

# A question of image

Honesty and scrutiny are the new watchwords for organisations that want to avoid scandals and protests about their supply chains. Malcolm Wheatley reports

**As they prepared for their shareholders' annual general meeting on 18 June, Tesco's directors and top executives would have braced themselves for another barrage of bad publicity. Not to do with the results, of course: another record year had seen the retail giant's profits reach \$1.6 billion. Instead, their concerns centered on accusations about how it made those profits.**

The pattern, explains Tesco spokesman Steve Gracey, has become wearily familiar: Environmental and farming pressure groups have become adroit at using the publicity surrounding the meeting to generate publicity for their campaigns; barracking shareholders outside the meeting, issuing reports and press releases leveling accusations against the company, and taking a nominal shareholding in Tesco to directly challenge management from the floor, as is every shareholder's legal right.

Sure enough, even as chief executive Terry Leahy was forced to deny complaints that Tesco was harming British farmers - stressing the company bought locally wherever possible, and welcoming a strong and viable farming sector - Friends of the Earth (FoE) was distributing a briefing to MPs, entitled Every little hurts: why Tesco needs to be tamed.

It's every purchasing director's nightmare. Determined to obtain the best possible deal, his or her eager buyers cross some invisible boundary, and in the process attract the wrath of special interest groups.

And once they are aroused, as Tesco knows to its cost, the prospects for subsequent pacification are problematic.

"Consumers are becoming more and more aware of the ethical issues that lie behind the products they buy," says Shahr Silbershatz at London-based Karakter, a brand consultancy. "Awareness leads to concern, and animal rights groups, environmental groups and human rights organisations then feed that awareness."

Just ask sports shoe manufacturer Nike, which found itself in deep trouble in the 1990s as wealthy western consumers suddenly found themselves face to face with the pay packets and working conditions of the people on the other side of the world who made the shoes that they wore. Although beyond reproach now, Nike has become notorious as a case study of how not to handle such concerns.

Its big mistake? Lashing out at critics, and denying the truth. You have to be honest, stresses Silbershatz. Don't sweep it under the carpet and don't take out advertisements issuing denials if those advertisements aren't founded in fact. Nike did and promptly found itself with a lawsuit alleging that it was lying.

So what exactly should a company do? In essence, says Martin Le Jeune, head of corporate responsibility at communications agency Fishburn Hedges, companies need to follow a three-point plan. First, decide what standards they want to apply: how environmentally friendly do they want to be and what employment standards should apply? Second, they need to be able to demonstrate - either through periodic audit or sampling - that these specified standards apply in practice. And third, they need to be able to demonstrate that when breaches of these standards occur, the company then takes action to put things right and does not just sweep the problem under the carpet.

For the procurement function, the trickiest issue is the first: deciding what standards will apply. Applying western standards willy-nilly won't work, warns Le Jeune. Dollar or pound-based comparisons are rubbish, he says. You can't simplistically apply western standards in terms of wage levels or working conditions.

So what standards do you apply? For many purchasers, the question comprises an ethical bridge too far. It isn't reasonable to expect the procurement profession to set a strategic direction, says Peter Smith, a past president of CIPS and director of the Procurement Excellence consultancy.

"We're stakeholders and have a role to play in the decisions, but it's not the job of the procurement director to pay 20 per cent over the odds just because he or she feels that it's more ethical."

Fashion chain Next, which is highly regarded in the area of ethical procurement, has dealt with the problem by involving Oxifam, says Next spokeswoman Christine Gerrard. The standards set down in Next's code of conduct have been reached after consultation with Oxifam, she explains, and the charity also audits compliance with them on behalf of the company. The programme is administered by Sarah Noble, Next's global code and practice manager.

It's also important that standards have teeth, adds Jon White, an independent consultant who teaches corporate social responsibility at Henley Management College. Everyone in the organisation and the supplier base needs to be aware of the standards that are required, he says. But just as importantly, they need to know there will be consequences for breaking them.

# A question of image

Honesty and scrutiny are the new watchwords for organisations that want to avoid scandals and protests about their supply chains. Malcolm Wheatley reports

Consequently, at Pentland Group, which operates a number of sports, leisure and outdoor brands such as Berghaus, Ellesse, Lacoste and Speedo, ensuring compliance with ethical standards doesn't just reside with auditors, says group supply chain executive Kevin Smith.

"We don't just hand suppliers lists of things to do and then pass the task over to third parties to check that people are doing what they are supposed to," he says.

"As well as working with a number of relevant non-governmental organisations, the purchasing function is also in on the act. The people who go into the factories know that they should ask questions if they see something that doesn't look right", he adds.

## Repeated attacks

It's a lesson that maybe Tesco should absorb. Year after year, the attacks on its purchasing record continue. Why? One clue comes from the way in which Tesco breaches one aspect of our experts' advice: transparency. White warns: Where companies often fall down is that they make statements about how responsible they are, and then when they are accused of not following them, just obscure the inquiry. To which Karaker's Shahar Silbershatz adds: Be honest, admit mistakes and say you're working to improve things.

Steve Gracey insists: Tesco is a responsible company with a good track record in bringing jobs, housing and benefits to local communities. What's more, he adds, the company has written to FoE rebutting every charge.

But faced with the activists' detailed charges, backed, it seems, by reams of evidence, what evidence could Tesco proffer in its defence? A good question. Repeated requests, over a period of weeks, brought silence. "Discussing the claims gives oxygen to the activists' cause," sniffs Tesco's press office.

But being open, honest and ethical - and being able to prove that you are - brings new customers through the doors. Just ask the Co-operative Bank, where one estimate has put roughly 50 per cent of the bank's new business down to its well-publicised ethical stance.

Or Nike, now on a roll, thanks in part to an in-house staff of 97 people who have audited 600 factories in the past two years.

"You haven't heard about us recently because we've had our head down doing it right," Maria Eitel, Nike vice-president for corporate responsibility, said recently.

Tesco may be 100 per cent above board. Thousands of loyal Tesco customers certainly hope so. But knowing would be better than hoping. Is that so difficult?

*Malcolm Wheatley is a freelance business journalist*

*Taken from Supply Management archived article Features, 21 October 2004*