

Report

Stakeholder dialogue, supplier code of conduct, 8 June 2009, KPN, The Hague

On Monday 8 June 2009 KPN, in collaboration with the VBDO (a Dutch organization whose initials stand for the Foundation for Sustainable Business Investment) organized a stakeholder dialogue. The meeting's main theme was the supplier code of conduct that KPN launched in September 2008. KPN asked 86 of its most important suppliers to sign the code of conduct. KPN is fully aware that drawing up a code of conduct and having it signed by suppliers can only be the first step towards a thorough supplier policy based on sustainable supply chain management. For this reason a select number of outside experts and a number of KPN employees who have a lot of contact with suppliers because of their positions within the organization were invited to this meeting. Together they reviewed the quality of the supplier policy and the measures that should be taken to improve the supplier code's current make-up and method of working.

The program consisted of a number of short presentations, followed by two workshop sessions. KPN Chief Procurement Officer Joost Peerdeman explained the significance of a supplier code of conduct and why KPN wished to discuss this with its stakeholders. Implementation of the code was a good step but it had nevertheless thrown up a number of questions and dilemmas. Whether the code was of sufficient quality, whether a standardized code could take proper account of the complexity of the value chain, how tier 2 and tier 3 suppliers could be reached and what was the right approach in respect of suppliers who, for various reasons, refused to sign? These are all dilemmas to which KPN does not yet have an immediate response.

VBDO director Giuseppe van de Helm acted as the facilitator for the day. After a general introduction by the VBDO and an explanation of the importance of a sustainable supply chain he introduced Ernst van Weperen. As a former researcher and analyst working for the VBDO he had developed a benchmark three years ago to measure corporate performance in the area of supply chain management. Key features of the benchmark are the generic nature of the methodology and the fact that the analysis is performed using sources available to the public. This benchmark was used to assess KPN for the years 2007 and 2008 and, moreover, a number of steps were suggested that would help KPN improve its performance. KPN turned in a very weak performance in 2007, scoring 15% and ranking number 20 out of a field of 35. The assessment to be carried out for 2008 will yield a significantly better score. The most important reasons why the score had improved were the implementation of the supplier code of conduct and the fact that it was signed by 86 of KPN's most important suppliers. Nevertheless a very wide gamut of improvements remains possible. In general transparency can be improved (an overview of when KPN began, where it stands now and where it wants to be in one year's time and in five years' time) and the web site can be used more actively (what am I likely to be held to as a future supplier? What criteria do I have to meet?).

With respect to content, there is a lack of, amongst other things, a sustainable policy for identifying suppliers at risk, properly detailed plans for auditing suppliers at risk and a plan for remedying any deviations that may have been discovered.

The last speaker to address the plenary session of the program was Jan Roodenburg, Senior Vice-President Supply Chain Management at Philips. Philips is generally considered a leader in the area of supply chain management. Mr. Roodenburg's presentation certainly supported that presumption. His presentation showed the very professional, comprehensive and detailed approach Philips had taken to the steps in its supplier policy. These are steps that either have only just been put in place or are still missing in KPN's supplier policy. He did concede that Philips, despite its lead position in terms of implementation, could nevertheless borrow a leaf from KPN's book when it came to stakeholder dialogues. He also encouraged KPN to become a member of EICC, the Electronic Industry Citizen Coalition, a global initiative of ICT industry leaders that work together to improve the efficiency and social responsibility of global supply chains. He put forward an interesting closing

argument in favor of using third parties to carry out audits. The use of external auditors means that an auditors' report of a supplier at risk does not come out bearing the Philips name. If abuses were found while a previous 'Philips' report had approved the supplier, this could lead to issues of liability.

Attendees were divided into three groups for the two workshop sessions so that each could review independently the content and the effective implementation of the supplier code. This led to three main conclusions that were then reviewed by the entire group.

Conclusion 1. First target suppliers at risk

KPN is at its most effective when targeting its suppliers at risk. The definition of when a supplier is at risk depends on the criteria the company sets, if desired after consultation with its stakeholders. These can be financial criteria (for example purchases exceeding EUR 100,000), social criteria (country of origin) or environmental criteria (level CO₂ emissions).

Conclusion 2. Use standards

A second theme that came back in all the workshops was standardization in terms of the supplier code of conduct as well as in terms of audits. Must a supplier code of conduct be completely standardized or, given its unique nature, must each company have its own code of conduct? An important argument in favor of standardization is that the norms underpinning the code are set down globally or in any case are applicable to the country where the head office is located. Moreover standardization will counter audit fatigue and will enhance the efficiency of the audit process. A major argument against standardization is the often modest level of ambition. For example, the EICC's ambitions, especially in the eyes of the outside participants attending the meeting, are not ambitious enough. Philips solved this by taking the EICC as the basis and then by supplementing that basis with additional criteria to achieve its own level of ambition.

Conclusion 3. Audit

Ensure that supply chain management moves from theory to reality by setting up an audit structure.

- draw up an audit document to go with the code of conduct
- be transparent about the audit process towards suppliers
- add the right to perform an audit to your conditions of purchase

Conclusion 4. Bid goodbye to a supplier or invest in his improvement?

A third subject to come under discussion was the steps to be taken subsequent to a negative audit. How should a company tackle this? The consensus in the group went in the direction of an initial investment in a thorough remediation plan. Only if it became apparent after an agreed time frame that there had been no improvements and that intentions in that direction were missing as well should the contract be terminated. Jan Roodenburg explained that Philips would try to approach suppliers prior to the audit to form an estimate of the likely audit results, that it would look for ways to remedy possible problems and that it would make certain that a project manager was assigned to the supplier to remedy the issues. A precondition for these measures was that it had to be a major supplier. In addition, he argued that you had to avoid suffering economic damage as a company as a result of breach of contract and that it was key to draw up a contingency plan.

A key initial principle in terms of the remediation plan was that your company should first target the suppliers whose issues were the most pressing but also those suppliers where the company (in relative terms) had the greatest influence. Viewed from the company's point of view, the counter argument was that you would have to ask yourself the question whether the company had to make enormous efforts to pull a supplier out of the mess when it is one of many. The attendees tended to answer this question in the negative.

KPN was given a number of useful suggestions directly concerning the role of audits and the identification of suppliers at risk. Identification of countries at risk could be enhanced by resourcing external independent agencies such as Maplecroft.

At the end of the session each participant was asked to explain what his or her experience had been. All participants rated this a positive meeting where they had learned much. It had been a pleasant and open dialogue with a well-balanced group of people who made constructive comments about the complex issues that emerge in the course of a thorough sustainable supplier relationship. The meeting clearly put the issue of sustainable supply chain management on KPN's agenda. The discussion also contributed to heightening awareness of the subject's importance. Finally KPN came away with a lot of input to get to work and to do it even better next year.

Sustainable procurement is relatively new to the ICT industry. The non-profits were pleasantly surprised by the degree of openness with which KPN shared its dilemmas with people outside. Mariëtte van Huystee of the Make IT Fair Campaign: "It's pretty amazing to be around today and see that KPN has definitely decided to begin a more sustainable procurement policy and that it tells us honestly that it still doesn't know how exactly to go about it." Suppliers were enthusiastic that KPN was going to tackle sustainable procurement seriously. Nokia and Alcatel Lucent said that, working with KPN, they wanted to put that into practice in the short term.

Joost Peerdeman's closing conclusions:

It's always surprising how a discussion with people outside KPN throws up good ideas. We've heard a lot about how we can pick up speed, for instance by joining existing sustainability initiatives launched by colleagues from outside the Netherlands.

CSR is a route to travel and certainly not a tick the box exercise.

Let's organize another dialogue session like this next year to review progress.

Participants

Internal stakeholders

Joost Peerdeman	- Chief Procurement Officer KPN (host)
Steven Termeer	- Procurement Manager, KPN Energy Management Group
Maurijn Wognum	- Procurement Manager, KPN Mobile Phones
Peter Westgeest	- Hardware Director, KPN
Ralph Thoen	- Consumer Marketing, KPN
Hans de Milde	- Procurement Head, Getronics
Sven Drillenburger Lelijveld	- KPN CSR manager (organizer)
Wendy Jacobs	- CSR manager, Getronics
Jan de Vos	- Senior Category Manager, Construction & Engineering, KPN
Bart Ambaum	- KPN Audit

External stakeholders

Jurgen Anthoni	- Nokia
Edgar van Essen	- Alcatel Lucent
Esther Bosgra	- Dutch Sustainable Trade Initiative
Esther de Haan	- Make IT Fair
Mariëtte van Huystee	- Make IT Fair
Jan Roodenburg	- Senior Vice-President, Philips Supply Management
Jante Parlevliet	- SER
Lucrée van den Heuvel	- SenterNovem Sustainable Procurement Program
Guiseppe van der Helm	- Director VBDO (Chairperson for the day)
Ernst van Weperen	- Supply chain management consultant