trading into new markets identified or created as a result of better understanding consumer and community needs in new markets.
- Higher potential to positively influence levels of ethical behaviour and conduct amongst employees. This can have a knock-on effect on levels of employee motivation, productivity and retention.
- Higher potential for the organisation to be positively perceived by prospective employees.
- Higher potential for the organisation to be granted a social licence to operate by means of: permits, quotas, subsidies, or tendering privileges being awarded to the organisation.
- Higher potential for positively influencing the behaviour and values of business partners; also amongst competitors in the same industry, and other organisational stakeholders.
- Enhanced ability to deal with, and assist with, various societal and environmental challenges.

In addition, organisations that implement corporate responsibility programmes may *conserve value* for their business, by avoiding the following risks and threats:

- Lower levels of share price volatility due to reputational damage caused to the organisation by scandals or public exposure of corporate responsibility violations.
- Lower potential for boycotts, adverse activism, militancy or alienation by ethically-inclined stakeholders.
- Lower potential for the organisation to be a victim of, or become a perpetrator of, unethical conduct such as fraud, bribery and corruption.
- Lower potential for the organisation to be exposed to litigation and related punitive action (such as, penalties, fines and increased taxes levied on the organisation) for non-compliance with laws.

## **2.7. CORPORATE RESPONSIBILITY CHALLENGES AND PITFALLS**

Despite the potential benefits offered by corporate responsibility programmes (Chapter 2.6.), various challenges and pitfalls exist, or are anticipated with these programmes, including:

- Although the actions of organisations practising corporate responsibility are admirable and seem sound, they are the exception rather than the rule amongst businesses (Warhurst: 2003). Too many companies regard corporate responsibility as a diversion from their mainstream activities (WWF-UK: 2001). Crook (2005) writes about the disingenuous efforts of certain firms that espouse their corporate responsibility programmes, but fail to follow through with tangible delivery on these programmes. Crook suggests that, in large measure, corporate responsibility is a gloss on capitalism, not the deep systemic reform that its champions propose. He contends that corporate responsibility is often more a concept, than a coherent and implementable programme.
- The authentic integration of corporate responsibility into the strategies and operations of complex organisations remains a challenge (KPMG: 2005). While increasing numbers of companies are implementing formal environmental and social responsibility policies and programmes, and have defined specific objectives for improving company performance in these areas, relatively few

companies have successfully integrated corporate responsibility programmes into their strategic and business planning functions.

- Lack of ongoing support for corporate responsibility programmes from senior management levels, and business partners elsewhere in the organisation, particularly in circumstances where the organisation is facing adverse trading conditions (Grant: 1998).
- The organisation may lack the resources, skills, and systems required to implement an effective corporate responsibility programme.
- Corporate responsibility dimensions (such as, the social, environmental and ethical dimensions) may be addressed and assessed in isolation. Dealing with an organisation's performance in each of these dimensions in a fragmented way, might produce misleading results and recommendations.
- The organisation's investors may be pre-occupied with current-year financial results, and may not be willing pay a premium for stock in a company whose a corporate responsibility programme may only yield value sometime in the future, or where the potential value of the corporate responsibility programme may be intangible or indirect, and therefore hard to quantify accurately.
- The plethora of corporate responsibility standards and frameworks that the organisation can chose to comply with. Deciding which corporate responsibility standards and frameworks are suitable and appropriate for the organisation.
- Corporate responsibility standards might prescribe *what* a participating company is required to do, but not *how* it should do these things (Pojasek: 2001).
- Fragmented coordination of corporate responsibility activities and responsibilities across various internal functions within the organisation, thereby diluting the focus of the corporate responsibility programme.
- Non-specialist readers of corporate responsibility reports, may find the reports difficult to read or understand. These readers may feel that they are being

bombarded with huge amounts of information, some of which has questionable relevance (Maitland: 2002a).

- In evaluating the business case for the corporate responsibility programme, there may be a difficulty in attributing a linkage between the programme and perceived benefits, such as the mitigation of reputational risk, the enhancement of the company's image or brand equity, or an increase in stakeholder trust.
- The business case for the corporate responsibility programme may not be demonstrated or proven conclusively, thereby reducing the support for the corporate responsibility programme elsewhere in the organisation.

## **2.8. CORPORATE RESPONSIBILITY PERFORMANCE STANDARDS**

Various standards have been developed to create easily comparable, objective and verifiable standards by which corporate responsibility performance may be compared or measured against. Corporate responsibility standards continue to evolve (Blowfield: 1999; Owen and Swift: 2001; KPMG: 2005), although consolidation is taking place, resulting in a few, well-structured and effective standards prevailing (Neef: 2004). Some of these standards require mandatory compliance, others are adopted voluntarily. Standards generally either have a horizontal focus on dimensional areas such as environmental policy or labour issues, or a vertical focus within specific industries such as apparel, footwear, or lumber (AccountAbility: 1999; Neef: 2004).

The proliferation of guidelines, acts, codes, charters, declarations, principles, conventions, frameworks, and indices includes:

- **Global Reporting Initiative's Sustainability Reporting Guidelines**

These guidelines (Global Reporting Initiative: 2002) are an internationally-accepted and applicable guidelines for social and environmental reporting (Maitland: 2002b). In producing the guidelines, the Global Reporting Initiative (GRI) aims to diminish some of the current confusion about which standards are appropriate to meet stakeholder expectations, and stakeholder expectations of organisations (Waddock *et al.*: 2002). According to Allen White, the former CEO of the GRI, the GRI's objective is to make corporate reporting 'as routine as financial reporting' (Dickson: 2002).

- **The Ethical Trading Initiative's Base Code**

The Ethical Trading Initiative (ETI), a UK-government funded project, has produced a Base Code, which proposes international standards with regard to ethical labour practices. The ETI Base Code contains the following elements (ETI: 2006):

- Trade union freedoms;
- Living wages;
- Freedom from forced labour;
- Health and safety requirements;
- Freedom from [exploitative] child labour;
- Working hours;
- Freedom from discrimination;
- Regular employment;
- No inhumane treatment.

- **The SA 8000 Standard**

The Social Accountability 8000 Standard was developed by the not-for-profit organisation, the Council on Economic Priorities Accreditation Agency (CEPAA). SA 8000 defines enlightened conditions of employment to be practised in supplier and subcontractor organisations, particularly those operating factories in the Third World. SA 8000 complements the ETI Base Code, by providing a structured methodology for implementing the principles enshrined in the ETI Base Code.

- **The AA 1000 Framework**

The Institute of Social and Ethical Accountability (AccountAbility: 1999) developed the AA 1000 framework of best practice methods for conducting social and ethical accounting, auditing and reporting.

- **International Labour Organisation's Labour Conventions**

The ILO recommends the abolition of child labour, and that the minimum age of workers should correspond to the age of completion of compulsory education, that being 15 years old. According to Warhurst (2003), bonded child labour is common all over the world, and is often grounded in caste systems, or tribal or feudal obligatory relationships.



#### ▪ **The UN Global Compact**

The Global Compact is an international agreement in which multinational organisations have undertaken to voluntarily commit themselves to specific standards of human rights, labour and the environment. Several hundred companies, and other not-for-profit organisations have pledged support for the Global Compact. Nine principles of the Global Compact advocate that businesses assert their moral leadership by supporting and displaying the following activities and attributes (Windsor: 2002):

- supporting human rights, and avoiding complicity in human rights abuses;
- supporting freedom of association and collective bargaining;
- eliminating forced and compulsory labour;
- abolishing child labour;
- adopting a precautionary approach to environmental challenges;
- practicing environmental responsibility;
- adopting environmentally-friendly technologies;
- eliminating discrimination in employment practices.

#### ▪ **CERES Principles**

The CERES Principles were created by a coalition of environmental groups and the socially-responsible investment community in the U.S. The CERES Principles cover various corporate responsibility issues including, product safety, reporting, management commitment, and energy conservation.

#### ▪ **The Fair Trade Framework**

Fair Trade seeks to improve the livelihoods of communities in developing countries. In recognition of the significant influence that buyers' decisions have on the supply chain, this framework requires standards of behaviour from both buyers and suppliers. Products sold by Fair Trade-certified organisations include those manufactured and sold by the food, household products, soft furnishings and clothing industries. Fair Trade certification provides an independent guarantee of adherence to agreed standards. Fair Trade develops its standards through its partnerships with suppliers and civil society.

#### ▪ **The Equator Principles**

The Equator Principles are based on World Bank and International Finance Corporation guidelines, and seek to improve environmental and social risk

management practices in project financing. The Equator Principles are an important framework for guiding the financing of large project developments in sensitive or vulnerable regions.

- **The Global Sullivan Principles of Social Responsibility**

This is a code of conduct to encourage participating companies and organisations to work towards common standards of human rights, social justice and economic opportunity.

- **The ISO 14000 Series**

The International Organisation for Standardisation's ISO 14000 series is rapidly becoming the de facto standard for environmental compliance. It is a voluntary, international standard that identifies the processes necessary to effectively manage organisational impact on the environment. ISO 14000 seeks to ensure that environmental considerations are taken into account when determining the overall strategy and objectives of the business.

- **The King II Report on Corporate Governance**

Published in South Africa in 2002 (King: 2002), this report recommends that, inter alia, boards of directors should report at least annually on the nature and extent of their organisation's corporate responsibility performance.

- **The Sarbanes-Oxley Act (Section 404)**

This U.S. Act was introduced for the purpose of preventing fraud in public companies. Under this Act, all employees share a collective responsibility to report suspected or actual fraud.

- **Various South African Environmental Legislation**

Various environmental legislation was enacted in recent years, such as:

- **The Municipal Services Act (No. 32 of 2000)**, provides the principles and mechanisms to achieve effective governance at the local-government level, and includes implications for the environmental management function as exercised by local governments.
- **The National Environmental Management Act (No. 107 of 1998) (NEMA)**, is intended to provide the principal framework for integrating

environmental management practices into all development activities. The NEMA makes provision for waste management through principles that reference the avoidance, minimisation, and remediation of pollution, including recycling and proper waste disposal, where appropriate.

- **The Hazardous Substances Act (No. 15 of 1973)**, provides the regulations to control the management of hazardous substances and the disposal of hazardous waste by organisations.

- **Socially Responsible Investment Funds**

Socially responsible investment funds are listed on selected stock exchanges around the world as a means to identify, reward and facilitate investments in listed companies that evidence successful integration of corporate responsibility programmes in their business strategies and practices. According to Waddock *et al* (2002), long-held assumptions by the financial community of poor financial returns from socially responsible investment funds, appear to be inaccurate.

Examples of socially responsible investment funds include:

- The Dow Jones Group Sustainability Index, on the New York and Europe stock exchanges;
- The FTSE 4 Good Index, on the London Stock Exchange;
- The JSE SRI Index, on the Johannesburg Stock Exchange.

Shares in products or services involved or associated with issues such as tobacco, alcohol, pornography, child labour or animal testing, are avoided by investors in some ethical funds (Waddock: 2000). A range of socially responsible investment funds may be rolled-up into an index, such as the JSE's SRI Index launched in South Africa in May 2004 (JSE: 2004). The Index is intended to promote investment in companies listed on the JSE that integrate good corporate citizenship principles into their business strategies and activities. The Index is based on predetermined environmental, economic, and social criteria. These criteria incorporate some supply chain considerations. The Index regards good corporate governance as foundational, for the way in which corporate responsibility issues are identified, managed and resolved.

## 2.9. CORPORATE RESPONSIBILITY REPORTING

Standards, principles, and codes are only useful if they are implemented, and to the extent to which companies can assure stakeholders that they are living up to these standards, principles, and codes (Waddock *et al.*: 2002). According the Global Reporting Initiative (2002), high quality corporate citizenship reporting depends upon the quality, reliability, accuracy, accessibility, clarity, auditability, relevance and completeness of the information reported. Corporate responsibility reporting may have the ancillary benefit of alerting a firm's management to potentially damaging risks, so that these risks can be mitigated before they cause damage or loss (Global Reporting Initiative: 2002).

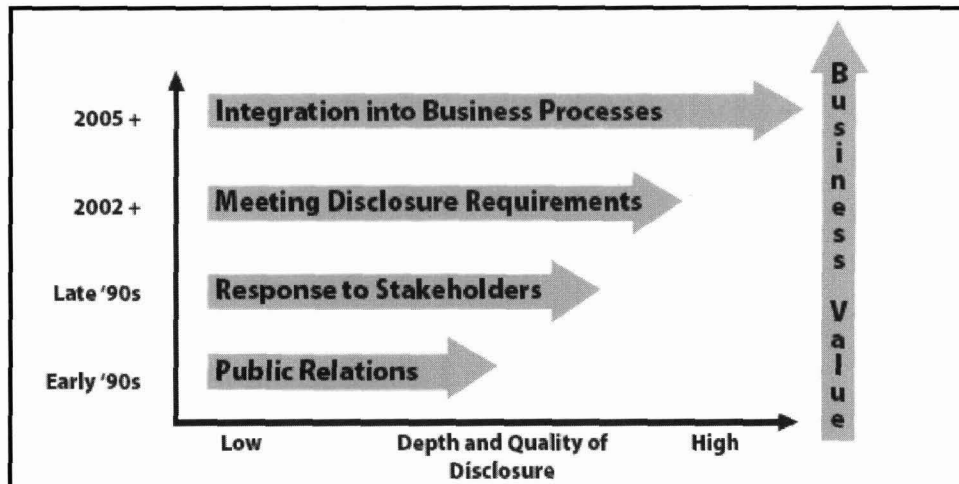
Corporate responsibility performance is commonly reported in documents referred to as sustainability reports. These reports provide information on a company's management and performance related to one or more dimensions of corporate responsibility - beyond the purely financial perspective commonly and traditionally reflected in company annual reports. Sustainability reporting has evolved into a platform by which to communicate an organisation's position and performance on issues of interest and concern to its key stakeholders (Stratos: 2005).

Financial or economic reporting of company performance is undoubtedly, still important. Companies may be responsible, but if they are not profitable, they would not be in business long enough to practice their responsibilities. Increasingly, financial results are no longer relied upon to provide the sole measure of an organisation's business performance. The WWF-UK concurs with this, reflecting on the results of a survey conducted by Arthur Anderson of 3,500 organisations, in which balance sheet reporting metrics were deemed to have explained 95% of their market value in 1978, but less than 28% of their market value in 1998 (WWF-UK: 2003).

Since the early 1990s, sustainability reporting has witnessed an evolution in various ways: in the depth and quality of the information disclosed, in the reasons for reporting at all, and in the perceived value added to businesses from such reporting. Figure 5. represents how corporate responsibility reporting has changed in its focus, has increased in rigour, and has added value to the business over time. Figure 5. summarises these developments in the evolution of corporate responsibility reporting, in this case, in Canada:

FIGURE 5.

THE EVOLUTION OF CORPORATE RESPONSIBILITY REPORTING



Source: Stratos (2005)

Social and environmental measures of organisational performance, or *triple bottom line* measures, are increasingly common (Ranganathan: 1998; KPMG: 2005). The triple bottom line focuses on economic prosperity, environmental quality and social justice (Warhurst: 2003). Increasingly, stakeholders require more detailed and incisive accounting, auditing and reporting on triple bottom line dimensions. Firms are coming under increased pressure to report, not only on their performance in previous periods, but also on forecasting how they intend to embed and implement corporate responsibility principles and practices in the future (Finance Week: 2004).

Sustainable businesses can no longer rely on secrecy, or disregard the welfare and rights of society, or the environment (Mail & Guardian: 1999). Inevitably, firms that practice such strategies risk reputational damage. Stakeholders are now scrutinising sustainability reports more rigorously, seeking to ensure that corporate responsibility actions and decisions made by organisations are genuine and lasting (Lascelles: 2002). There is also increased vigilance by stakeholders seeking out disingenuous corporations who chose to report on their corporate responsibility successes only, not their failures or mistakes (Woodward *et al*: 1996; Gray *et al*: 1997; Pilger: 1998; Owen *et al*: 2000). These stakeholders are attempting to heighten corporate accountability standards (Owen and Swift: 2001), by promoting a culture and ethos of 'tell me and show me', rather than merely 'trust me' (SustainAbility: 1999). Liedtka (1998) is

concerned that it is beliefs and intentions, rather than real corporate responsibility accomplishments, that receive most attention in sustainability reports.

## **2.10. CORPORATE RESPONSIBILITY PROGRAMME IMPLEMENTATION**

Various recommendations have been made to assist organisations embarking on a corporate responsibility programme. The following steps are recommended (largely, Werre: 2003):

- **Raise senior management awareness of the need for the corporate responsibility programme**

The urgency for the implementation of the corporate responsibility programme can be promoted as an opportunity to create or conserve value for the business. The business case for corporate responsibility needs to be made to, and accepted by, senior management in the organisation. Corporate responsibility as a strategic priority in the organisation should be formally accepted and aligned with business strategies and objectives. Assess where stakeholders' interests constitute relevant, legitimate and material concerns for the business. Create an environment which allows and encourages employees, not only managers, to identify opportunities and initiate corporate responsibility actions (Carter and Jennings: 2000).

- **Formulate a corporate responsibility vision and core values**

Define the firm's corporate responsibility vision and values. Include these in an organisational code of conduct and, or a code of ethics. Apply this consistently throughout the organisation. Include a detailed set of principles that describe the company's stance on the various dimensions of corporate responsibility. Trust in the corporate responsibility programme, may be undermined unless there is active and visible support of the programme by senior management (Morgan: 1993). Regular commitment to the programme should therefore be communicated by senior management (Waddock and Boswell: 2002). Executives must collectively commit to disseminating and supporting corporate responsibility values throughout the organisation. There may be a requirement to create an organisation-wide cross-functional collaboration in order to retain focus and alignment by the organisation on the corporate responsibility agenda.

- **Implement the corporate responsibility programme**

Implementation of a corporate programme in a large corporation may involve many of the aspects commonly associated with the implementation of any other corporate programme (refer, and compare with Figure 6):

- Building structures and systems to support and enable the programme;
- Setting objectives, targets, strategies, critical success factors, processes, policies and timeframes for the implementation of the programme;
- Selecting measurements and milestones for measuring key performance indicators in the programme;
- Appointing resources (including a corporate responsibility officer or team, where appropriate) to be responsible for the programme in the organisation;
- Building cultural awareness and support for the programme, both internally and externally to the organisation;
- Conducting training and development of employees, and other, external stakeholders, where necessary;
- Permitting employees an opportunity to confidentially report corporate responsibility violations that they observe in their organisation, or in other organisations;
- Identifying mechanisms for enhancing engagements with stakeholders.

- **Anchor the corporate responsibility programme**

Anchoring the programme involves various aspects, including:

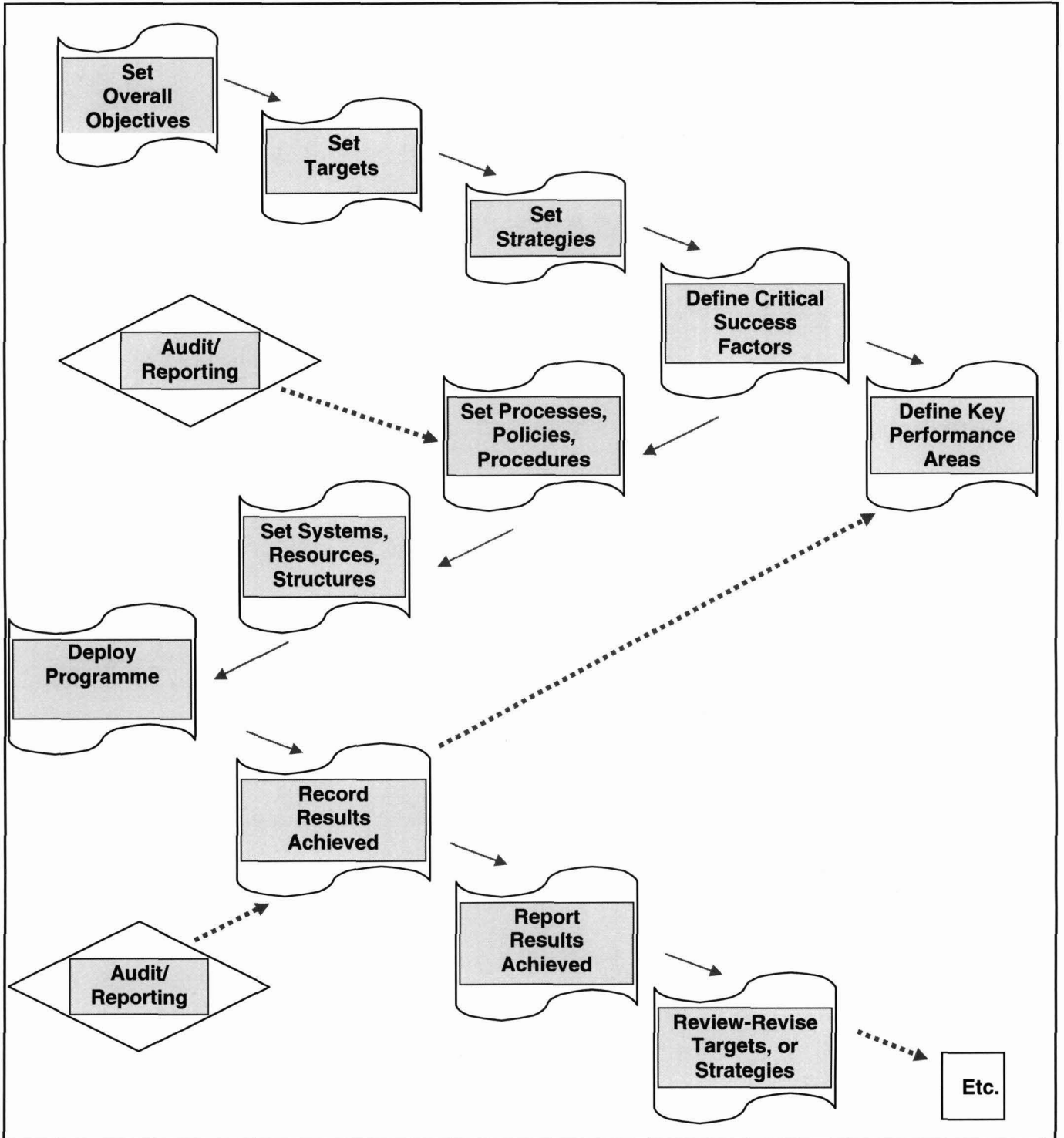
- Consolidating the corporate responsibility programme into the firm's existing culture, strategy and systems, in order to preclude a reversion to old or antagonistic patterns of behaviour. Resistance to change may therefore be reduced. Continuously monitor and report levels of corporate responsibility compliance within the organisation (Roner: 2006);
- Anchoring the programme within the organisation, possible utilising reward-recognition systems to support this;
- Evaluating the progress and results of the corporate responsibility programme, through internal and external audits and benchmarking exercises;

- Implementing remedial actions where non-compliance is observed;
- Quantifying the results of the corporate responsibility programme. Measuring the costs and benefits produced by the programme;
- Reporting the results and impacts of the corporate responsibility programme, both internally and externally to the organisation;
- Publishing assurance statements, attesting to the accuracy and validity of the corporate responsibility results produced and reported;
- Establishing and maintaining a database of information obtained from corporate responsibility audits and assurance exercises;
- Periodically re-examining and re-validating the business case for the corporate responsibility programme;
- Making adjustments to the corporate programme, should this be required.



FIGURE 6.

ASPECTS IN THE IMPLEMENTATION OF A TYPICAL CORPORATE PROGRAMME



Source: Interview with Cyril Souchon, 15 September 2005

## **CHAPTER 3**

### **THE BANKING INDUSTRY IN SOUTH AFRICA**

- |   |
|---|
| <p><b>3.1. BACKGROUND TO THE BANKING INDUSTRY IN SOUTH AFRICA</b></p> <p><b>3.2. ISSUES AND TRENDS IN THE SOUTH AFRICAN BANKING INDUSTRY</b></p> <p><b>3.3. THE BANKING INDUSTRY AND CORPORATE RESPONSIBILITY</b></p> |
|---|

This chapter presents an outline of the banking sector in South Africa. It also confirms that corporate responsibility practices are gaining hold in the banking sector in South Africa, and elsewhere, as a response to concerns by these institutions about their reputational risk profiles.

#### **3.1. BACKGROUND TO THE BANKING INDUSTRY IN SOUTH AFRICA**

A bank is defined as a government-regulated financial services institution whose business is taking deposits, lending, and providing other financial services (Metcalf: 2005).

The banking industry in South Africa is highly respected amongst international financial markets. South African banks were rated 16<sup>th</sup> out of 75 countries in terms of financial market sophistication and financial stability (World Economic Forum: 2002). The level of sophistication in the products and services offered, and the physical infrastructure and the various technologies deployed in this market, were partially necessitated by the years of isolation and disinvestment from South Africa until the early 1990's. Perhaps the greatest vote of confidence in the South African banking industry is the level of investment by international banks such as Barclays, Citigroup, HSBC and Standard Chartered, some of whom see South Africa as the logical base for extending their operations in the African region (Laschinger: 2004).

Since the deregulation of the Johannesburg Stock Exchange (JSE) Securities Exchange in 1995, large overseas-based investment banks have significantly influenced the South African equity and corporate finance landscape. In addition to

local branches of global banks being represented in South Africa, the banking industry in South Africa is comprised of the *Big Five* banks, and smaller local-owned niche players. Approximately 40 banks operate in South Africa (Metcalf: 2005), although this number fluctuates as new banks enter and exit the market.

The *Big Five* banks in South Africa constitute 88% of the overall banking system market share, holding 31.2 million accounts from approximately 20 million retail customers. The other 40 banks, including a number of foreign-owned banks, vie for the remainder of the market share (Eedes: 2006). The *Big Five* banks employ approximately 119,000 staff members, constituting about 95% of all staff employed in the banking industry in South Africa (Metcalf: 2005).

### **3.2. ISSUES AND TRENDS IN THE SOUTH AFRICAN BANKING INDUSTRY**

Various issues and trends are driving significant changes and developments in the banking industry in South Africa. These trends and change drivers include:

- **Client acquisition and retention**

The South African corporate, merchant, investment, Internet and retail banking markets are highly competitive (Metcalf: 2003). These markets are saturated in some cases, by the broad range and diversity of banking products and services on offer in South Africa. In this competitive environment, market share is hard to win, and therefore jealously guarded. Service quality and client focus are viewed as important differentiators in acquiring and retaining client market share.

- **Profit performance, and enhancing revenue growth**

Investors expect continuous reductions in the cost-to-income ratios of banking institutions. Profit performance and the improvement in revenue growth are achievable through the streamlining and integration of business processes. The affordability of service and other transaction fees charged by banks in South Africa is now under close scrutiny.

- **Proliferation of regulatory issues**

A series of new legislation and regulatory controls, predominantly in the area of corporate governance have been introduced in South Africa in recent years. Examples of this include:

- The Banks Amendment Bill (2003), requiring banks to maintain adequate standards of consumer protection, and to establish internal compliance functions in these areas;
- The Financial Intelligence Centre Act (FICA), designed to combat money laundering;
- The Prevention & Combating of Corrupt Activities Act (2003), to oblige financial institutions to report suspected or proven acts of bribery or corruption in their organisations to the authorities.

- **Diversification of income streams**

The *Big Five* South African banks (comprising Absa Bank Limited, Investec Bank Limited, Standard Bank of South Africa Limited, Nedbank Limited, and FirstRand Bank Limited) are under social and political pressure to launch and sustain effective and affordable banking services to the previously unbanked sector of the South African population. The low-cost Mzansi Account project was launched to meet this requirement. Internationalisation of the provision of these banking services into the rest of Africa is now under consideration by some South African banks.

- **Emergence of South Africa as a regional hub**

Several banks highlighted the increasing role of Johannesburg as a regional hub in Africa, and argue that this trend would be strengthened if South African exchange controls were lifted further.

- **Information technology advances**

This is regarded as one of the major drivers of change in the South African banking industry. Proper and appropriate technology is an enabler of more time- and cost-effective transaction processing and account management.

- **Mitigation of capital and operational risks**

Banks in South Africa are striving to meet the market, capital and other operational risk requirements detailed in the Basel II Accord of the Basel Committee on Banking Supervision.

- **Standards of corporate governance**

Most banks operating in South Africa believe that the recommendations contained in the King II Report, assist them in addressing their corporate governance obligations (Metcalf: 2003).

▪ **Image and reputation risk management**

Banks are cognisant of their image and reputational risk status amongst their various stakeholders. Banks regard stakeholder perceptions of their images and reputations as an important barometer of their operating performance. They also acknowledge the impact of their images and reputations on the valuation of their future asset values.

▪ **Financial Sector Charter Compliance**

Most banks operating in South Africa, including all *Big Five* banks, are voluntary signatories of the Financial Services Charter (FSC). The FCS was released in October 2003, and came into effect in January 2004. The FSC is viewed by the banking industry as an economic, social and political imperative, aiming as it does to redress historic imbalances in the South African economy and to achieve sustainable socio-economic upliftment and growth in the country. A variety of boundary-spanning perspectives are measured and self-rated by South African banks. These perspectives include, their:

- contributions to corporate social investment;
- empowerment financing;
- access to financial services;
- human resources development;
- enterprise development; and
- equity ownership-control of banks.

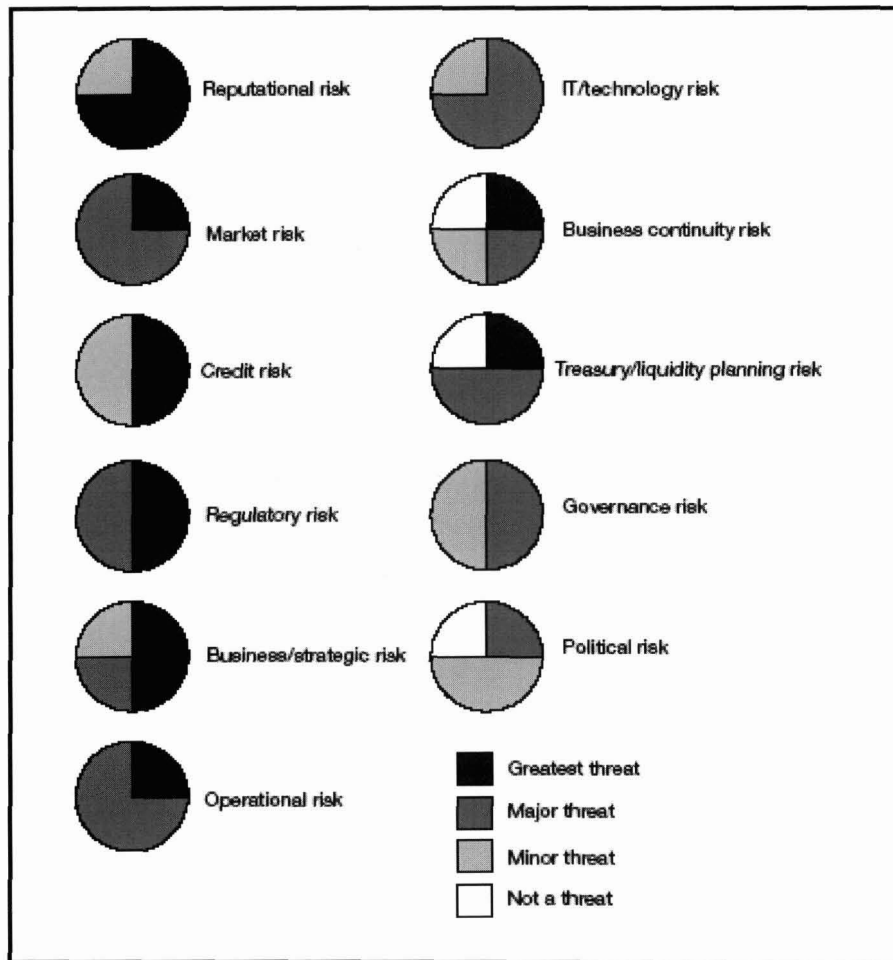
While the FSC does not focus specifically on the development and adoption of supply chain corporate responsibility by institutions operating the financial services sector in South Africa, the FSC does draw institutions' attention to the selection and retention of supplier organisations that are owned by black people. In this way, supply chain management does receive some, albeit limited attention from the FSC. It is unclear whether subsequent versions or evolutions of the FSC will deal more explicitly with responsible social, environmental and ethical sourcing.

### **3.3. THE BANKING INDUSTRY AND CORPORATE RESPONSIBILITY**

Figure 7. represents the greatest perceived risks to the five large banks operating in South Africa. The same five large banks were surveyed in order to obtain the following results:

FIGURE 7.

PERCEIVED RISKS FACING THE BANKING INDUSTRY IN SOUTH AFRICA



Source: Metcalfe (2005)

Figure 7. suggests that the largest banks in South Africa regard reputational risk as the largest source of risk. It is therefore not surprising that these banks are increasingly looking for ways to reduce this risk. Corporate responsibility programmes may offer these institutions a means by which to reduce their reputational risk levels.

Banks in the United Kingdom are increasingly embracing corporate responsibility programmes for this reason. In a Business in the Community study of firms operating in various economic sectors in the UK (Business in the Community: 2003), approximately a majority of UK-based banks reported that they include corporate responsibility considerations in their business plans and operational processes. The mitigation of reputational risk has been shown to be a strong a driver for the increased adoption of corporate responsibility within the UK banking sector.

## CHAPTER 4

### THE EMERGING ROLE OF THE PROCUREMENT FUNCTION

- |   |
|---|
| <ul style="list-style-type: none"><li>4.1. THE OPERATIONAL BUYING FUNCTION</li><li>4.2. THE STRATEGIC PROCUREMENT FUNCTION</li><li>4.3. THE PROCUREMENT FUNCTION SCORECARD</li><li>4.4. SUPPLY CHAIN MANAGEMENT</li></ul> |
|---|

This chapter outlines the evolution of the procurement function, from a tactical function to a strategic one. As a strategic function, procurement faces various challenges and objectives. Procurement frequently tracks its performance against various balanced scorecard criteria, one of these criteria being supply chain management. Supply chain management is explored in this chapter as one of several important scoreboard criteria for the strategic procurement function.

#### 4.1. THE OPERATIONAL BUYING FUNCTION

Until the 1980s, buying departments in larger organisations were generally, and in most cases justifiably, stereotyped as functions that fulfilled tactical and non-strategic roles (Carter *et al.*: 2000; Axelsson: 2005). The traditional buying function in these firms served two main purposes: firstly, to purchase for resale, and secondly, to purchase items for consumption or conversion (Dobler: 1990). However, Wood (1995) describes the traditional buying function as one that was largely unseen, disregarded and undervalued in most companies. The departments were mainly conduits through which other departments processed their orders on their suppliers. Buying departments generally had a low profile and status in the organisational hierarchy. There was little appreciation that representatives from the function could, or should, add strategic value in the organisation. In the operational buying function, buyer-supplier relationships were invariably adversarial in nature, and were typified most often by arms-length, price-based transactions (Hoyt and Huq: 2000).

## 4.2. THE STRATEGIC PROCUREMENT FUNCTION

While tactical buying work is still performed in best-practice procurement departments, the modern procurement function has evolved into the custodian of strategic sourcing and supply chain management activities in the organisation. Their name has been changed to either procurement, sourcing or supply chain management departments to reflect their enhanced role and status in the organisation. The transformation of the function into a strategic one, has not however come about without effort or difficulty. Procurement departments have had to recruit and develop specialist professionals who are capable of embracing and utilising strategic tools, techniques and frameworks. They have had to develop new decisions-support systems and to strategically apply the management information generated by these systems (Cannon: 1997). Strategic procurement departments have had to constantly examine and redefine their roles and responsibilities in the organisation. They have needed to actively seek out value-adding opportunities, and publicise their successes.

A visible indicator of the elevation in the profile of the procurement function has been its upgrade in the corporate hierarchy (Axelsson: op. cit.), as evidenced by the appointment of the head of procurement to senior levels in the organisation, in certain cases reporting directly to the CEO, the CFO, or the COO. Stuart (1997), noted: 'the growing recognition of supply chain management as an area for achieving competitive advantages would suggest that finally, perhaps, the area is achieving its long overdue position, along with marketing and operations, as a key element in corporate strategy'.

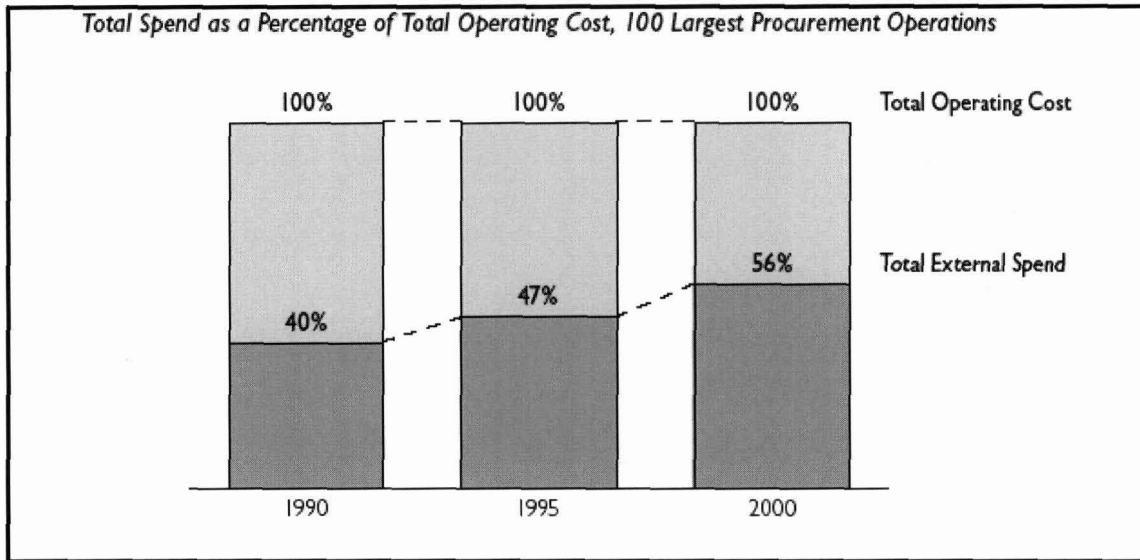
Another indicator of the growth in the scope and strategic influence of the procurement department in the organisation has been increased percentage of total organisational spend that has come under the direct control of the procurement function, or at least that is indirectly sanctioned by the department. In research conducted by the Corporate Executive Board in large procurement operations, the percentage of external spend handled via procurement departments increased from 40% to 56% between 1990 and 2000 (Figure 8.).

The evolution of the procurement function into a strategic one is hardly surprising, as purchasing-to-sales ratios may be as high as 60% in service organisations, and 95% amongst retail firms. The trend represented in Figure 8. is projected to continue to grow as procurement practitioners gain access to areas of organisational spend activity previously off-limits to them, such as marketing, advertising, travel, IT, and professional services. In addition, leading procurement departments are now increasingly involved in value-added



**FIGURE 8.**

**ORGANISATIONAL SPEND COMMITTED VIA PROCUREMENT DEPARTMENTS**



**Source: Corporate Executive Board (2004a)**

activities such as supplier development programmes, design collaboration project with suppliers, and the outsourcing of business processes to external companies (Neef: 2004; Buchholz: 2004; Corporate Executive Board: 2005a). Effective outsourcing initiatives, in particular, has served to improve organisational performance and efficiencies in many organisations, and has assisted in reducing costs of up to 70% in some cases (Edwards: 2004).

In Porter's model of the organisational value chain, it is evident that the procurement function is a key support activity in the modern organisation (refer Figure 11.). Business literature is replete with examples of the value that procurement departments have added in their respective organisations. Barclays UK reported saving of more than £100 million per annum between 2000 and 2005 due to the cost savings achieved by its procurement department. In Merck, the procurement function aimed to save \$1.2 billion during 2005 by strengthening and leveraging relationships with key strategic suppliers (Business Wire: 2004).

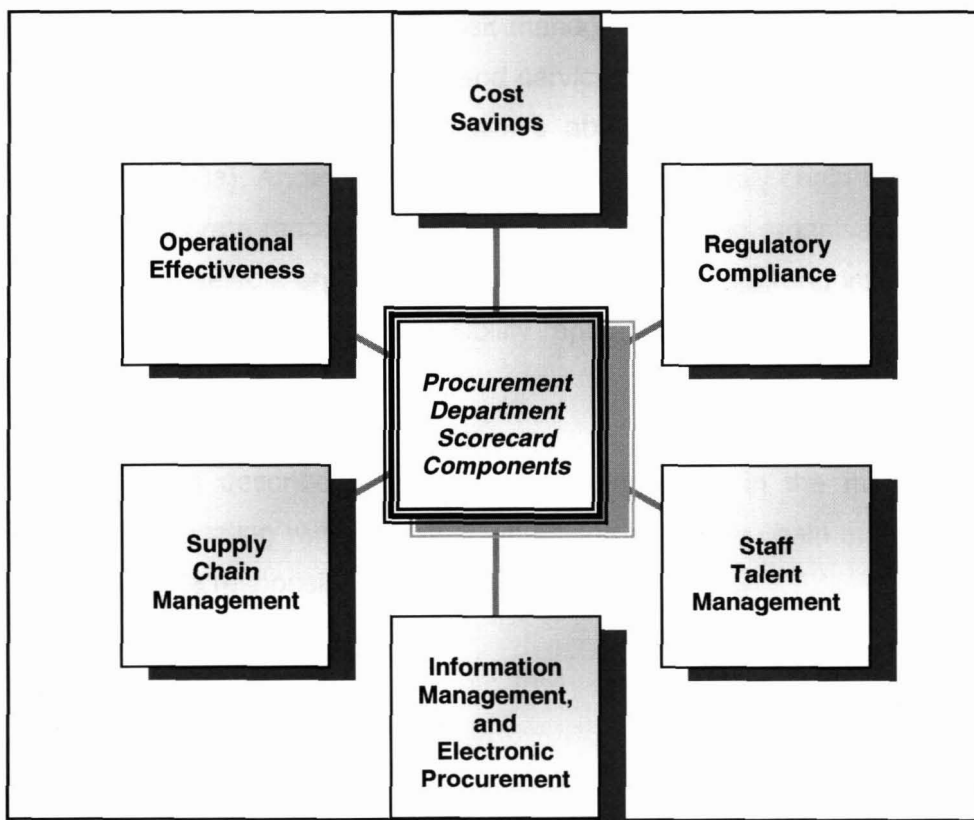
**4.3. THE PROCUREMENT FUNCTION SCORECARD**

The diversity of priorities and focus areas of modern procurement departments is apparent in reviewing the typical range of scorecard components for the function (refer Figure 9.). This

diversity of priorities and focus areas is a function of the department's new, strategic roles in the organisation. It is also a function of the numerous, sometimes conflicting, expectations that stakeholders have of the procurement department, both internal and external to the organisation. The Corporate Executive Board, a not-for-profit research and advisory service, reports that some procurement organisations have adopted their own scorecards to capture their various objectives (Corporate Executive Board: 2002). In this way, procurement departments have transformed and adapted the traditional balanced scorecard proposed by Kaplan and Norton (1996), in which the success of an enterprise or a department is partially dependent upon the extent to which it achieves balance and success in each of its scorecard components.

**FIGURE 9.**

**TYPICAL SCORECARD COMPONENTS OF MODERN PROCUREMENT DEPARTMENTS**



**Adapted from: Corporate Executive Board (2004b)**

Like scorecards deployed in other business areas, the needs and requirements of the various stakeholders of the procurement department, need to be balanced and integrated.

Procurement managers make use of such scorecards to create and conserve value where opportunities or risks exist. According to Axelsson (2005), the three main objectives for the strategic procurement departments are:

- resource utilisation;
- cost optimisation; and
- value creation for the wider organisation.

An emerging value creation role for procurement, and consequently an important scorecard dimension for it, is the management of the organisation's supply chain. One important dimension of supply chain management is the identification and mitigation of supply chain continuity risks. Supply chain continuity risk management seeks to minimise the impact of possible disruptions in the flow of goods and services through the supply chain, howsoever caused, which could impair the organisation's ability to continue to operate (Corporate Executive Board: 2003a). Another important dimension of supply chain management, is the management of corporate responsibility amongst entities in the organisation's supply chain. How an organisation selects and manages its suppliers, has a strong influence on how that firm is regarded from a corporate responsibility reputational perspective (Visser and Sunter: 2002).

The following section describes supply chain management in the modern procurement department, prior to dealing with a specific dimension of supply chain management, namely supply chain corporate responsibility in detail in Chapter 5.

#### **4.4. SUPPLY CHAIN MANAGEMENT**

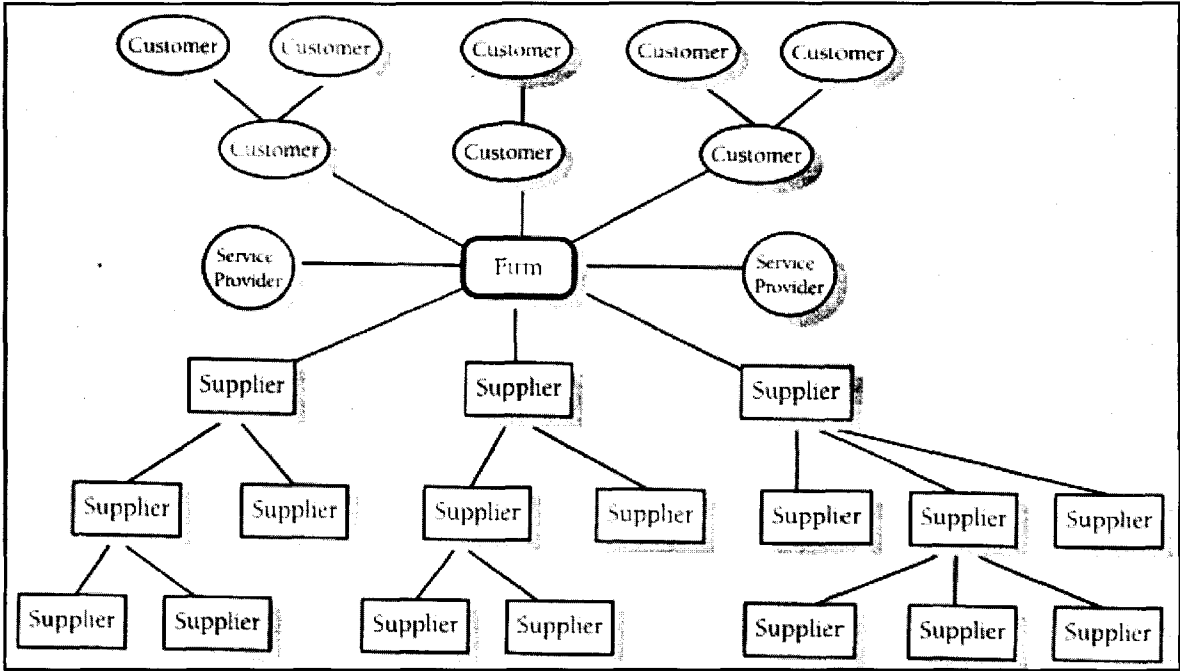
Suppliers in this research study are defined as registered suppliers of goods or services, and may include, sub-contractors, consultants, distributors, agents, representatives, partners, licensees, or any other value-adding entities in the organisation's supply chain.

The concept of supply chain management is relatively new, with first mention of it appearing in the early 1980s (Harland: 1996; Fawcett and Magnan: 2001). Axelsson *et al* (2005) defines supply chain management as the management of the external supply resources of the organisation, aiming to acquire inputs at the most favourable conditions. In its most basic, dyadic form a supply chain involves a direct relationship between two partners, the buying organisation and the supplier. In a broader sense, the supply chain refers to the network of

upstream and downstream organisations that are connected via business-to-business transactions through linkages in the different processes and activities that produce utility or value in the hands of the ultimate consumer (Christopher: 1992). Supply chains may be simple or complex, possibly involving multiple supply chain participants. An example of such a complex supply chain, containing multiple independent entities, is represented in Figure 10.

Porter’s model of a typical value chain, including primary activities (including the inbound logistics, operations, outbound logistics, marketing and sales, and services domains), and support activities (infrastructure, human resource management, technology development, and procurement), is represented in Figure 11. The supply chain plays an important role in the organisation’s overall value chain. This role represented in Figure 12, in this example, in a value chain in the banking industry.

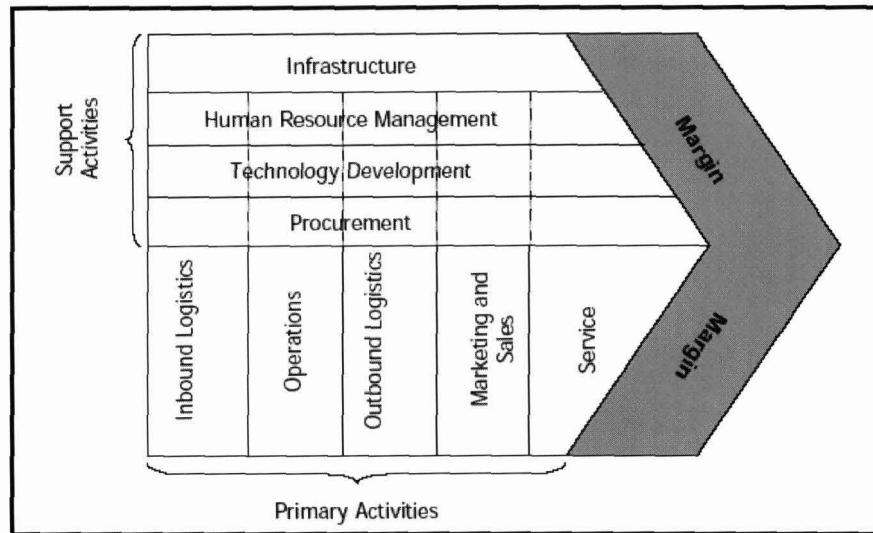
**FIGURE 10.**  
**MODEL OF A COMPLEX SUPPLY CHAIN**



Source: Fawcett and Magnan (2001)

**FIGURE 11.**

**MODEL OF A VALUE CHAIN**



**Source: Porter (1985)**

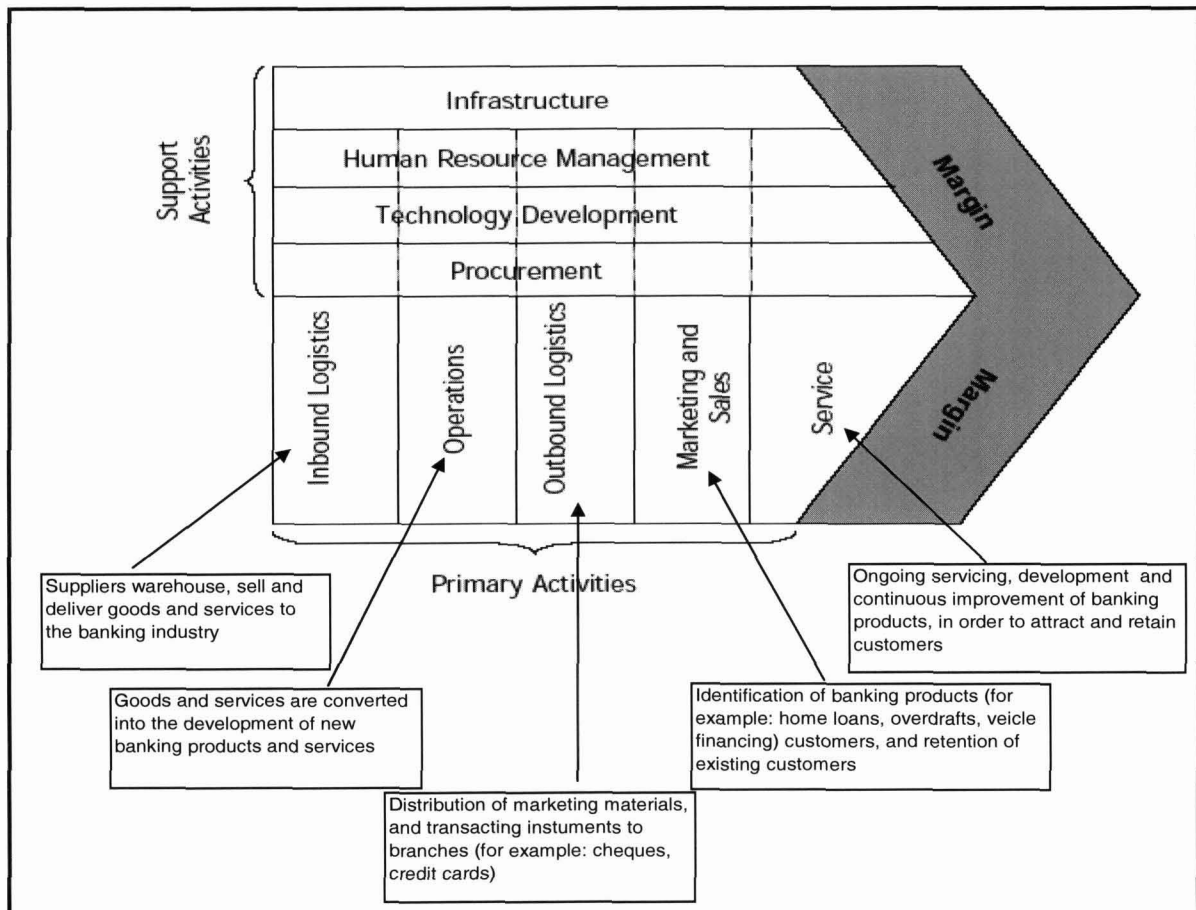
A value chain is a linear map of the way in which value is added to an organisation through a process from raw materials to finished product (Stannock and Jones: 1996). In a value chain, each activity within the chain provides inputs which, after processing, constitute added value to the output ultimately received by the customer at the end of the value chain (Lysons and Gillingham: 2003). The ability to perform particular activities, and to manage linkages between these activities, is a source of competitive advantage for an organisation (Porter: 1985). Value chains may compete against other value chains, rather than simply firms against firms (Lysons and Gillingham: op cit).

An organisation's value chain necessarily requires the contributions of suppliers during the inbound logistics primary activity stage. In some value chains, suppliers fulfill tactical roles (for example: delivering specific services or products), while in other value chains, suppliers perform strategic activities such as strategic planning and risk management (Harland: 1996).

Effective management of a company's supply chain is acknowledged to be an important dimension in the organisation's overall level of competitiveness and profitability (Saxon: 2005; White: 1994). Research conducted jointly by Accenture, Stanford University and the Institut Européen d'Administration des Affaires (INSEAD), highlights a positive correlation between an organisation's financial success and the depth and quality in the performance of its supply chain (D'Avanzo: 2004).

FIGURE 12.

EXAMPLE OF TYPICAL VALUE CHAIN PRIMARY ACTIVITIES  
IN THE BANKING INDUSTRY



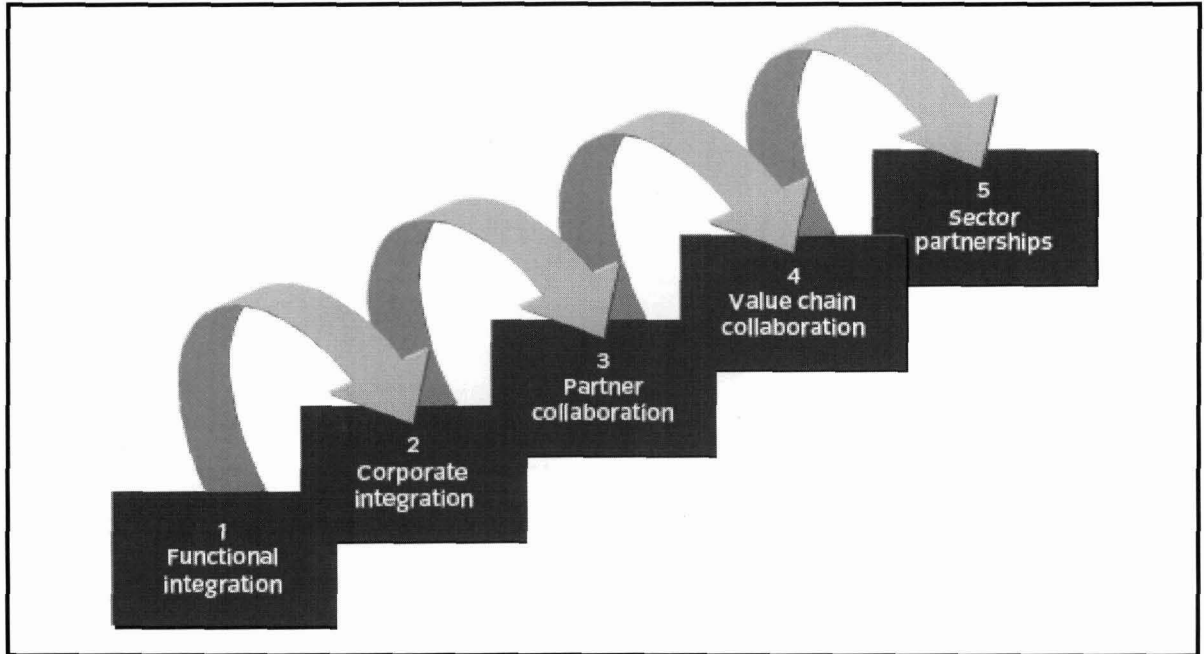
Source: Developed from the text

Rather than the traditionally adversarial buyer-seller relationships experienced in the past, it is recognised that closer, more collaborative supply chain partnerships between buyers and suppliers, can benefit both organisations (Bovel and Martha: 2000; Scott: 1996). Lambert *et al* (1996) defines a supply chain partnership as ‘a tailored business relationship based on mutual trust, openness, shared risk, and shared rewards that yield a competitive advantage, resulting in business performance greater than would be achieved by the firms working together in the absence of partnership’.

In Poirier and Quinn’s continuum of buyer-supplier relationships (Figure 13.), supplier relationships range from tactical, arms-length, functionally integrated relationships (Stage 1), to high-value, strategic partnerships (Stage 5). Few buyer-supplier relationships evolve to Stage 5. Where relationships do evolve beyond Stage 1, the degree and extent of mutual dependency, integration, and the depth of the relationship, increases.

FIGURE 13.

CONTINUUM OF BUYER-SUPPLIER ORGANISATION RELATIONSHIPS



Source: Poirier and Quinn (2004)

More than ever, modern corporations depend upon their ability to develop and maintain strategic partnerships with selected suppliers. Managing these relationships has become a core competency in these organisations (Neef: 2004), and generally falls under the control and administration of the procurement department. Some of the most critical activities that procurement practitioners perform include: scrutinising suppliers' capabilities (Swink: 2000) in order to identify and appoint qualified and appropriate suppliers (Ghosh: 1990; Quale: 2000), then measuring and managing performance of these suppliers (Ellram and Carr: 1994).

Where supply chain partners do not trust each another, they revert to doing business on a transactional, cash-on-delivery basis, which can add costs and delays (La Londe: 2002). Trust can not thrive in conditions where a dominant position of power is applied in an adversarial or abusive manner. Munson *et al* (1999) write about the potentially divisive impact that dominant companies in supply chains can have on their supply chain partners. Trust between buyers and sellers grows as the parties work together to reduce costs and risks, and increase quality and service levels (Swink: 2000). Transparency and open

dialogue about respective business strategies and priorities help strengthen these partnerships and builds trust over time.

Complementing several of the supply chain management themes articulated above, Stevens (1997) proposes the characteristics of an *ideal* supplier, regardless of which industrial sector he operates in. According to Stevens, ideal suppliers display the following characteristics:

- high-quality features of products or services are produced and supplied;
- there is responsiveness by the supplier to the buyer's requirements;
- competent skills are made available by the supplier to the buyer;
- the supplier's pricing is competitive and stable; and
- the supplier deploys acknowledges its corporate responsibilities, through enlightened social and environmental practices.

It is the final point in Stevens' list, that of corporate responsibility in the supply chain, that this research describes and explores in this research, specifically in the banking industry in South Africa.



## CHAPTER 5

### SUPPLY CHAIN CORPORATE RESPONSIBILITY

- |   |
|---|
| <b>5.1. INTRODUCTION</b>                                |
| <b>5.2. SCCR DIMENSIONS</b>                             |
| <b>5.3. SCCR BEST-PRACTICE PROGRAMMES AND PRACTICES</b> |
| <b>5.4. SCCR OPPORTUNITIES</b>                          |
| <b>5.5. SCCR CHALLENGES AND PITFALLS</b>                |

This chapter records the various dimensions of supply chain corporate responsibility, and provides examples of supply chain corporate responsibility best-practices. It contains some of the potential benefits and successes actually achieved by organisations that have implemented SCCR, notwithstanding the potential challenges and pitfalls inherent in its implementation.

#### **5.1. INTRODUCTION**

It may still be possible for companies to operate successfully, even though they disregard the potential opportunities presented to them by corporate responsibility programmes. Organisations that do ignore these opportunities, will increasingly lose ground to competitors who have recognised and harnessed these opportunities. In the view of Neef (2004), developing a responsible supply chain is, unequivocally, how business should operate in the modern economy. He adds that companies that resist or are indifferent to the corporate responsibility movement will find such an attitude increasingly unsustainable and difficult to justify. For these reasons, Neef anticipates that most leading companies will have implemented ethical supply chain programmes, and have the supporting social and environmental standards and reporting in place, by 2015.

Supply chain corporate responsibility is a term that incorporates the various strategies, policies, practices, programmes and measurements that responsible buying organisations implement in order to meet or exceed internally or externally determined standards of economic, environmental, social, ethical and corporate governance

behaviour in their supply chains. In this research study, the principles and objectives of corporate responsibility in the supply chain is captured by the term *Supply Chain Corporate Responsibility*, and abbreviated to *SCCR*. *SCCR* is alternatively referred to as ethical sourcing, supply chain integrity, or social and environmental responsibility (SER).

The Chartered Institute of Purchasing and Supply in the UK suggests that ensuring suppliers act appropriately and adopt sound environmental, social and ethical standards, is one of the biggest and most important challenges facing the modern procurement organisation, especially amongst organisations that have complex global supply networks (James: 2004). Waddock *et al* (2002) maintain that, as stakeholders gain greater ability to mobilise their own resources against corporate practices that they find objectionable, a company's willingness to monitor and report verifiable information on its triple bottom line performance is more likely to become a significant source of competitive advantage for the organisation. In surveying sustainability reporting by over 1,600 large organisations, predominantly in the developed world, the consultancy KPMG (2005) notes that reporting on *SCCR* is growing in acceptance by larger organisations (Neef: 2004). *SCCR* performance is now a common feature, being reported in over 80% of companies taking part in this survey.

*SCCR* may be impacted by, and may in turn influence, various touchpoints in the procurement process or cycle. These touchpoints include: the accreditation and re-accreditation of suppliers onto the buying organisation's list of approved vendors; competitive tendering and tender evaluation processes; due diligence and negotiation processes prior to concluding contracts with suppliers; and, conducting contract reviews or extensions. The touchpoints between a supply chain corporate responsibility programme, and a typical procurement cycle, is represented in Figure 14.

Figure 14

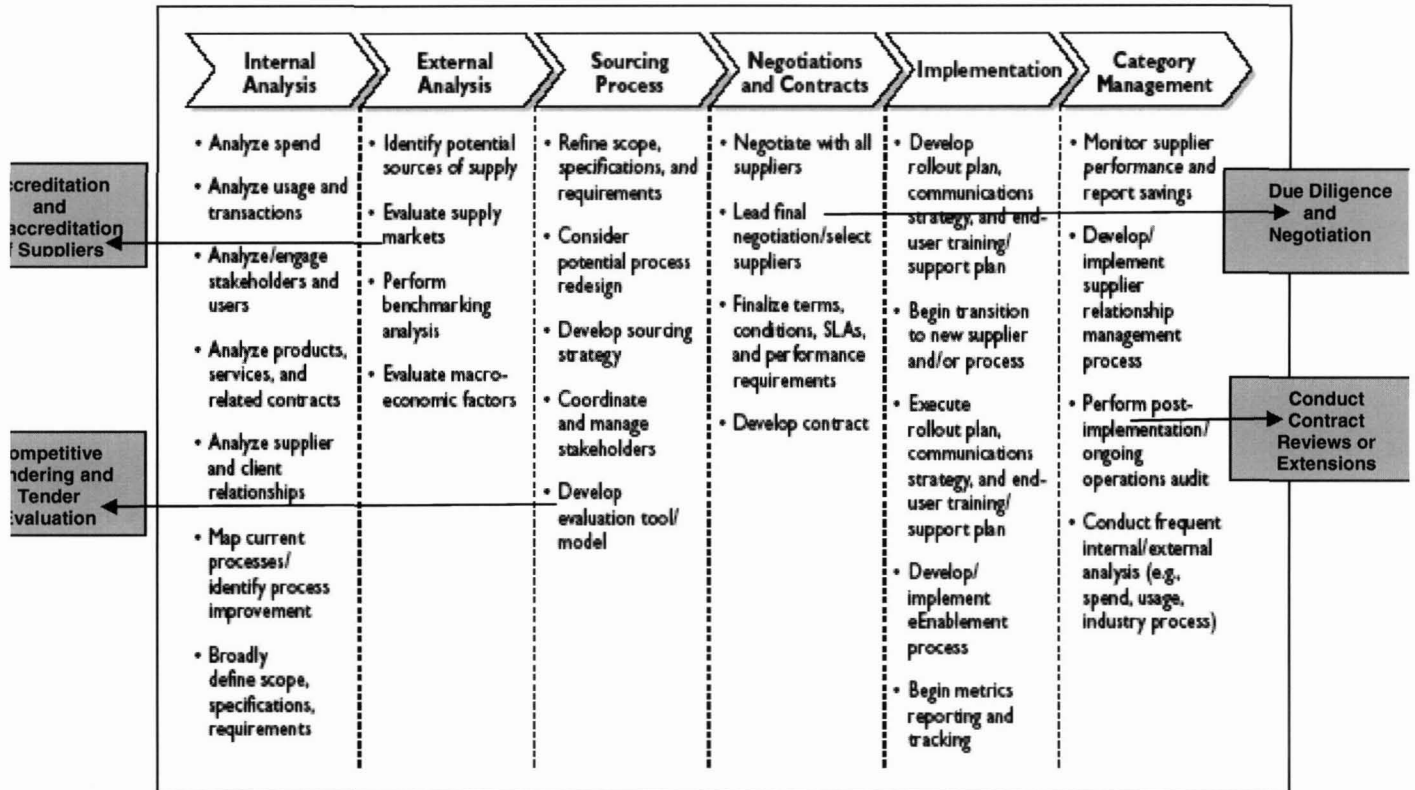
## 5.2. **SCCR DIMENSIONS**

In formulating an *SCCR* programme, it is important for the buying organisation to identify and justify which *SCCR* dimensions are important to it, its key stakeholders, and which *SCCR* dimensions the organisation has the resources and appetite to measure, evaluate and report on. Buying organisations invariably identify and emphasise those *SCCR* dimensions that are relevant and useful to them. This does not diminish the overall potential value of *SCCR* as a programme, however.



FIGURE 14.

**TOUCHPOINTS BETWEEN AN SCCR PROGRAMME AND A TYPICAL PROCUREMENT CYCLE**



Source: Corporate Executive Board (2003d)

Various dimensions of SCCR identified in business practice are recorded below (various sources: Sustainability Reporting Guidelines, Global Reporting Initiative: 2002; Ethical Trading Initiative (2006); Dow Jones STOXX Sustainability Indexes Guide: 2004; FTSE4Good Index Series: Inclusion Criteria: 2003; and, Background and Selection Criteria: JSE SRI Index: 2004).

▪ **Employment Practices in Supplier Organisations**

- Human rights, defined as basic rights that form the foundation of freedom, justice, and peace and which apply equally and universally.
- In dealing with employees, the following are typically taken into account labour standards, as covered by the International Labour Organisation (ILO)'s Core Conventions:
  - health and safety;
  - child or indentured labour;
  - freedom of employment;

- collective bargaining;
  - freedom of association;
  - elimination of discriminatory practices;
  - workers informed of their rights;
  - elimination of excessive overtime;
  - disciplinary practices;
  - working hours, remuneration.
- o Equality and Diversity in employment standards, the provision of products and services and interactions with suppliers. Take into account: race, caste, national origin, religion, disability, gender, pregnancy, sexual orientation, union membership, political affiliation, age, and HIV/Aids status.
  - o Fair and respectful treatment of local and indigenous communities.
  - o Assistance for disabled employees.
  - o Reasonable access to medical assistance.
  - o Provision of safe, secure and healthy working conditions. Work accidents thoroughly investigated, and corrective actions taken to prevent recurrence.
  - o Commitment to employee upliftment and skills development.
  - o Redeployment and assistance for retrenched and laid-off employees.
- **Environmental Compliance in Supplier Organisations**
    - o Effective management and reduction of the environmental impact of products, services, processes and operations.
    - o Operational environmental management, both within the company, and in the supply chain.
    - o Providing products and services with reduced environmental impact.
    - o Elimination of products emanating from environmentally-sensitive regions.
    - o Elimination of banned or restricted substances.
    - o Disposal and rehabilitation programmes in place.
    - o Natural resource consumption. Recycling of resources, where appropriate.
    - o Limitation of waste, air, water, noise and land pollution.
    - o Impact on climate change-global warming.

- **Black Economic Empowerment (BEE) in Supplier Organisations in South Africa**
  - An active and effective BEE programme (alternatively viewed as minority support programmes in other countries) including:
    - legal compliance;
    - meaningful targets;
    - monitoring and reporting;
    - performance management.
  
- **Community Responsibilities in Supplier Organisations**
  - Responsibility to the local communities within which the buying organisation operates.
  - Encourage other companies to make a positive contribution to the communities in which they operate.
  - Product or service safety and reliability.
  - Fair, responsible and accurate marketing and advertising.
  
- **Corporate Governance-Ethics of Supplier Organisations**
  - Management of corporate risks-threats.
  - Ensuring high standards of ethical and responsible behaviour in business dealings. Investigation and corrective action taken in incidences of:
    - bribery and corruption (including gifts and entertainment for business or personal gain);
    - money laundering;
    - data protection-data privacy;
    - insider dealing-trading;
    - conflicts of interest;
    - use of dishonest and/or misleading information for business or personal gain;
    - other restrictive or anti-competitive activities, such as price fixing.
  - Ensuring external reporting is comprehensive, fair, accurate, verifiable, timely, substantiated, consistent, objective and clear.
  - Formal policy on reciprocal arrangements, where purchases by the buying organisation from its supplier are not dependent upon the supplier's commitment to buy products or services from the buying organisation.

- **Upstream Supply Chain Corporate Responsibility**

- In some industries, it is rare that the buying organisation specify to the primary supplier who the 2<sup>nd</sup> or 3<sup>rd</sup> tier suppliers should be. In most cases the selection and management of supply chains is the responsibility of the primary supplier. The buying organisation may however seek to ensure that effective management of corporate responsibility is embedded in its supplier's own supply chains.
- Legislative restrictions on procurement from suppliers or agents who are known to be engaged in illegal or irresponsible activities, or those dealing with countries and regimes on whom trade restrictions or boycotts have been placed, or who are engaged with state-sponsored terrorism, human rights abuses, chemical or biological or nuclear weapons development, or trading in endangered species and materials.

Specific standards and practices have been successfully adopted by various buying organisations in their supplier chains. Examples of these SCCR successes are detailed below.

### **5.3. SCCR BEST-PRACTICE PROGRAMMES AND PRACTICES**

SCCR programmes vary in scope, sophistication and rigour. The following SCCR examples are examples of best-practice SCCR programmes and practices, drawn from a variety of industries:

- **Food, Apparel and Footwear Industry**

Retailers in the food, apparel and footwear industries are probably the leading and best-known integrators of SCCR into their strategic and business processes. This may be due to the high reputational risk posed to their organisations by supply chain violations.

The furore over alleged use of slave labour on the cocoa plantations of Cote d'Ivoire highlighted the urgent need for responsible SCCR strategies in the retail confectionery industry. Because of these allegations, retailers such as Cadbury, Mars and Nestlé re-focused their attention on labour standards in their suppliers' West African plantations (WWF-UK: 2001). These retailers now require their suppliers to warrant their compliance with responsible labour standards. Suppliers are regularly audited by these retailers to ensure that high labour standards are maintained on the plantations.

An example of Cadbury-Schweppes' supplier assessment questionnaire, in this case assessing the potential use by suppliers of child labour, is presented in Figure 15. Cadbury-Schweppes assesses the overall SCCR performance of suppliers, by reviewing their SCCR policies, their SCCR management practices, and evidence of actual SCCR performance achieved by their assessed suppliers.

**FIGURE 15.**

**EXAMPLE OF A SUPPLY CHAIN CORPORATE RESPONSIBILITY ASSESSMENT QUESTIONNAIRE**

|   |  |  |
|---|--|--|
| <b>Child Labour</b><br><i>Ensure that children are employed only under circumstances that protect them from physical risks and do not disrupt their education. No harmful child labor, which means no employment of anyone under the minimum school-leaving age; they should not be exposed to physical or other risks that can harm physical, mental, emotional, or spiritual development.</i> |  |  |
| <b>Policy</b><br>Are you willing to give a contractual guarantee that child labour will not be used in your own operations?   | Yes <input type="checkbox"/>                                 | No <input type="checkbox"/>                                |
| <b>Management</b><br>Can you verify the ages of young employees?<br>If/when young people are employed, are steps taken to safeguard their well-being?   | Yes <input type="checkbox"/><br>Yes <input type="checkbox"/> | No <input type="checkbox"/><br>No <input type="checkbox"/> |
| <b>Performance</b><br>Is the age of the youngest employee above the minimum set by national legislation?<br>Can you confirm that no child under the age of 18 is employed in hazardous conditions and/or at night?  | Yes <input type="checkbox"/><br>Yes <input type="checkbox"/> | No <input type="checkbox"/><br>No <input type="checkbox"/> |
| <b>Comments</b>   |  |  |

**Source: Corporate Executive Board (2006b)**

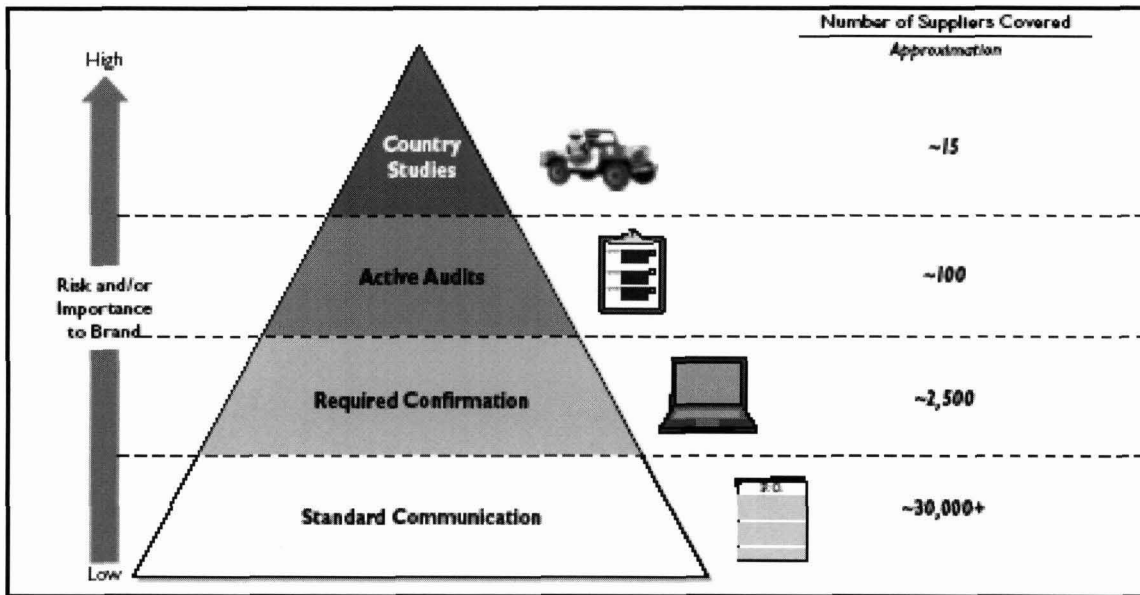
Where a particular supplier impact is observed, the Global Environmental Management Initiative (GEMI) asks the following questions in supplier audits (GEMI: 2001):

- is the supplier aware of his impact in particular areas?
- does the supplier have goals or policies regarding this impact?
- does the supplier have detailed plans in place to measure, manage, and improve this impact?
- is the supplier's performance improving over time, and by how much?

Cadbury-Schweppes ranks its suppliers in terms of risk, and the potential impact that supplier activity may have on corporate reputation of the Cadbury-Schweppes' and its brand. A model of their SCCR risk assessment process is represented in Figure 16. The Cadbury-Schweppes risk assessment process highlights the possibility of applying resources and effort to suppliers according to their perceived SCCR risk tier. Cadbury-Schweppes spends most of its available SCCR programme resources and time on

FIGURE 16.

**MODEL OF A SUPPLY CHAIN CORPORATE RESPONSIBILITY RISK ASSESSMENT PROCESS**



Source: Corporate Executive Board (2006b)

higher-risk SCCR suppliers, in the following manner:

o **Critical-risk suppliers:**

Comprehensive SCCR standards, targets and performance thresholds for suppliers are prescribed to these suppliers by Cadbury-Schweppes. Cadbury-Schweppes deploys its own assessment teams to monitor supplier SCCR performance, to publish detailed reports on the findings, and to ensure that risk mitigation plans are developed and actioned where necessary. Compliance per various SCCR dimension can range from:

- 'no compliance', to
- 'partial compliance', to
- 'full compliance', to
- 'exceeds compliance requirements'.

o **High-risk suppliers:**

Cadbury-Schweppes audits these (first-tier) suppliers via questionnaires, engages these suppliers in dialogue, and rates them on evidence of particular SCCR activities and undertakings from these suppliers.



- **Moderate-risk suppliers:**

Cadbury-Schweppes requires these suppliers to acknowledge receipt of its Ethical Sourcing Standards (Cadbury-Schweppes' code of conduct for suppliers) via an Extranet-system, before proceeding to source goods and services from these suppliers.

- **Low-risk suppliers:**

Cadbury-Schweppes incorporates its Human Rights and Ethical Trading policy into standard sourcing documents (such as purchase orders and audit questionnaires) that it remits to these suppliers.

Cadbury-Schweppes performs SSCR risk assessments based on the perceived risks of the countries or regions in which suppliers are located or trade. Other factors that could be used in ranking and prioritising SSCR supplier risks, could include: specific commodity or geographic risks (such as sourcing embargoed commodities); spend with suppliers; the categorisation of the relationship between the buying organisation and the supplier, or the relative ease of replacing suppliers (Neef: 2004).

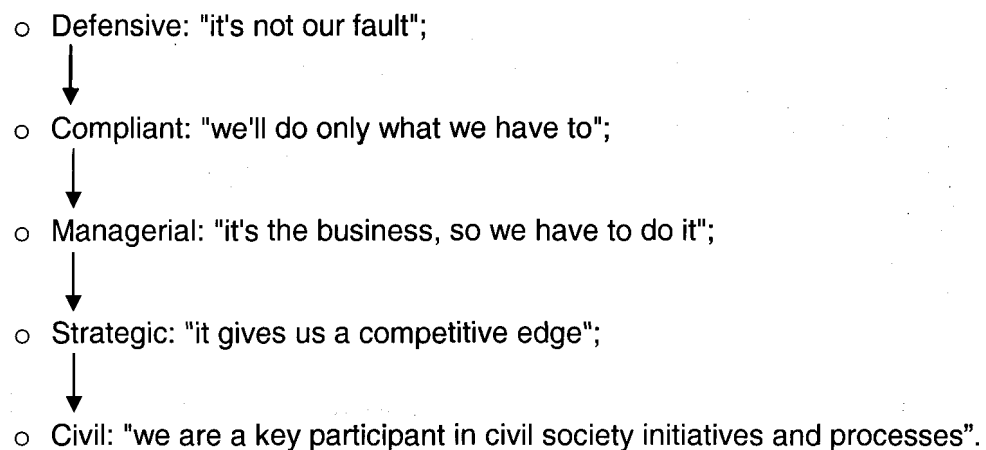
The Corporate Executive Board (2003b) cites the examples of Tommy Hilfiger and McDonalds, which drafts and issues codes of conduct to their suppliers, requiring them to warrant that no abusive, unethical, exploitative or illegal conditions or practices exist at their suppliers' workplaces. UK retailing group Sainsbury's Corporation, provides coaching, guidance and feedback to its suppliers to enable these suppliers to understand supply chain corporate responsibility risks and dimensions in their own supply base, and to deploy appropriate programmes to mitigate supply chain risks so identified (Corporate Executive Board: 2005b).

Food ingredients manufacturer Tate & Lyle distribute their code of conduct to suppliers at the outset of a commercial relationship and wherever possible, incorporates the codes within new contractual arrangements between Tate & Lyle and its suppliers (Tate & Lyle: 2004). Consumer retailer B&Q ceased procuring rugs from Pakistan as it became impossible to guarantee that child labour was not being exploited in the production of these items (Cowe: 2000b). Clothing companies Gap Inc. and Coca-Cola coach their suppliers to include SSCR aspects when these suppliers appoint their own suppliers and sub-contractors (Corporate Executive Board: 2003b).

Zadek (2004) shows that Nike was targeted by activists for its supply chain management practices in the early 1990s. Nike was targeted because of its high-profile

brand, not purely because its business practices were any worse than any other footwear competitor. Being the subject of severe civil activism at that time, Nike implemented various SCCR policies and strategies, which resulted in the company establishing itself as a paragon of corporate responsibility in its industry. As an industry leader in applying corporate responsibility principles, Nike is now approaching other footwear manufacturers, in order to hammer out a common approach to corporate responsibility and accountability in the footwear industry.

In Zadek's view, Nike travelled an arduous learning curve, from a 'defensive' status, to a 'civil' status, as follows:



Canadian co-operative retailer Mountain Equipment Co-op (MEC), performs factory audits on its suppliers. MEC focuses resources on assisting non-SCCR compliant suppliers to build the required SCCR capabilities. MEC's focus is on addressing root causes of supplier SCCR non-compliance, rather than predominantly focussing on surveillance and penalising such performance. Where this approach has been attempted by MEC, but suppliers have been unwilling or unable to improve on their SCCR performance, MEC proceeds to suspend or terminates business dealings with suppliers. MEC reports incidences of non-compliance by suppliers in its annual Ethical Sourcing Report.

#### ▪ **Pharmaceuticals Industry**

Pharmaceutical manufacturer Baxter Healthcare Corporation developed a training tool, EthicsKit, to help suppliers create, implement, and reinforce their own ethics programmes (Baxter: 2003). Developed in-house, Baxter maintains that the principles and practices embodied in EthicsKit have enhanced Baxter's own competitiveness and reputational image, and have helped the company attract and retain talented

employees. Baxter's aspiration is for its suppliers to realise similar benefits from implementing their own SCCR programmes.

Bristol Myers Squibb reviews and rates suppliers' internal environmental audit processes, and is designing an environmental management system that is intended to ensure ongoing compliance by suppliers with environmental standards (Corporate Executive Board: 2003c).

- **Petrochemicals Industry**

Many suppliers to the petrochemical industry have embraced SCCR programmes. Pearson (2000) describes the SCCR programme of Shell International, a global conglomerate whose reputation was damaged by crises of ethical legitimacy during the 1990s, due in part to irresponsible behaviour on the part of some Shell's suppliers. Shell now dictates standards of behaviour for its suppliers and contractors. Pearson speculates that these actions have helped mend Shell's bruised image.

- **IT and Communications Industry**

When selecting suppliers, IBM conducts a comprehensive environmental audit of potential suppliers. If potential supplier cannot meet IBM's prescribed standards, it will not be permitted to trade with IBM unless and until the supplier can correct the deficiencies identified. In order for IBM to meet its environmental standards, it requires its suppliers to provide components and materials that meet explicit product design criteria and performance standards. These explicit environmental or performance requirements embedded in IBM's specifications (Ellram and Tate: 2003).

BT Group, formerly British Telecommunications, has equipped its primary suppliers (that is, suppliers in their supply chain who supply goods and services directly to the BT Group), to conduct their own SCCR audits. BT Group assists its supplier by helping build the business case for them to manage and sustain SCCR in their own organisations. BT Group and its primary suppliers conduct joint SCCR evaluations of suppliers further up the supply chain. It encourages cross-referencing of SCCR findings with other sources of information available on supplier performance, such as information from NGOs, activists, and peer companies operating in the same industry, in order to verify findings, or uncover possible inconsistencies (Corporate Executive Board: 2006b).

### ▪ **Automotive Industry**

Chrysler Corporation created opportunities for procurement from 'minority suppliers' through programs aimed at enhancing operational efficiency and facilitating improved business relationships (Corporate Executive Board: 2003a). In 2002, Chrysler sourced more than \$3 billion in goods and services from these minority suppliers, representing 11% of its total annual procurement expenditure of \$27 billion. General Motors, with sales of more than \$176 billion in 2000, ruled that its suppliers should contribute to environmental sustainability by attaining ISO 14001 certification, in order to continue to sell goods and services to General Motors (Grayson and Hodges: 2001).

### ▪ **Banking Industry**

The Royal Bank of Canada strives to limit the impact of its business on the environment, and strongly promotes SCCR in its various locations worldwide.

Barclays Bank plc. adopted a comprehensive SCCR programme. Barclays' SCCR programme includes the following elements:

- identify products, services and supply markets that represent an elevated SCCR risk, that is, those suppliers with the greatest social, ethical or environmental impact or with potential to damage Barclays' reputation;
- set minimum standards and targets for primary suppliers;
- encourage primary suppliers to implement SCCR up the supply chain;
- require current and potential suppliers to detail their approach to managing SCCR; assess this as a significant factor in supplier selection and contract renewal decisions;
- include SCCR performance as a material requirement in supply contracts;
- use company influence to have a positive impact on the social, ethical and environmental performance of all Barclays' suppliers, working with them to improve performance where necessary;
- terminate business relationships where performance remains consistently below standard, or where suppliers are unable or unwilling to work towards attaining acceptable SCCR performance standards;
- welcome honesty and openness regarding SCCR failures by suppliers to meet these standards. Not penalising suppliers who agree to pursue meaningful remedial actions;
- not apply higher standards to suppliers, than Barclays applies to its own operations of a similar nature;

- accept alternative SCCR standards, where these achieve the equivalent of, or exceed, Barclays own standards;
- ensure that affected staff are provided with appropriate training and guidelines to implement the SCCR programme;
- apply a continuous improvement approach in the implementation of the SCCR programme.

#### **5.4. SCCR OPPORTUNITIES**

SCCR shares many of the benefits of the larger corporate responsibility landscape (refer Chapter 2.6). Additional sources of business value creation specific to SCCR, include:

- Potential for cost reductions and avoidances achieved by suppliers as a result of implementing SCCR, to be passed onto the buying organisation.
- Enhanced recognition for the role of the procurement function.
- Anticipate and avoid supply chain continuity risks, such as environmental accidents, in the supply chain.
- The buying organisation may enhance its reputation in the supply market, as an ethical company. As a result, other ethical suppliers may prefer to deal with this buying organisation in preference to other buyers.

#### **5.5. SCCR CHALLENGES AND PITFALLS**

The following examples suggest that SCCR programmes frequently fail to meet the expectations set for them.

- The Corporate Executive Board (2004c) conducted research into the state of SCCR amongst various organisations located in Europe and North America. The following conclusions were deduced from this research:
  - resources allocated to the implementation and management of the SCCR programmes was inadequate;

- levels of organisational support for SCCR programmes amongst organisations surveyed in the research was qualified. There was mixed commitment to SCCR programmes implemented in these organisations. Many of the buying organisations that took part in the research indicated that they did not place a high priority in, or regard for, their SCCR programmes.
- The Disney Corporation has a relatively advanced SCCR programme, and has a code of conduct that requires its suppliers to adhere to prescribed standards. Despite these requirements however, subsequent investigations revealed that labour violations continue in the factories of supplier making toys for the Disney Corporation. This is an example of a gap between forecasted targets and actual SCCR results achieved (Neef: 2004).
- Research conducted between September 2003 and January 2004 on behalf of Insight Investment Management (2004), the asset management division of the UK financial services company HBOS, suggests that SCCR programmes resulted in limited improvements in some areas of supplier behaviour (such as their health and safety standards), but had relatively little impact in other areas of supplier behaviour, such as the hours and overtime worked by suppliers' employees, and harsh treatment of employees.
- The Council of Economic Priorities, a non-for-profit research group, examined various SCCR-related codes of conduct. It concluded that such codes are rarely monitored, they lack consistency, and workers in supplier organisations are often unaware of the existence or content of such codes.
- Research conducted by Mamic (2004) into the implementation of SCCR programmes and codes of conduct for suppliers selling to the footwear, apparel and retail sectors, suggests that these buying organisations struggled to implement SCCR programmes in their organisations.

SCCR shares many of the challenges that the umbrella corporate responsibility framework faces. Additional challenges, difficulties and pitfalls that may befall the SCCR programmes, may include:

- The buying organisation may lack the resources, skills, systems and strategic focus required to facilitate an effective SCCR programme. Other procurement scorecard focus areas such as cost savings and operational efficiencies, might assume a higher priority than the SCCR programme.
- The SCCR programme may be too burdensome and overly bureaucratic for an already overloaded procurement department management and staff.
- While there may be cost savings attainable by outsourcing certain functions, or sourcing from suppliers in lower cost countries, the buying organisation's risk profile may increase as a result of this. Buying organisations may be 'guilty by association' where suppliers, at any point in the supply chain, are guilty of having transgressed acceptable SCCR standards. Buying organisations may have more emerging-market content in their overall spend bases than they realise, increasing its risk profile (Corporate Executive Board: 2006b).
- Many buying organisations have not mapped their upstream supply chains, and therefore do not know who their suppliers' suppliers are, and so on (Fawcett and Magnan: 2001).
- The supply chain may be geographically dispersed, or may consist of a complex network of subcontractors, agencies, trading companies or other intermediaries. SCCR in a complex supply chain is more expensive and difficult to police (Insight Investment Management: 2004).
- Suppliers in one country may be SCCR-compliant in their own country, but not compliant in another country, owing to relative cultural and ethical perspectives (Rossouw: 2002).
- Infrequently used suppliers may resist participation in the buying organisation's SCCR programme, requiring the buying organisation to first award business to the supplier, before the supplier is prepared to comply with its SCCR programme.
- Suppliers may reject the buying organisation's SCCR programme out-of-hand, refusing to trade with the buying organisation if it insists that the supplier first becomes SCCR-compliant.

- Suppliers may elect to sell to other buyers that do not impose SCCR standards and targets. This deprives the buying organisations of potential sources of supply, and may increase its supply continuity risk as a result.
- Inability or unwillingness of buyers and suppliers to share SCCR information.
- Suppliers may be required to deal with multiple, often overlapping surveys and inspections from various buying companies, NGOs and investors. Each of these stakeholders may have its own SCCR standards and compliance targets, adding the cost and complexity of supplier compliance (Neef: 2004).
- A perception amongst some buying organisations that SCCR is in effect, 'taking over' suppliers' problems, in particular, their legal or regulatory responsibilities.
- Insufficient power by a buying organisation to enforce change amongst various members of the supply chain (Roberts: 2003).
- Supplier A. may be a supplier to buying organisation B. Buying organisation B. may itself be a supplier of goods and services to another firm, organisation C. Organisation C. may have its own SCCR standards and compliance targets, which may be different from those of buying organisation B. This presents a potential source of conflict for supplier A, in deciding which SCCR standards it is required to comply with.
- It may be alleged that the buying organisation is hypocritically holding suppliers to a higher standard of conduct than it imposes on itself.
- Buying organisations may fail to establish a robust SCCR risk assessment methodology that can effectively identify and rank potential sources of reputational risk. This can also result in the buying organisation's scarce SCCR resources being misdirected (Corporate Executive Board: 2006b).
- There may be fragmented coordination of SCCR activities and responsibilities across various internal functions within the buying organisation, thereby reducing the strategic impact of the SCCR programme.
- Aggressive behaviour by buying organisations to pressurise suppliers to reduce costs, may force these suppliers to contravene and cut corners on SCCR



standards, in order to meet buying organisations' cost targets (Insight Investment Management: 2004).

- The buying organisation may not be prepared to pay premiums or incentives to fund SCCR-compliance by its suppliers (Blowfield: 1999).
- Consumers may be unwilling to pay more to organisations that implement SCCR programmes, than they do to organisations which do not implement SCCR programmes. Alternatively, consumers may be unwilling to buy from the cheapest source, or the cheapest SCCR-acceptable source (Neef: 2004).
- The buying organisation may be persuaded to suspend or terminate a trading relationship with a supplier not meeting SCCR standards. There may be a dilemma for the buying organisation where this is a monopoly supplier, or there are reciprocal business dealings between the buyer and the supplier, or otherwise the supplier is a trusted business partner who provides goods or services at competitive prices, or with high levels of quality or service.
- The risks that suppliers incur unreasonable costs in order to comply with the buying organisation's SCCR programme, and suppliers thereby face commercial loss or economic demise as a result.
- The cost of complying with SCCR standards raises restrictions and barriers to entry into a market. In such cases, SCCR may be perceived as an unfair or anti-competitive practice.
- The scenario of a small buying organisation, attempting to compel a far large supplier to comply with the buying organisation's SCCR standards.
- Privately-held suppliers may not have such demanding shareholders as publicly traded companies, and therefore may be advantaged.
- A supplier may comply in one SCCR dimension, such as the social compliance, but may not comply on other aspects, such as environmental compliance.
- There may be insufficient, inadequate or unreliable SCCR data in order to report SCCR results thoroughly and accurately.

- It may be unclear who conducts the assurance or audit. It could be conducted by one of the larger audit firms, a smaller audit firm, a stakeholder group, an internal audit team, or a combination of any of these options.
- Where the assurance or audit is conducted by independent agencies, it may be unclear who pays the agencies for their verification services, and who accredits the verification agencies in the first instance.
- There may inevitably be some level of environmental impact by the supplier. It may be unclear at what point this level of environmental impact becomes unacceptable.
- Suppliers may not wish to disclose all required SCCR information to comply with a buying organisation's SCCR programme. This may be, for example, to protect the suppliers' proprietary information or competitive position (WWF-UK: 2003).
- The buying organisation and the supplier may fail to agree on the root-causes of the supplier's SCCR non-compliance, resulting in ambiguity over what remedial actions are required, how these will be implemented, and what improvement targets are required.
- Suppliers who exceed SCCR expectations by a considerable margin (that is, who are industry leaders) may not receive additional credit from the buying organisation, compared to suppliers who merely comply with minimum prescribed SCCR performance requirements.
- Concern that reporting on social and environmental performance is not conducted consistently over time (Campbell: 2000). Viewing the supplier's SCCR performance over a single year may yield a distorted result. It is preferable to track SCCR performance trends over several years where possible (Neef: 2004).
- Where reporting is not clearly focussed or targeted by buying organisations, suppliers may be inclined to report only on their 'good news' SCCR successes. These may constitute more easily achievable aspects of the supplier's SCCR programme, and less so on areas where it is SCCR non-compliant.

- Buying organisations may outright reject non-compliant suppliers during the first audit on the supplier. This may give afford the supplier an opportunity to remedy his performance, as is no opportunities for second chances (Neef: 2004).

## CHAPTER 6

### DESIGN AND METHODOLOGY

- 6.1. PROBLEM STATEMENT
- 6.2. RESEARCH OBJECTIVES
- 6.3. RESEARCH DESIGN

#### 6.1. PROBLEM STATEMENT

A problem statement for this research study was drafted, as follows:

Banks operating in South Africa have an opportunity to adopt supply chain corporate responsibility programmes in their institutions. It is uncertain whether these banks have supply chain corporate responsibility programmes, and if they have, what these programmes look like, and what the results of these programmes has been.

#### 6.2. RESEARCH OBJECTIVES

- **Primary research objective**

The primary objective of this study was:

To explore and describe what supply chain corporate responsibility programmes and practices exist in the banking industry in South Africa, how these programmes have been implemented, and what the results of these programmes have been.

- **Secondary research objectives**

The four secondary objectives of this research were to understand:

- How important is SCCR in the respondent banks.

- What the respondent banks are doing to manage their SCCR programmes.
- How the respondent banks deal with suppliers who do not comply with their SCCR standards.
- Whether the respondent banks have a demonstrated business cases for their SCCR programmes.

Individually, each of the secondary objectives examines a discrete component of the primary research objective. Collectively, it was anticipated that the secondary research questions would assist in meeting the primary research objective.

### **6.3. RESEARCH DESIGN**

#### **6.3.1. Research Method**

This research is descriptive in nature. Descriptive research yields information about specific conditions or events (United States General Accounting Office: 1991). Existing information that could shed light on the research objective, either did not exist, or was not known about by the researcher. It was therefore deemed necessary and appropriate to collect new data, utilising a descriptive research method.

#### **6.3.2. Research Instrument**

As it was not possible to investigate SCCR through-out the population of 40 banks operating in South Africa, a cross-sectional sample of SCCR programmes and practices in banks operating in South Africa was selected. A questionnaire was selected as the research instrument in order to solicit primary data on the research objective. The questionnaire used in this research is represented in Appendix B. The questionnaire was selected as the preferred instrument in this research, as it seemed the most appropriate sampling instrument for the topic and subject matter being researched, in comparison to sampling instruments such as interviews, observation, and action learning research.

According to White (2000), the advantages and benefits of faxed or postal questionnaires are low costs, high speed, and largely the avoidance of bias that may be associated with interviews. According to StratPac Inc. (2006), most people are generally familiar with questionnaires, especially senior staff in organisations, whose subject matter expertise and opinions are frequently solicited by means of survey instruments. Questionnaires are deemed to be a non-intrusive survey method. Data gathered from questionnaires is comparatively quick to analyse.

According to White (op. cit.), potential disadvantages that could arise in the use of faxed or postal questionnaires include: uncertainty about whether the sample subject or someone else has completed the questionnaire, and a potentially low response rate. In this research, the managers to whom the questionnaire was remitted were relied upon to complete the questionnaire themselves and not delegate the completion of the questionnaire to someone else who was not familiar or experienced with the SCCR programme in that bank, and also to accept the risk that the questionnaire response rate might be low.

The questionnaire dealt with the secondary objectives, as follows:

- **Secondary Objective 1: Understand how important SCCR is to the bank**

This is intended to describe the overall importance of SCCR to the bank surveyed. 4 questions were posed in order to understand this objective (refer Figure 17.). This issue area is fundamental to sustainability of SCCR programmes.

- **Secondary Objective 2: Understand what the bank does in order to manage its SCCR programme**

7 questions were posed in order to understand this objective. This objective supports and complements Secondary Objective 1. Secondary Objective 1 explores whether or not SCCR is a priority in the bank. If not, the respondent is permitted to fast-track to the end of the questionnaire. If it is a priority, then Secondary Objectives 2 and 3 explore how this priority area has been tackled. There are various facets of how the bank deploys and manages its SCCR programme, hence the number of questions included in this area is large.

- **Secondary Objective 3: Understand how the bank deals with suppliers who do not comply with its SCCR standards**

One question was included in this area, in this case, how SCCR non-compliant suppliers were dealt with by the bank.

**FIGURE 17. RESEARCH STUDY OBJECTIVES AND QUESTIONS**

**Explore and describe what supply chain corporate responsibility programmes and practices exist in the banking industry in South Africa, how these programmes have been implemented, and what the results of these programmes have been**

**Primary Research Objective**

**Secondary Research Objectives**

**Questions posed in the Questionnaire**

1. Understand how important SCCR is to the bank

- (Question 1) What are the focus areas of the procurement department?
- (Question 2) In comparison to other focus areas in procurement in the bank, is SCCR a priority?
- (Question 3) Does the bank have a strategy to manage SCCR?
- (Question 15) If the bank does *not* currently manage SCCR, is it likely to do so at some time in the future?

2. Understand what the bank does in order to manage its SCCR programme

- (Question 4) Who manages SCCR in the bank?
- (Question 5) Does the bank have policies and/or procedures for managing SCCR?
- (Question 6) At what 'level' has the bank implemented SCCR?
- (Question 7) Which stage/s of the procurement cycle does SCCR impact?
- (Question 8) How does the bank identify suppliers for inclusion in its SCCR programme?
- (Question 9) Does the bank distribute a 'code of conduct' to suppliers included in the SCCR programme?
- (Question 10) Who verifies the accuracy and completeness of SCCR reports?

3. Understand how the bank deals with suppliers who do not comply with its SCCR standards. (Question 11)

- (Question 11) What are the reasons for non-compliance with SCCR standards?

4. Understand whether the bank has a demonstrated business case for its SCCR programme

- (Question 12) What benefits have been realised by managing SCCR?
- (Question 13) What issues, risks or costs have emerged in addressing SCCR?
- (Question 14) Do the benefits that have been realised, outweigh the issues, risks or costs that have emerged?

- **Secondary Objective 4: Understand whether the bank has a demonstrated business case for its SCCR programme**

This objective seeks to ascertain whether benefits outweigh the costs in deploying an SCCR programme. 3 questions are included in this area. If the business case for SCCR is not proven, then the programme may no longer receive the support and resourcing required to sustain it, and the SCCR and the overall corporate responsibility programme may fall into disuse or be discontinued.

The first question in the questionnaire, Question 0, was included purely in order to establish the size of third party procurement spend in South Africa. In all cases, *Big Five* banks had a third-party procurement spend of more than R100 million per annum, while other smaller domestic and foreign-owned banks had a procurement spent of less than R100 million per annum. Although this question yielded useful information, it did not fit neatly into one of the secondary objective areas described above, and this question was therefore accorded a neutral, not a positive number.

The survey questions were framed with the intention of soliciting sufficiently meaningful data. The questions were developed over time, and in an iterative fashion as the literature search progressed. It was deemed important not to overwhelm the survey respondents with too many questions, as this could result in respondent fatigue and lower response rates. It was therefore decided not to exceed 15 questions in the questionnaire. The structure of the questionnaire was designed for rapid completion by the respondents. It was projected that the response rate would be higher if the questionnaire was less difficult and time-consuming to complete. It was intended that the respondents should be able to complete the questionnaire in between 15 to 20 minutes.

It was important that responses should be conclusive, but should also allow respondents an opportunity to express their own opinions in order to increase the richness of the results. For this reason, the response structure of the questionnaire contained both dichotomous and multichotomous items. In the case the multichotomous questions, respondents were afforded an opportunity to insert a response under the 'others' option. Open-ended items were avoided. In retrospect however, it would have been interesting to have had the opportunity to review the results of open-ended questions, as the absence of alternative response options available in open-ended questions could have yielded interesting and insightful perspectives into the depth, variety and maturity of SCCR programmes and approaches amongst the various respondents. Upon reflection, there was limited



potential for such insights to emerge from essentially closed questions that were included in the research questionnaire.

In the research questionnaire, it was decided to use the term: *supplier sustainability*, rather than the term *supply chain corporate responsibility*. Supplier sustainability was considered a less intimidating term for respondents, potentially unfamiliar with the term supply chain corporate responsibility. In conducting this research, it was important to identify and mitigate as far as possible, the potential for ethical conflicts. Examples of how potential ethical conflicts were mitigated in this research are:

- guaranteed anonymity and confidentiality of sampling units;
- minimisation of research bias, as far as possible.

Harper (1991) defines research bias as the situation where a particular influence is allowed to have more importance than it warrants. Social desirability bias is a type of research bias, and occurs where respondents inaccurately answer questions in order to conform to social norms or the perceived expectations of the researcher (Carter and Jennings: 2000). In formulating the questions, it was deemed to be important to identify and minimise potential sources of research bias, and in particular, social desirability bias. In order to do this the questionnaire remitted to the respondents was not sent from 'a colleague working in the banking industry in South Africa' as this might have served to increase the potential for social desirability bias. Instead, the cover letter was addressed more neutrally from: 'a student at the Leadership Centre, at the University of Kwa-Zulu Natal'.

In order to increase the quality of the research, and increase the strength and specificity of findings and recommendations (United States General Accounting Office: 1991), each of the questions posed in the questionnaire was tested against a series of predetermined quality criteria in order to ensure that each question met standards of relevance, validity (confirmation that the research design fully addresses the research question and objectives), reliability (where another researcher repeats this research design, he should obtain the same findings), objectivity, and logical sequencing. This question quality control process, conducted during the formulation of the questionnaire, was deemed to be valuable in enhancing the overall quality, focus and impact of the final questionnaire compiled. Where a prospective question failed one of the tests, it was either discarded or modified. The quality-control questions and results are represented in Table 1.

**TABLE 1.  
SURVEY  
QUALITY  
CONTROL  
QUESTIONS**

| Question    | Criteria required for a valid, reliable and objective questionnaire                             |  | Does the question address the research objectives, and the research question? | Does the question ask for an answer on only one dimension? | Is the question exhaustive, and does the question accommodate all possible answers? | Does the question have unambiguous, mutually exclusive options? | Does the question produce variability of responses? | Does the question logically follow from the previous question/s? | Does the question presuppose a certain state of affairs? | Is the question a leading one? | Does the question use loaded or vaguely defined terms? | Is the question dependent upon responses to previous question/s? | Can the response to the question be analysed, and conclusions derived from the analysis? |
|-------------|---|--|---|--|---|---|---|--|--|--------------------------------|--|--|--|
|             | Questions posed in the Research Questionnaire   | Does the question ask for an answer on only one dimension? |   |  |   |   |   |  |  |                                |  |  |  |
| Question 1  | What are the focus areas of procurement in the bank?  | Yes  | Yes   | Yes  | Yes (* <sub>2</sub> )   | Yes   | Yes   | Yes  | No   | No                             | No   | No (* <sub>3</sub> )   | Yes  |
| Question 2  | In comparison to other areas of focus in procurement in the bank, is SCCR a priority?           | Yes  | Yes   | Yes (* <sub>1</sub> )                                      | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No (* <sub>3</sub> )   | Yes  |
| Question 3  | Does the bank have a strategy to manage SCCR?   | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 4  | Who manages SCCR in the bank?   | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 5  | Does the bank have policies and/or procedures for managing SCCR?                                | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 6  | At what 'level' has the bank implemented SCCR?  | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 7  | Which stages/s of the procurement cycle does SCCR impact?                                       | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 8  | How does the bank identify suppliers for inclusion in its SCCR programme?                       | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 9  | Does the bank distribute its 'code of conduct' to suppliers included in the SCCR programme?     | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 10 | Who audits and verifies the accuracy and completeness of SCCR reports?                          | Yes  | Yes   | Yes  | Yes (* <sub>2</sub> )   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 11 | How does the bank deal with suppliers who do not comply with its SCCR requirements?             | Yes  | Yes   | Yes  | Yes (* <sub>2</sub> )   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 12 | What benefits have been realised by the bank in managing SCCR?                                  | Yes  | Yes   | Yes  | Yes (* <sub>2</sub> )   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 13 | What issues, risks or costs have emerged in addressing SCCR?                                    | Yes  | Yes   | Yes  | Yes (* <sub>2</sub> )   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 14 | Do the benefits that have been realised, outweigh the issues, risks or costs that have emerged? | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |
| Question 15 | If the bank does not currently manage SCCR, is it likely to do so at some time in the future?   | Yes  | Yes   | Yes  | Yes   | Yes   | Yes   | Yes  | No   | No                             | No   | No   | Yes  |

(\* ) Adapted from: <http://statpac.com/surveys/>

**Notes:**

\*<sub>1</sub>: The question originally posed did not meet the requirements of the Criteria, therefore an amendment was made to the options presented in this question.

\*<sub>2</sub>: The phrase: 'please tick the appropriate box or boxes' was included in the research questionnaire (refer Appendix B) in order satisfy these Criteria.

\*<sub>3</sub>: Changes were made to the sequencing of questions in order to satisfy these Criteria.

### 6.3.3. Sampling Frame

The questionnaire was remitted to respondents in senior positions in procurement departments in banks in South Africa. It was assumed that they would be knowledgeable and appropriately qualified to respond to the questions posed in the survey in this study. The respondents in these banks were executives or managers familiar with their respective supply chain, and are involved in supplier management activities and strategy formulation on a regular basis. The sampling frame utilised in this study is represented in Table 2, and consists of two distinct categories of banks operating in South Africa, namely:

- 5 of the *Big Five* banks in South Africa; and
- 10 other, smaller domestically and foreign-owned banks.

It was not possible to survey the entire population of all 40 banks operating in South Africa due to time and cost constraints. While the 15 banks included in the sampling frame represented only 38% of the total number of banks operating in South Africa, these collectively represent most of the total number of employees, total assets and deposits base, and total loans and advances made of all banks operating in South Africa (refer Table 2). It was therefore assumed that a survey of SCCR in the 15 banks included in the sampling frame, would yield similarly representative results.

**TABLE 2.**

#### **BANKS SURVEYED IN THE RESEARCH**

|  | Number of banks operating in South Africa | Banks, to whom the survey was remitted | Survey responses returned | Permanent employee numbers | Total assets of banks | Total deposits of banks | Total loans and advances made by banks |
|--|---|--|---------------------------|----------------------------|-----------------------|-------------------------|--|
|  |   |  |                           |                            | R million             | R million               | R million                              |
| 'Big Five' banks                                 | 5   | 5                                      | 4                         | 119,000                    | 1,003,791             | 699,085                 | 769,345                                |
| Other locally and foreign-owned domestic banks   | 35  | 10                                     | 3                         | 6,800                      | 23,793                | 11,380                  | 33,841                                 |
| Total number banks surveyed in this research (a) |   | 15                                     |                           | 125,800                    | 1,027,584             | 710,465                 | 803,186                                |
| Total of all banks operating in South Africa (b) | 40  |  |                           | 128,000                    | 1,112,269             | 777,145                 | 851,625                                |
| % Banks operating in South Africa [(a) ÷ (b)]    |   | 38%                                    |                           | 98%                        | 92%                   | 91%                     | 94%                                    |
| % Survey response rate                           |   |  | 47%                       |                            |                       |                         |  |

**Source: Metcalfe (2003; 2005)**

Responses were received from 7 of the 15 banks to whom questionnaires were remitted. This represents a response rate of 47%. 4 of the 5 *Big Five* banks responded (an 80% response rate), and 3 of the 10 other locally and foreign-owned domestic banks responded (a 30% response rate).

#### **6.3.4. Limitations and Constraints**

The research deals with SCCR, in banks operating in South Africa. It was decided to limit the research in this manner, because the industry is of interest to the researcher, and it was considered too time-consuming, expensive and difficult to obtain accurate information about banks operating in other countries during this research study.

Banks operating in South Africa are relatively homogeneous in terms of products and services offered, their leadership styles, and the manner in which they procure third-party goods and services. Major differentiations do exist between South African banks however, in regard to the sizes of their respective deposits, assets and loan bases, and the demographic and geographic differentiation within their account bases.

The banking industry is a component, albeit a significant one, of the larger financial services sector in South Africa. Due to the constraints of time, cost, and the heterogeneity of the wider financial services sector (it encompasses insurance and reinsurance providers, retirement funders, bond market participants, and so on), it was decided to limit the scope of this research study to the banking industry.

The respondents selected to take part in the survey were limited to managers in the banks' procurement departments. The selection of these respondents was based on the respondents' supply chain knowledge and experience. While it may have been interesting and useful to have included managers from departments other than procurement, it would have proven difficult and time-consuming to have identified who these individuals were, and what their impact and influence over SCCR actually was.

The survey questionnaire was remitted to a sample of 15 out of a total of 40 banks operating in South Africa. While this represented only 38% of the total population of banks operating in South Africa, the banks that were included in the survey did represent the great majority of account holders, third-party procurement spend, and employees working in the banking industry (refer Table 2).

The assumptions identified during the planning for this research study (refer Chapter 1.4: Research Assumptions), were validated as follows:

- Assumption: The research would be feasible: there would be sufficient resources, time, information and expertise to conclude the study proposed in the area of supply chain corporate responsibility amongst banks operating in South Africa.  
Comment on the assumption: There was sufficient resource, time, information and expertise to conclude the research study.
- Assumption: Sufficient information would be available to conduct the literature search, providing the context, background and foundational basis for this study.  
Comment on the assumption: Sufficient information was available to conduct the literature search.
- Assumption: Most organisational focus, resources and responsibility for supply chain corporate responsibility, would be resident within the procurement departments of the banks participating in this study.  
Comment on the assumption: This did prove to be the case.
- Assumption: A sampling frame would be identified out of the total population of all 40-odd banks operating in South Africa, and would yield representative, valid and reliable results.  
Comment on the assumption: This did prove to be possible.
- Assumption: Suitable respondents in the targeted banks would be identified and contacted to take part in this survey, and that these respondents would be willing and able to respond to the questionnaire remitted to them.  
Comment on the assumption: Suitable respondents were identified, and were willing and able to respond to the questionnaire remitted to them.
- Assumption: A response rate of at least 25% of the sampling frame would be achieved.  
Comment on the assumption: A response rate of 47% was achieved.
- Assumption: Research bias would not prove to be a significant source of sampling error.

Comment on the assumption: It is difficult to be conclusive about this, but research bias was eliminated as far as possible in the design of the survey instrument.

- Assumption: It would be possible to draw conclusions and recommendations from the responses received from the institutions that participated in this study.  
Comment on the assumption: This did prove to be possible.

# CHAPTER 7

## RESULTS

### 7.1. SURVEY RESULTS OBTAINED

### 7.2. ANALYSIS OF RESULTS

### 7.1. SURVEY RESULTS OBTAINED

**TABLE 3.  
SURVEY RESPONSES OBTAINED**

|   | Respondent 1  | Respondent 2    | Respondent 3    | Respondent 4    | Respondent 5    | Respondent 6    | Respondent 7    |
|---|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 0   |               |                 |                 |                 |                 |                 |                 |
| What is the approximate value of your bank's spend on goods and services?   |               |                 |                 |                 |                 |                 |                 |
| * In South Africa (R millions per annum);   | R100m-R1,000m | R1,000m-R5,000m | R1,000m-R5,000m | R1,000m-R5,000m | Less than R100m | Less than R100m | Less than R100m |
| * Outside South Africa (R millions per annum).  | No response   | R100m-R1,000m   | No response     | R100m-R1,000m   | No response     | No response     | No response     |
| 1   |               |                 |                 |                 |                 |                 |                 |
| What are the focus areas of procurement in the bank?  |               |                 |                 |                 |                 |                 |                 |
| * Achieving operational efficiencies;   | √             |                 | √               | √               | √               | √               | √               |
| * Achieving cost savings;   | √             | √               | √               | √               | √               | √               | √               |
| * Cross-functional co-ordination;   | √             |                 | √               |                 | √               |                 |                 |
| * Talent management;  |               |                 |                 |                 |                 |                 |                 |
| * Digitisation of procurement;  |               |                 | √               |                 | √               |                 |                 |
| * Performance management;   |               |                 |                 |                 |                 |                 |                 |
| * Business process outsourcing;   |               |                 | √               |                 |                 |                 |                 |
| * Compliance with FSC targets;  | √             | √               | √               | √               |                 | √               | √               |
| * Elevating the profile of procurement in the organisation;   |               | √               | √               |                 |                 |                 |                 |
| * Others.   |               |                 |                 |                 |                 |                 |                 |
| 2   |               |                 |                 |                 |                 |                 |                 |
| In comparison to other areas of focus in Procurement in the bank, is supplier sustainability:                                     |               |                 |                 |                 |                 |                 |                 |
| * Not a current priority?   |               |                 |                 |                 |                 |                 |                 |
| * A low priority?   |               |                 |                 |                 |                 |                 |                 |
| * A moderately important priority?  |               | √               |                 |                 |                 | √               |                 |
| * A highly important priority?  | √             |                 | √               | √               | √               |                 | √               |
| 3   |               |                 |                 |                 |                 |                 |                 |
| Does the bank have a guiding corporate responsibility policy, that includes the requirement for managing supplier sustainability? |               |                 |                 |                 |                 |                 |                 |
| * Yes;  | √             | √               |                 | √               | √               |                 |                 |
| * No.   |               |                 | √               |                 |                 | √               | √               |
| 4   |               |                 |                 |                 |                 |                 |                 |
| If the bank does manage supplier sustainability, who assumes overall responsibility for it in the bank?                           |               |                 | No response     |                 |                 | No response     | No response     |
| * Managed exclusively by Procurement;   |               |                 |                 |                 |                 |                 |                 |
| * Managed jointly by Procurement and other functions;   | √             | √               |                 | √               | √               |                 |                 |
| * Managed exclusively by other functions.   |               |                 |                 |                 |                 |                 |                 |
| 5   |               |                 |                 |                 |                 |                 |                 |
| Does the bank have policies and procedures in place for managing supplier sustainability?   |               |                 |                 |                 |                 | No response     | No response     |
| * Yes;  | √             | √               |                 | √               | √               |                 |                 |
| * No.   |               |                 | √               |                 |                 |                 |                 |
| 6   |               |                 |                 |                 |                 |                 |                 |
| At what 'level' does the bank deploy its supplier sustainability programme?   |               |                 |                 |                 |                 | No response     | No response     |
| * At a 'high' level;  | √             | √               | √               |                 | √               |                 |                 |
| * At a 'detailed' level.  |               |                 |                 | √               |                 |                 |                 |
| 7   |               |                 |                 |                 |                 |                 |                 |
| Which stage/s of the procurement cycle would the supplier sustainability programme impact?  |               |                 |                 |                 |                 | No response     | No response     |
| * Accreditation and re-accreditation;   | √             | √               |                 | √               |                 |                 |                 |
| * Tendering;  |               | √               | √               | √               |                 |                 |                 |
| * Due diligence/ negotiations;  |               | √               | √               | √               | √               |                 |                 |
| * Contract review/ extension;   | √             | √               | √               | √               | √               |                 |                 |
| * Others.   |               |                 |                 |                 |                 |                 |                 |

|    | Respondent 1 | Respondent 2 | Respondent 3                 | Respondent 4 | Respondent 5 | Respondent 6 | Respondent 7 |
|----|--------------|--------------|------------------------------|--------------|--------------|--------------|--------------|
| 8  |              |              |                              |              |              |              |              |
|    |              |              |                              |              |              | No response  | No response  |
|    |              |              |                              | √            | √            |              |              |
|    |              |              |                              |              |              |              |              |
|    |              |              |                              |              |              |              |              |
|    | √            | √            |                              |              |              |              |              |
|    |              |              | "We do not have a programme" |              |              |              |              |
| 9  |              |              |                              |              |              |              |              |
|    |              |              |                              |              |              | No response  | No response  |
|    | √            | √            | √                            | √            | √            |              |              |
|    |              |              |                              |              |              |              |              |
| 10 |              |              |                              |              |              |              |              |
|    |              |              | No response                  |              |              | No response  | No response  |
|    |              |              |                              |              |              |              |              |
|    |              |              |                              | √            |              |              |              |
|    |              |              |                              |              | √            |              |              |
|    | √            | √            |                              |              |              |              |              |
| 11 |              |              |                              |              |              |              |              |
|    |              |              | No response                  |              |              | No response  | No response  |
|    |              | √            |                              |              |              |              |              |
|    | √            |              |                              | √            | √            |              |              |
|    |              |              |                              |              |              |              |              |
|    |              |              |                              |              |              |              |              |
| 12 |              |              |                              |              |              |              |              |
|    |              |              | No response                  |              |              | No response  | No response  |
|    | √            |              |                              | √            | √            |              |              |
|    | √            | √            |                              | √            | √            |              |              |
|    |              |              |                              | √            | √            |              |              |
|    |              |              |                              |              | √            |              |              |
|    | √            |              |                              | √            | √            |              |              |
|    |              |              |                              | √            | √            |              |              |
|    |              |              |                              |              |              |              |              |
|    |              | √            |                              | √            | √            |              |              |
|    | √            |              |                              | √            | √            |              |              |
|    |              | √            |                              |              | √            |              |              |
|    |              |              |                              | √            | √            |              |              |
|    |              |              |                              |              |              |              |              |



|    |   | Respondent 1 | Respondent 2 | Respondent 3 | Respondent 4 | Respondent 5 | Respondent 6 | Respondent 7 |
|----|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 13 | What issues, risks or costs have emerged in addressing supplier sustainability?   |              |              | No response  |              |              | No response  | No response  |
|    | * Lack of ongoing support from the bank;  |              |              |              |              |              |              |              |
|    | * Detracts focus from other areas in the bank;  |              |              |              |              |              |              |              |
|    | * Resistance from suppliers;  |              |              |              |              |              |              |              |
|    | * Introduces unfair barriers to entry;  |              |              |              | √            | √            |              |              |
|    | * Suppliers face economic loss or demise;   |              |              |              |              |              |              |              |
|    | * Difficult to elicit effective supplier reports;   |              |              |              | √            |              |              |              |
|    | * Difficult to agree standards and targets with suppliers;  |              |              |              |              | √            |              |              |
|    | * Difficult to segment suppliers according to their sustainability risk profile;  |              | √            |              |              | √            |              |              |
|    | * Lack of suitable and qualified internal staff to run the programme;   |              | √            |              |              | √            |              |              |
|    | * Difficult to assess and manage through-out supply chain;  | √            |              |              |              |              |              |              |
|    | * Suppliers may add value in other areas;   |              |              |              |              |              |              |              |
|    | * Costs incurred by suppliers passed onto the bank;   |              | √            |              |              |              |              |              |
|    | * Others.   |              |              |              |              |              |              |              |
| 14 | Overall, do the benefits realised from the bank's supplier sustainability programme, outweigh the issues, risks and cost? |              |              | No response  |              |              | No response  | No response  |
|    | * Yes;  | √            | √            |              | √            | √            |              |              |
|    | * No.   |              |              |              |              |              |              |              |
| 15 | If the bank does not currently manage supplier sustainability, is it likely to do so at some time in the future?          |              |              |              |              |              |              |              |
|    | * Yes;  | √            |              | √            |              |              | √            | √            |
|    | * No;   |              |              |              |              |              |              |              |
|    | * Not applicable; the bank currently does manage supplier sustainability.   |              | √            |              | √            | √            |              |              |

## 7.2. ANALYSIS OF RESULTS

The following results and trend refers in analysing the questionnaire responses:

- Respondents 1, 2, 3 and 4 are *Big Five* banks. Respondents 5, 6 and 7 consist of other, smaller locally and foreign-owned banks. Of these 7 respondents, 4 have implemented a SCCR programme (57%), 3 of which are *Big Five* respondents (60%), while 1 of the 3 smaller locally and foreign-owned banks have done so (33%).
- It was potentially aggravating for respondents, whose banks had not yet implemented an SCCR programme, to attempt to respond to questions on a programme that did not exist. Such institutions were therefore permitted to fast-track from Question 3 to Question 15, by-passing Questions 4 to 14.
- In terms of priority areas in their procurement environments, the banks were virtually unanimous in signifying the importance of achieving the procurement scorecard dimensions of operational efficiency, cost savings, and Financial Services Charter target compliance. In comparison to the other focus areas of

procurement (Question 1), and in understanding how important SCCR is to the responding banks (Secondary Objective 1), respondents regarded SCCR either as a moderately important priority (2 of 7 respondents) or a highly important priority (5 of 7 respondents) (Question 2).

- There appears to be an aspiration-adoption gap between the responses in Question 2, and the actual deployment of SCCR programmes, as evidenced by responses such as, how the bank identifies suppliers for participation in its SCCR programme (Question 8), the distribution of an SCCR code of conduct to suppliers (Question 9), and in the auditing of results of the SCCR programmes (Question 10). These responses revealed that respondents have not adopted the full suite of best-practices in their SCCR programmes, although all respondents that have implemented an SCCR programme have identified the touchpoints between SCCR and their procurement cycles (Question 7).
- It is possible that the SCCR aspiration-adoption gap may be due to the fact that banks acknowledge the important of SCCR, but lack the required knowledge, expertise or resources to implement it, especially when other focal areas of procurement demand more immediate attention than SCCR, and the business case for SCCR may not have been proven to senior management in these banks. It should be recognised however, that in banks where the aspiration-adoption gap exists, these institutions concede that they do intend to manage SCCR more thoroughly, and close the gap, some time in the future (Question 15). Interestingly, one of the banks displaying the aspiration-adoption gap is a *Big Five* bank (Respondent 3). This respondent acknowledged that SCCR is a highly important priority, but has no programme in place to implement it.
- The responses to Questions 4 to 10 confirm what the banks are doing in order to manage their SCCR programmes (Secondary Objective 2). In comparing best-practice SCCR processes and steps (Chapter 5) with the responses to the responses to Questions 4 to 10, several interesting responses emerged. Most banks which implement an SCCR programme, do so at a 'high' level, rather than at a detailed level (Question 6). *Big Five* bank respondents 1 and 2 have no formalised processes in place for selection of suppliers to participate in their SCCR programmes (Question 8). None of the respondents distribute an SCCR code of conduct to their suppliers (Question 9). Also, no audit is conducted on SCCR reporting by Respondents 1 and 2 (Question 10). Notwithstanding these responses, banks that do implement SCCR, apply it during most phases of their

procurement cycles (Question 7). In banks which do manage SCCR, their procurement function appears to take the lead in managing the programme in their banks, and they appear to do so by working cross-functionally with other departments in their organisations (Question 4).

- All of the respondents which have implemented a SCCR programme have a guiding corporate responsibility policy, which includes the requirement for a SCCR programme (Question 3).
- Question 11 confirms how banks deal with suppliers who do not comply with acceptable SCCR standards (Secondary Objective 3). Banks implementing SCCR programmes impose sanctions of some type against suppliers failing to meet SCCR standards and obligations. Action is therefore taken against such suppliers, and there are consequences for SCCR non-compliance.
- The responses to Questions 12 to 14 deal with whether the banks have demonstrated business cases for its SCCR programme, and whether they have identified business value from their SCCR programmes (Secondary Objective 4). While the value of costs and benefits from the SCCR programme is not explicitly quantified in this research, various benefits/ opportunities (Question 12) and costs/ challenges/ pitfalls (Question 13) were acknowledged by the respondents. All respondents that have implemented a SCCR programme, indicated a nett positive impact of SCCR in their organisations (Question 14).

## **CHAPTER 8**

### **CONCLUSIONS AND RECOMMENDATIONS**

- 8.1. INTRODUCTION**
- 8.2. CONCLUSIONS FROM THE LITERATURE SEARCH**
- 8.3. CONCLUSIONS FROM THE RESEARCH STUDY**
- 8.4. RECOMMENDATIONS FOR FURTHER RESEARCH**

#### **8.1. INTRODUCTION**

In evaluating the research problem, a primary research objective was drafted, with the goal of exploring and describing what supply chain corporate responsibility programmes and practices exist in the banking industry in South Africa, how these programmes have been implemented, and what the results of these programmes have been. In order to meet the primary objective, secondary objectives were explored and conclusions drawn about these during the course of the research. In conducting the research, and upon its finalisation, various opportunities emerged for further research to be conducted in the area of supply chain corporate responsibility in the banking industry in South Africa. These conclusions and recommendations for further research, are recorded below.

#### **8.2. CONCLUSIONS FROM THE LITERATURE SEARCH**

In order to establish the context, background and foundation for the exploration and description of the adoption of SCCR in the banking industry in South Africa, existing and historical theories, principles, practices and experiences were recorded during the course of the literature search. Key findings and conclusions from this literature search were:

- The environment in which contemporary business operates is characterised by complexity and volatility. A relatively recent phenomenon has seen increased

scrutiny of the decisions and actions taken by business, by an array of organisational stakeholders.

- Stakeholders are demanding higher levels of transparency, accountability, trust and integrity from organisations. They are requiring businesses to recognise and act on their various social, environmental and ethical obligations, while remaining profitable at the same time.
- Corporate responsibility and SCCR as business practices, are relatively new. They have emerged over the last 30-odd years, as concerns grew about economic liberalism, and in particular, the role and influence of large corporations grown so powerful and dominant.
- Internationally, the leading exponents of SCCR programmes are located in the food, apparel and footwear industries. The financial services sector, and the banking industry in particular, is not as advanced in their adoption of SCCR principles and practices.
- Effectively designed and implemented corporate responsibility programmes offer opportunities for the creation or conservation of business value. Despite these opportunities however, challenges and pitfalls exist which may serve to complicate or delay the comprehensive adoption of corporate responsibility and SCCR programmes, and erode their potential benefits. These challenges and pitfalls need to be dealt with and overcome if SCCR programmes are to deliver their rightful value.
- Various issues and trends are driving changes and developments in the banking industry in South Africa. These include client acquisition and retention, diversification of income streams, Financial Services Charter compliance, and reputational risk management. As a consequence of this, the larger banks in South Africa have recognised the importance of embracing corporate responsibility principles and practices in their institutions.
- Modern procurement functions operate at a more strategic level than in the past, dealing as they now do, with a diversity of priorities, focus areas, and organisational spend. They are now largely responsible for the management of

suppliers and supply chains in their organisations. This is regarded as a core organisational competency and source of competitive advantage.

- The supply chain plays an important role in the organisation's overall value chain, particularly at the inbound logistics activity stage. In the model of the organisational value chain, it is evident that the procurement function is now regarded as a key organisation support activity.
- One of the ways in which corporate responsibility manifests in the organisation, is in the management of the supply chain, and in particular, in the sourcing of goods and services from responsible and ethical suppliers.
- There are various ways to implement corporate responsibility and SCCR programmes and practices. Implementation of these programmes is characterised by raising senior management awareness, formulating a corporate governance vision and values, implementing the change, and anchoring the change in the organisation. Substantial progress has been made to identify steps and activities in best-practice SCCR programmes. These steps and aspects include:
  - enable the buying organisation to implement, manage and sustain the SCCR programme by deploying suitable and effective policies, targets, resources, systems and structures;
  - deal with resistance of the programme from within the buying organisation;
  - build employee capacity and ownership of the corporate responsibility programme;
  - engage key stakeholders in ongoing dialogue to ensure that the buying organisation's values and actions align with its key stakeholders' expectations and values;
  - map-out and understand the organisation's supply chain;
  - identify and risk-assess potential suppliers for inclusion in the programme;
  - develop supply chain assessment methodology and protocols;
  - agree programme objectives, standards, targets, indicators and requirements in partnership with suppliers;
  - draft and issue codes of conduct for suppliers' programme compliance;

- provide coaching, training and feedback to suppliers on their programmes;
  - assess, audit and externally verify supplier performance over a variety of dimensions, and include reviews of supplier policies, management practices, and performance across these dimensions;
  - report on supplier programme performance and compliance;
  - track programme performance and compliance over several years, where possible;
  - agree on strategies with non-compliant suppliers to close performance gaps;
  - suspend or terminate business dealings with habitually non-compliant suppliers that are unwilling or unable to rectify their performance;
  - measure and evaluate the overall costs and benefits of the programme business case. Continue, modify or discontinue the programme according to the extent of value that the programme creates or conserves for the business;
  - learn from experiences in implementing these programmes.
- It is predicted by Neef (2004) that, by 2015, most large companies will recognise the value offered by the corporate responsibility agenda, and will consequently take the step of implementing SCCR and various other corporate responsibility programmes in their organisations.
  - Although some companies have made outstanding progress and successes in the implementation of their SCCR programmes, SCCR has not been widely and comprehensively implemented in most large organisations to date.
  - While SCCR programmes and practices do offer opportunities for creating or conserving business value, SCCR programmes do face various challenges and risks which must be confronted and overcome in order to realise rightful value for the organisation.

The findings and conclusions from the literature search were useful in formulating the research design and methodology (Chapter 6), and in framing the questions included in the research study.

### 8.3. CONCLUSIONS FROM THE RESEARCH STUDY

Various results were obtained from the research study (Chapter 7). The following conclusions are drawn from the study results, and contribute towards meeting the secondary objectives of this research.

- **Secondary Objective 1: Understand how important SCCR is to the bank**

Conclusion: There is a general appreciation amongst banks operating in South Africa, that SCCR is an important priority and a valuable objective.

Commentary on the conclusion: Procurement departments in South African banks face challenges in creating and demonstrating value in their organisations. Procurement is required to operate in diverse areas such as: achieving operational efficiencies, cost savings, compliance targets, and upholding the reputational status of the organisation. Procurement functions in the banking industry have evolved beyond a tactical and operational role, but have yet to attain the recognition and status of fully-fledged strategic functions in their organisations.

Herein lies a conundrum for these departments: they recognise the importance of SCCR and aspire to champion the programme and harness its benefits. But, at the same time, they are required by their organisations to realise value in other areas. Hence, there may be a trade-off between the SSCR programme and these other priority areas, resulting in insufficient resources and attention being allocated to the SSCR programme, and in limited and slow implementation of SCCR programmes in these banks.

The *Big Five* banks in South Africa appear to be more advanced in their adoption of SCCR than the other, smaller locally and foreign-owned domestic banks that operate in this market. This may be due to the relatively larger procurement spend and resources that the *Big Five* banks have at their disposal, and may also be due to a more advanced approach to corporate responsibility from the *Big Five* banks.

It may further be speculated that the current slow pace of adoption of SCCR in the banking industry in South Africa could be accelerated either by a sudden and unanticipated reputational shock being suffered by the banking industry due to supply chain violations, or by the purchase of one or more of the *Big Five* banks by large,



foreign-owned institutions that transplants their own, more robust and sophisticated SCCR practices and models into South Africa. Regardless of who actually owns the banks operating in South Africa however, the extended adoption of SCCR in this industry does require focussed and consistent support and attention of leaders through-out in institutions, and in their supply chains. Solutions and practices unique to South Africa may be required, although examples of best-practice SCCR programmes and aspects could serve as useful points of departure and benchmarks.

- **Secondary Objective 2: Understand what the bank does in order to manage its SCCR programme**

Conclusions: SCCR programmes in South African banks are in their infancy. SCCR programmes have been adopted by these banks to a limited extent only. As such, there is a considerable opportunity to expand the sophistication, depth and rigour of SCCR programmes in the South African banking industry. Failure to do this may result in SCCR programmes delivering sub-optimal benefits.

Commentary on the conclusion: There is an aspiration-adoption gap, between what banks operating in South Africa aspire to do in terms of SCCR, and what they actually are doing. Although banks that have implemented SCCR programmes, have identified some of the potential points in their processes that SCCR touches, important and best-of-breed SCCR practices and aspects are not actioned in these institutions.

- **Secondary Objective 3: Understand how the bank deals with suppliers who do not comply with its SCCR standards**

Conclusion: Respondent banks believe that there should be consequences for habitually SCCR-non-compliant suppliers, including action taken by the bank against such suppliers.

Commentary on the conclusion: Respondent banks indicated that they are prepared to award less business to suppliers that are unwilling or unable to rectify their SCCR performance standards, and deflect this business towards SCCR-compliant suppliers.

- **Secondary Objective 4: Understand whether the bank has a demonstrated business case for its SCCR programme**

Conclusion: There is general agreement amongst the banks that SCCR programmes do deliver nett positive results. Thus, the business case for SCCR appears strong.

Commentary on the conclusion: It is unlikely that the respondent banks have attempted to quantify the nett value and costs of their SCCR programmes. The fact that, amongst the banks that have implemented SCCR programmes, 25 benefits were reported, and only 10 negatives reported, suggests that these banks are probably fairly immature in their adoption of their SCCR programmes, and as a result, have not yet identified or appreciated the challenges and risks that the SCCR programme may contain.

It is not yet conclusive whether the emergence of SCCR as a priority amongst banks operating in South Africa is due to the banks' desire to create business value, or whether due to a desire to conserve business value. In all likelihood, the compulsion to conserve business value may be the dominant driver for the adoption of SCCR in South African bank at this time.

#### **8.4. RECOMMENDATIONS FOR FURTHER RESEARCH**

During the course of conducting this study, various opportunities for additional research emerged, for which qualitative research methodologies could be used. These opportunities are:

- How SCCR has been adopted across the wider financial services sector in South Africa, that is, beyond the scope of banking.
- How SCCR has been adopted in other industries, outside of the financial services sector, both within and outside of South Africa.
- Longitudinal research could be conducted to record progress and results in the implementation of SCCR over time. The progress and experience in implementing SCCR could be compared against progress and experience in other areas of corporate responsibility such as corporate governance, corporate social investment, and Financial Sector Charter perspectives such as empowerment financing or human resources development.
- How the SCCR programme is experience and influenced by key personnel in the organisation outside of the procurement department.

- The extent to which SCCR is applied and practised in smaller organisations (both in terms of physical size, and size of procurement expenditure) across the formal and informal business sectors in South Africa. Also, the experience of SCCR in the not-for-profit, and the public sectors in South Africa.
- The perspectives of suppliers required to take part in SCCR programmes. This could include an assessment into how they have extended the programme in their own supply chains, and their view of the business case for SCCR.
- How the challenges and pitfalls presented by SCCR programmes are being addressed.
- The change dynamics associated with implementing SCCR programmes, including an assessment of steps and activities that result in successful and sustainable SCCR programmes.
- The viability of the business case for the SCCR programme, including an exploration and description of:
  - the results produced by the programme, including the degree to which the programme meets expectations, the evaluation of the results of the programme, and the manner and frequency in which programme results are reported;
  - the manner in which the results of the SCCR programme influences decisions to either continue the programme (either by sustaining or adapting it), or to discontinue the SCCR programme as a component of the wider corporate responsibility programme in the organisation.

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APPENDIX A

REQUEST FOR PARTICIPATION IN A RESEARCH STUDY

FACSIMILIE

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|                     |                      |
|---------------------|----------------------|
| To: (Name...)       | Bank: (Name...)      |
| Fax No: (Number...) | Date: (Date...)      |
| Pages: 5            | From: Keith Chadwick |

---

Dear (Name...):

I am currently a Masters in Commerce student studying at the Leadership Centre, at the University of Kwa-Zulu Natal in Durban.

I have been authorised by the university to conduct research into the extent to which corporate responsibility (alternatively, 'corporate social responsibility', the 'triple bottom line', and 'corporate citizenship') has been embraced in supply chain management functions in South African banks.

As a leader in supply chain issues in your bank, would you take a few minutes to share your perspectives on this issue by completing the attached questionnaire? The questionnaire should take you about 15 minutes to complete, and can be **faxed for attention of: Keith Chadwick on (011) 350 4734**.

Kindly indicate if you would you like to receive feedback on the overall results of this survey:

|      |                          |
|------|--------------------------|
| Yes? | <input type="checkbox"/> |
| No?  | <input type="checkbox"/> |

***Please be assured that the confidentiality of your response will be respected, and the anonymity of your bank and your personal identity are guaranteed. Neither you nor your bank will be named in the results of this research.***

---

**Background to this Research**

Broadly defined, 'supplier sustainability' in this questionnaire includes those strategies, policies and practices that responsible procuring organisations deploy in order to meet or exceed standards of economic, environmental, social, and corporate governance performance of suppliers in their supply chains.

This research seeks to assess the extent to which supplier sustainability has been embraced in various South African banks. It explores the priority of supplier sustainability relative to other issues in supply chain management, the way in which supplier sustainability is deployed in banks, and its overall impact on banks in South Africa.

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## APPENDIX B

### RESEARCH QUESTIONNAIRE

Question 0.

| <b>What is the approximate value of the bank's procurement spend?</b> | <b>Less than R100 million per annum</b> | <b>Between R100 million and R1 billion per annum</b> | <b>Between R1 billion and R5 billion per annum</b> | <b>More than R5 billion per annum</b> |
|---|---|--|--|---------------------------------------|
| In South Africa   |   |  |  |                                       |
| Outside of South Africa   |   |  |  |                                       |

Question 1.

| <b>What are the focus areas of procurement in the bank:</b>    | <i>Please tick the appropriate box or boxes</i> |
|--|---|
| Achieving operational efficiencies                             |   |
| Achieving cost savings   |   |
| Cross-functional coordination with other functions in the bank |   |
| Talent management  |   |
| Digitisation of procurement/ information management            |   |
| Performance measurement and management                         |   |
| Business process outsourcing                                   |   |
| Compliance with Financial Services Charter targets             |   |
| Elevating the profile and status of procurement in the bank    |   |
| Others, please specify   |   |

Question 2.

| <b>In comparison to other areas of focus in procurement in the bank, is supplier sustainability:</b> | <i>Please tick the appropriate box</i> |
|--|--|
| Not a current priority   |  |
| A low priority   |  |
| A moderately important priority  |  |
| A highly important priority  |  |

Question 3.

| <b>Does the bank have a guiding corporate social responsibility policy, that includes the requirement for managing supplier sustainability:</b> | <i>Please tick the appropriate box</i> |
|---|--|
| Yes   |  |
| No  |  |

If you ticked **No** in Question 3, please **proceed to Question 15**.

If you ticked **Yes** in Question 3, please **continue to answer the following questions**.

Question 4.

|  |  |
|--|--|
| <b>If the bank does manage supplier sustainability, who assumes overall responsibility for it in the bank:</b> | <i>Please tick the appropriate box</i> |
| It is managed and reported on exclusively by the procurement department  |  |
| It is managed and reported on jointly by the procurement department, together with other functions in the bank |  |
| It is managed and reported on exclusively by other functions in the bank                                       |  |

Question 5.

|   |  |
|---|--|
| <b>Does the bank have policies and/ or procedures for managing supplier sustainability?</b> | <i>Please tick the appropriate box</i> |
| Yes   |  |
| No  |  |

Question 6.

|  |  |
|--|--|
| <b>At what 'level' does the bank deploy its supplier sustainability programme:</b>   | <i>Please tick the appropriate box</i> |
| At a 'high level': for example, specifying the overall supplier environmental, social, economic, and corporate governance standards  |  |
| At a 'detailed level': for example, specifying supplier sustainability dimensions and indicators, compliance standards, actions required to demonstrate supplier compliance, compliance targets required and actual scores achieved, and confirming remedial actions if required |  |

Question 7.

|   |   |
|---|---|
| <b>Which stage/s of the procurement cycle would the supplier sustainability programme impact:</b> | <i>Please tick the appropriate box or boxes</i> |
| Accreditation and re-accreditation of suppliers   |   |
| Tendering   |   |
| Due diligence and contract negotiation  |   |
| Contract review and contract extension  |   |
| Others, please specify  |   |

Question 8.

|  |   |
|--|---|
| <b>How does the bank identify suppliers for inclusion in the bank's supplier sustainability programme:</b> | <i>Please tick the appropriate box/ boxes</i> |
| All suppliers are included in the programme  |   |
| Only the largest spend suppliers are included in the programme   |   |
| Only suppliers with high sustainability risks are included in the programme                                |   |
| Only large spend suppliers with high sustainability risks are included in the programme                    |   |
| There is no formalised process for identifying suppliers for inclusion in the programme                    |   |
| Others, please specify   |   |

Question 9.

|   |  |
|---|--|
| <b>Does the bank distribute a 'code of conduct' to suppliers included in the supplier sustainability programme:</b> | <i>Please tick the appropriate box</i> |
| Yes   |  |
| No  |  |

Question 10.

|  |   |
|--|---|
| <b>Who audits and verifies the accuracy and completeness of suppliers' sustainability reporting:</b> | <i>Please tick the appropriate box or boxes</i> |
| The supplier's personnel   |   |
| The bank's own personnel   |   |
| An independent auditor   |   |
| Another independent third-party (such as an NGO, a government department, etc)                       |   |
| A combination of some or all of the above  |   |
| No audit is conducted on suppliers' sustainability reporting   |   |

Question 11.

|  |   |
|--|---|
| <b>How does the bank deal with suppliers who do not comply with its sustainability requirements:</b> | <i>Please tick the appropriate box or boxes</i> |
| The contract with the supplier is terminated   |   |
| Less business is awarded to the supplier, and is placed on another supplier who is compliant         |   |
| No specific action is taken  |   |
| Others, please specify   |   |

Question 12.

|  |   |
|--|---|
| <b>What benefits has the bank realised by managing supplier sustainability:</b>  | <i>Please tick the appropriate box or boxes</i> |
| It has contributed to the bank's compliance with legislative requirements  |   |
| It has contributed to the bank's compliance with voluntary reporting requirements (such as: the FSC, King II, and JSE SRI)           |   |
| It has assisted in the development of certain suppliers  |   |
| It has opened channels of communication with other functions in the bank which might not have otherwise have existed                 |   |
| It has assisted in reducing risks in supplier selection and retention, and has assisted in ensuring continuity of strategic supplies |   |
| It has assisted in building relationships with certain suppliers   |   |
| It has assisted in making the bank a more attractive customer for suppliers to deal with   |   |
| It has assisted in making the bank more attractive to current and prospective employees  |   |
| It has assisted in making the organisation less vulnerable to unethical supplier conduct and practices such as fraud or bribery      |   |
| It has been used as a means by which to competitively differentiate the bank from other banks  |   |
| It has contributed to the overall positive image and reputation of the bank  |   |
| Others, please specify   |   |

Question 13.

| <b>What issues, risks or costs have emerged in addressing supplier sustainability:</b>  | <i>Please tick the appropriate box or boxes</i> |
|---|---|
| Lack of ongoing support for supplier sustainability from elsewhere in the bank  |   |
| It detracts the focus from other, higher priority focus areas in the bank   |   |
| There has been resistance from suppliers against the bank's supplier sustainability programme   |   |
| It introduces unfair barriers to entry for new suppliers trying to supply to the bank   |   |
| Suppliers have faced commercial loss or even economic demise as a result of implementing sustainability activities  |   |
| It is difficult to elicit timely, comprehensive or accurate reports from suppliers on their sustainability performance  |   |
| Difficulty in agreeing acceptable sustainability standards and targets with suppliers   |   |
| Difficulty in segmenting suppliers according to their sustainability risk profile   |   |
| Lack of suitably qualified or skilled procurement and supply chain staff  |   |
| Difficulty in assessing and managing supplier sustainability risk throughout the length of the supply chain   |   |
| Concern that some suppliers are competitive in some aspects (for example: price, quality, strength of relationship with the bank, etc) but do not comply with sustainability requirements |   |
| The cost that suppliers incur in complying with sustainability requirements, is passed onto the bank  |   |
| Others, please specify  |   |

Question 14.

| <b>Overall, do the benefits that have been realised from the bank's supplier sustainability programme outweigh the issues, risks or costs:</b> | <i>Please tick the appropriate box</i> |
|--|--|
| Yes  |  |
| No   |  |

Question 15.

| <b>If the bank does <u>not</u> currently manage supplier sustainability, is it likely to do so at some time in the future:</b> | <i>Please tick the appropriate box</i> |
|--|--|
| Yes  |  |
| No   |  |
| Not applicable: the bank already manages supplier sustainability   |  |

**Are there any other comments you would like to offer?**

**Thank you for your valued participation in this questionnaire!**