

Key Words :- Purchasings and Supply Chain, Stakeholders, Ethics

How do current purchasing and supply chain methods in large international companies affect stakeholders? Research to investigate the effect of purchasing and supply trends and practises on people and the planet. The analysis contrasts Stakeholder and Green Economics approaches and takes an holistic perspective.

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Summary

The objective of the study is to investigate how current procurement, practices and structure affect a range of stakeholders. The research questions who are the relevant stakeholders and then analyses methods, tools and data to explain the effects of the practises on the stakeholders as defined by the study and the literature. The hypothesis examined by the study is that current procurement methods contribute to globalisation and have a detrimental effect on some stakeholders. The UK Chartered Institute of Purchasing and Supply is currently focusing on Corporate Social Responsibility and the study goes further to examine the duties of the procurement specialist as agent and the effects on and rights of stakeholders who have no direct contract with the company. The scope is global and international companies with branches or headquarters in Europe.

The initial findings of this study, which should be regarded as work in progress are that two parallel developments are distinguishable at the supply chain level. The first, which is accelerating the contraction of the supply chain and its transaction costs and its practise can more correctly be called sourcing. It involves outsourcing, off- shoring and reduction supplier base, transparency, market opportunity for smaller and more diverse players and even to dump any kind of social or environmental responsibility. The second, on the other hand is working in the opposite direction: this impetus is seeking to “green” the supply chain, to avoid child labour, to implement corporate social responsibility, democracy, accountability and diversity within the supply chain. Both are pulling in almost exactly the opposite direction and for the study the findings are indicating that this fissure follows the fault line of the discourses of Green economics and of stakeholder theory and Corporate Social Responsibility. This division also is reflected in some of the socially responsible investment practical dilemmas and the sustainable development literature where a managerial approach towards the environment for the benefit of business and “business as usual” by means of more development is contrasted with the alternative

approaches for managing/containing business for the benefit of the environment and people in order to “meet people’s needs” as the priority.

Introduction

Purchasing is “obtaining from external sources all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company’s primary and support activities at the most favourable conditions.” (Van Weele 2000 p.14 in Day 2003p. 2). It has been argued that today “Competition takes place between Supply Chains rather than between individual companies.” (Giannakis, Croom and Slack. 2005). Understanding the stakeholder effects of the supply chain resulting from Procurement decisions is an area which has been little researched. Current trends in business include outsourcing, off shoring and integration of the whole supply chain –often into one management consultancy with a diminishing level of accountability and transparency where the opportunity to bid for work or for open competition is lost before the project is even dreamt up. This process tends to favour larger companies, a smaller supplier base and companies that are already vertically integrated to provide all the services required in one complete supply chain. It also favours global players who already have a presence in each of the markets required. However the effects of the trends and methods which the literature describes is an area hitherto very little unexplored. The effects on a wide variety of stakeholders is an interesting and important area. The definition of stakeholder is the subject of debate ranging from narrow descriptions such as primary stakeholders of a transaction who can be described as the people signing a contract, to much wider interpretations for example, in the case of an oil company, the entire people and planet and atmosphere can be affected. The analysis investigates different perspectives in stakeholder analysis, from stakeholder theory to green economics analysis and compares and contrasts the different methodologies as tools for explaining the effects of procurement on stakeholders. The hypothesis examined by the study is that current procurement methods contribute to globalisation and have a detrimental effect on some stakeholders. If some stakeholders are not benefiting from procurement activities then perhaps changes ought to be made. Procurement is a significant and useful area to investigate because it is spreading globalisation fast and as “No-one is better poised to look across the landscape within our own company silos and those of suppliers, than the externally placed procurement department which already deals with suppliers”. (Duffy 2004). A complete stakeholder review of procurement effects is needed to cover a multidisciplinary and holistic approach to emerging trends. The profile of the procurement department has been rising over the last 5 years with salaries now equalling or exceeding other disciplines and it is becoming much more of a graduate occupation with the maturity of the CIPS Institute in the UK.

Background

“In 1999 some 2.8 billion people – two fifths of the people on the planet were living on less than \$2 a day which the United Nations and the World Bank say is the minimum for basic needs”(Worldwatch institute report 2004.) Roughly 1 billion people were living in extreme poverty. For people to enter the consumer

class they need \$7000 of Purchasing Power Parity, the official poverty line in Western Europe . Additionally Sub Saharan Africa in 2001 was 20% worse off than 20 years earlier. The consumer class in most of those countries is less than half of the population. The UN food and agriculture organisation reports that 825 million people are still undernourished in the face of record supplies of food.”(Gardener, Assadourian, Sarin.2004)This shows that globalisation is not meeting most peoples’ needs on the planet and some of these people, it could be argued, even all of them, are stakeholders in today’s global companies. What is the impact of procurement and supply chain management and how can it improve this situation?

Main Hypothesis

The hypothesis is that some of the new techniques and developments are not beneficial to a range of stakeholders.

Aims of the study

The main aim is to analyse how current procurement and supply chain practises in international companies affect stakeholders:-This will include:- Investigating what current procurement methods are, with particular emphasis on outsourcing, supplier base reduction, savings and supplier-buyer relationships: Defining, according to the literature, who or what these stakeholders are: Determining a way of investigating the effects of these methods on the stakeholders identified, (perhaps by using the Green economics literature-) and using depth, qualitative, face to face interviews: Considering how these methods affect stakeholders: Analysing how current practises are placed in the international trade literature: Suggesting other /future procurement developments which might be more beneficial and have better outcomes for more stakeholders and investigate best practise and new initiatives: Understanding in more detail how purchasing is affected by, affects and is related to stakeholder theory, Corporate social responsibility, ethics, corporate reporting and accountability and how they interact. Examining the rights and duties of purchasing professionals as agents and of the widest group of stakeholders.

The literature areas which inform the study.

The procurement literature is used in the study to inform and describe current developments in the field. Issues such as single sourcing, supply chain integration, reduction in the supplier base are documented in the procurement literature often in an uncritical manner. Off shoring and outsourcing as logical outcomes in the development of these trends are much more critically assessed but often from the perspective of the effect on business in more developed countries, not on the secondary stakeholders or society as a whole.

This study takes a holistic approach arguing that only a multidisciplinary approach can interpret the complexity of the mix between natural science issues such as environmental concerns and social science issues such as equity, poverty environmental and social justice issues such as the human effects of outsourcing and off shoring. Holistic volumes are examined as well as the stakeholder literature and in particular the work of Miles and Freeman (2005) in examining

the range of different normative stakeholder perspectives. The nascent Green economics literature Scott Cato and Kennet (1998) is assessed which deals with this topic in a holistic fashion and attempts to describe and define the complexity of the interplay between the mix of forces which effect stakeholders. The clearest description of stakeholder issues is provided by Maria Mies in her Iceberg Model of Unsustainable development. (Mies p.50 In Kennet 1998).

Arguments about the relative importance of the power relationships of a firm and the political economy and trading environment in which it operates, either bourgeois or Marxist are useful. However, the present study is set in the context of newer, more far reaching political thinking and uses Green theories which do not analyse on that continuum. Marx does not even consider the work of women, half the world's population and therefore whilst agreeing with the assertion that the political economy matters, this research will build on a different analytical framework. His analysis of work and its relationship to nature is useful but the Green economics perspective as introduced by Mies, (1998) shows that people are part of nature themselves, and as such impacts on nature have effects on people. This is illustrated by water pollution impacts, if the polluted water enters someone's body. In this methodology, people are described as part of nature, and nature is described as having a wider value than just providing resources for business.

Indeed this part of the literature is increasingly being sought by practitioners and academics in the procurement field in order to inform such questions as supplier diversity and the role of procurement in supply chain design in both the private and public sectors. The study investigates the view that the stakeholder literature provides a perspective of stakeholder issues from the viewpoint of the firm towards its stakeholders and the Green economics literature searches for the view from the other direction, that of the stakeholders looking towards the firm and its effects.

**To investigate what current procurement methods are -
Reduction in size of supplier base and resultant lack of transparency-
competition and choice.**

The other factor which is important is the drive to reduce the size of the supplier base. (Schorr 1998). This favours larger suppliers over smaller local ones. It also therefore affects local economies and favours monopolies and an integrated supply chain. The implications for the stakeholders are enormous. The traditional composite High Street full of local shops is relegated to a Ghost Town. One possible finding from the literature is that this issue impacts stakeholders adversely but has been little documented in the literature. It is argued that this process leads to favouring of larger suppliers who reflect the size of the largest giants and they then supply up and down the supply chain- firms such as Accenture, Cap Gemini and IBM are typical of this. One of the dangers is that they are called in initially to advise for example on a choice of IT application and end up staying in a firm and supplying the IT and all the management systems over perhaps a six year project outsourcing period. Even for very large projects, the bidding opportunities are lost, as these firms tend to trade with a small number of "partners" who have bid into them previously for a period often of several years

of partnership business. Thus the accountability and market choice usually available through the bid process is lost.

Single sourcing

Schorr (1999) argues that in practise having only one supplier for each commodity can lead to a good relationship, good prices and quality. He argues that even multiple suppliers won't provide that unless they think they will get the business. The latest concept is for formal supplier partnerships with single sources. Xerox reduced its supply base from 5,000 to 300 over 2 years. (Schorr 2003). Advantages claimed are volume, supplier performance, training load, synchronised schedules, communications, problem solving, product development and buyer benefits. New relationship patterns and partnerships are emerging which may be more responsive to stakeholder needs. There can be freedom of information flow, teamwork of committed parties coaching and mentoring can be done by a larger organisation. This relationship can begin with an overall reduction of the supplier base. The selection of suitable companies then is compromised as it is likely that only larger companies will have gone through an approval process- such as ISO14001.

Outsourcing

Outsourcing is an ancient practise, indeed the feoderatti employed to protect Rome from Barbarian invasions are an early example of disastrous outsourcing which does not always benefit the most powerful player. Prahalad and Hamel (1990) defined core competence as the "collective learning in an organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies." It is a terrible mistake to outsource core competence as it can be lost forever. (Monzanka, Trent and Handfield 2002). Outsourcing can lead to the business becoming obsolete, loss of control, monitor and regulate quality. Key skills can be lost and these can go to lower cost suppliers as global competitors and this is referred to as hollowing out of organisations. (p.214. Monzanka Trent and Handfield 2002). CISCO outsources production and sometimes no CISCO employee ever touches the goods and savings are between \$500 m and \$800m. However in some situations this can lead to firms getting out of touch with production issues. However it is a popular practise. Outsourcing in cheaper labour markets has boosted Clarks profits by 16%. This rise was on a 1 % higher turn over as "manufacturing has moved to the Far East, India, Brazil and Romania where labour costs are lower. Interestingly Clarks won an award for most improved purchasing operations for efficiency savings on its non footwear purchasing budget (Golder 2004).. However one of the main ethical challenges is maintenance of labour conditions that are legal and acceptable to Western customers- or how to maintain the same conditions worldwide. The "sweatshop" issue includes- Haitian workers earning 6 cents for every 101 Dalmations costume that retails for Disney at \$20. (Mellani and Wood 2003).

Savings

The emphasis on savings leads to lack of visibility of other imperatives. Netsave and other application tools have made savings easier to administer but can lead to a department that knows the price of everything but the value of nothing. Costs deflected from procurement can turn up somewhere else in the supply chain or at the cost of quality and only total cost of ownership assessment can get round this. Arminas (2004) argues that a saving is something that is difficult to define. Is it a saving against what would have been spent- had procurement not got involved? In Government terms it is to improve value for money for the taxpayer. However in companies it can be difficult to define or prove. The Netsave application is an example where savings and potential are analysed in detail to be audited. "four ways are suggested that savings can be achieved- by means of direct negotiation with suppliers, for lowering prices, and avoid costs such as maintenance, also departments can buy jointly for better volume deals, improved project contract and asset management can reduce life time operating costs, and more efficient processing of work and transactions can free up peoples time. Around 60 % of savings come from direct negotiation. In the private sector there is even greater emphasis on hard cash savings in terms of lower prices. This has to be proved by invoices, different prices at different stages of negotiation and tenders submitted and costs in contract management if its been outsourced. These savings are now audited in many companies and so have to be justified and signed off by CEOs. (Arminas 2004)

Centralisation and Decentralisation

The introduction of the Oracle procurement system has meant that departments can negotiate global contracts which can be applied at local and regional level but modern practise in order to eliminate fraud means that procurement does not always buy anymore. The regulation of practise in the firm and signing and preparing legal contracts and commercial conditions is much more the kind of role that procurement increasingly plays. However larger contracts are generally handled globally by the department but more as part of big projects. The overall relationship management of global strategic and partnership suppliers is also run from the global procurement department. However the problem is that the global department often has no visibility of what local procurement is doing until the purchase order arrives for approval in the Oracle system and likewise the local affects on stakeholders are not recorded at all on Oracle. However what does occur is that economies of scale are more easily captured and activities are more easily standardised. This may result in the exclusion, where feasible of local or niche suppliers who can't meet global procurement requirements. This means only multinational suppliers and bigger corporations can meet the requirements and the others get squeezed out. Disadvantages cited by Lamming (2003 in Day.p.12)include Resentment in the regions, bucking the system, missed opportunities, overweight overheads and slow response which has turned into a serious problem for many procurement departments. Advantages include that a "powerful central purchasing office specifies and buys on behalf of the divisions."

Who are procurement's stakeholders ? The stakeholder debate

A useful definition of a stakeholder is proposed by Freeman (1984) "A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation's objectives." More recently notions of accountability are regarded as important. (Mellahi and Wood 2003) Freeman (1984) distinguished between primary and secondary stakeholders, the latter group he described as not involved in transactions with the corporation and not dependent on it, but they were capable of inflicting significant damage if they wanted to. CIPS, the procurement institute describes Internal and External stakeholders in its training literature which must surely shape purchasing's view of stakeholders to some extent, and defines internal as employees, customers, shareholders and the general public. (Clark and Bradley 2001). Stakeholder agency theory argues that the manager or in this case the procurement practitioner is in a unique position as being the centre of a nexus of contracts and are the only group to enter into contractual relationships with all the other stakeholders and have direct control over decision making. (Hill and Jones 1992). They are therefore the agents of the other stakeholders, hence the term Agency Theory.

Business is beginning to seek out specific tools to help with accountability measuring, environmental assessment as well as needing to understand social impact. Civil society is also exerting greater pressure for international business to respect a much wider group of stakeholders, whose definition would appear to be almost boundless, including anyone up to the seventh generation and anyone or anything on the Planet who may be impacted by a firm's activities. An international firm has a ripple effect far greater than the immediate and obvious results of its daily-intended activities (Capra 2002), affecting people not even directly in contact with it at all. Somewhere between these two goals there needs to be a workable definition of stakeholders which firms can use to measure impact and implement change. Stakeholder analysis can be a useful tool to assess the effects of international trade in a variety of situations.

Bowie (2002) for example contends that when a business cares about the well being of its other constituencies, it earns trust and co-operation that ultimately reduce costs and increase productivity. However the study will attempt to test this hypothesis. CSR is less precise in its identification of who should do what in an organisation. It may not be a concept which applies universally as ethical perspectives are very culturally determined. Indeed the whole concept of CSR is a culturally loaded concept and global trading is fraught with ethical dilemmas and cultural relativism but concepts of "fairness" are viewed differently in different cultural settings.

Methodology

The research is still at the work in progress stage. Stakeholder theory is interpreted on a broadened continuum to include human, quality of life indicators and non human and eco system issues and the present study will employ a green

economic analysis. Reviews of procurement and stakeholder literature will form the foundation of the study. Additionally to literature information will be information from 25 years of procurement experience on the part of the author, and also empirical examples of the effects on current procurement methods have on the stakeholders affected, mentioned in the literature together with perspectives offered in qualitative interviews. The study will therefore consist of literature reviews followed by a series of qualitative interviews with practitioners and other stakeholders, the choice of which is informed by the literature. The clearest description of stakeholder issues is provided by Maria Mies in her Iceberg Model of Unsustainable development. (Mies p.50 In Kennet 1998).

A pilot study is being planned for the summer. Interviews will be with practitioners and suppliers identified by the main Purchasing Institutes' literature EIPM and CIPS and ISM. and representatives from the stakeholder community :- Managing Directors, NGOs such as WWF, FOE and Amnesty as well as observers and writers and activists identified in the literature. They are likely to cover the following issues:- core competencies, off shoring, vendor management, single sourcing, sole supplier, reduction in supplier base, savings measurement, benchmarking, activity based costing, outsourcing ,introduction of global applications such as Oracle, centralisation, decentralisation, partnerships, strategic procurement, commodity management, commodity management, cross deals, economies of scale, better cash terms-cash releasing savings price avoidance, reduced prices, cradle to grave involvement- procurement procedures – or guidelines, barter. The questions will be adapted for each circumstance but within a carefully constructed framework according to research methodology literature in order to eliminate bias. The aim will be to try to obtain a broad cross section of experience of procurement and supply chain stakeholding.

The interview section of the methodology is planned to be done in matched pairs of companies, some more advanced on a route to stakeholder considerations and another similar one which is less ambitious in this area. There will also be some case studies and vignettes of companies within which more than one interview will be carried out.

Conclusions and recommendations

In meeting the overall needs of stakeholders, it is argued that procurement is an increasingly influential area of decision making. Its role in the globalisation process has not been fully researched or described in the literature but it is clearly one of the most externally focused departments which is likely to affect stakeholders as much, if not more than any other. If certain stakeholders are suffering as a result then new perspectives and models of procurement methods need to be developed which have a completely different focus and aim. Instead of looking at the effect on the firms' immediate stakeholders, the models need to look at more beneficial outcomes for a much wider set of stakeholders and procurement practise needs to change accordingly. If measurement of success of procurement processes has become very cost based to the detriment of total outcome, then the measurements of success for procurement need to be remodelled urgently in the literature. It may be that it is possible to find a

connection between current purchasing practises (such as the reduction in the supplier base and resultant lack of accountability and the new emphasis on savings) and the creation of the situation which indirectly has contributed to the situation where Africa is getting poorer compared to twenty years ago. (Worldwatch Institute Report 2004). If so then the study could recommend further investigation of means of remedy and suggestions for a change in practises in order to improve this situation.

The initial findings of this study, which should be regarded as work in progress are that two parallel developments are distinguishable at the supply chain level. The first, which is accelerating the contraction of the supply chain and its transaction costs and its practise can more correctly be called sourcing. It involves outsourcing, off-shoring and reduction supplier base, transparency, market opportunity for smaller and more diverse players and even to dump any kind of social or environmental responsibility. The second, on the other hand is working in the opposite direction: this impetus is seeking to “green” the supply chain, to avoid child labour, to implement corporate social responsibility, democracy, accountability and diversity within the supply chain.

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