



Implementing a Socially Responsible Supply Chain

Presented to CSR West Sweden Association
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Introductions



Social Accountability International

- Established in 1997
- Developed premier social compliance standard and certification program - SA8000™
- Multi-stakeholder organization includes trade unions, NGOs and corporations
- Multi-industry and global
- Leader in training for developing socially compliant supply chains - training for auditors, buyers and suppliers
- Developed process-based social compliance rating and tools - Social Fingerprint™
- Corporate Programs, members include Gap, Disney, Timberland, Carrefour, HP, General Mills, Chiquita, Gucci, TNT, Otto Group, Tchibo, Billabong, etc.



Overview

- Trends in the Socially Responsible Supply Chain
- Elements of Social Compliance & SA8000™
- Business Benefits
- Social Fingerprint™ Process-based Rating & Training
 - Management Systems for Social Compliance
 - Building Internal Compliance Teams



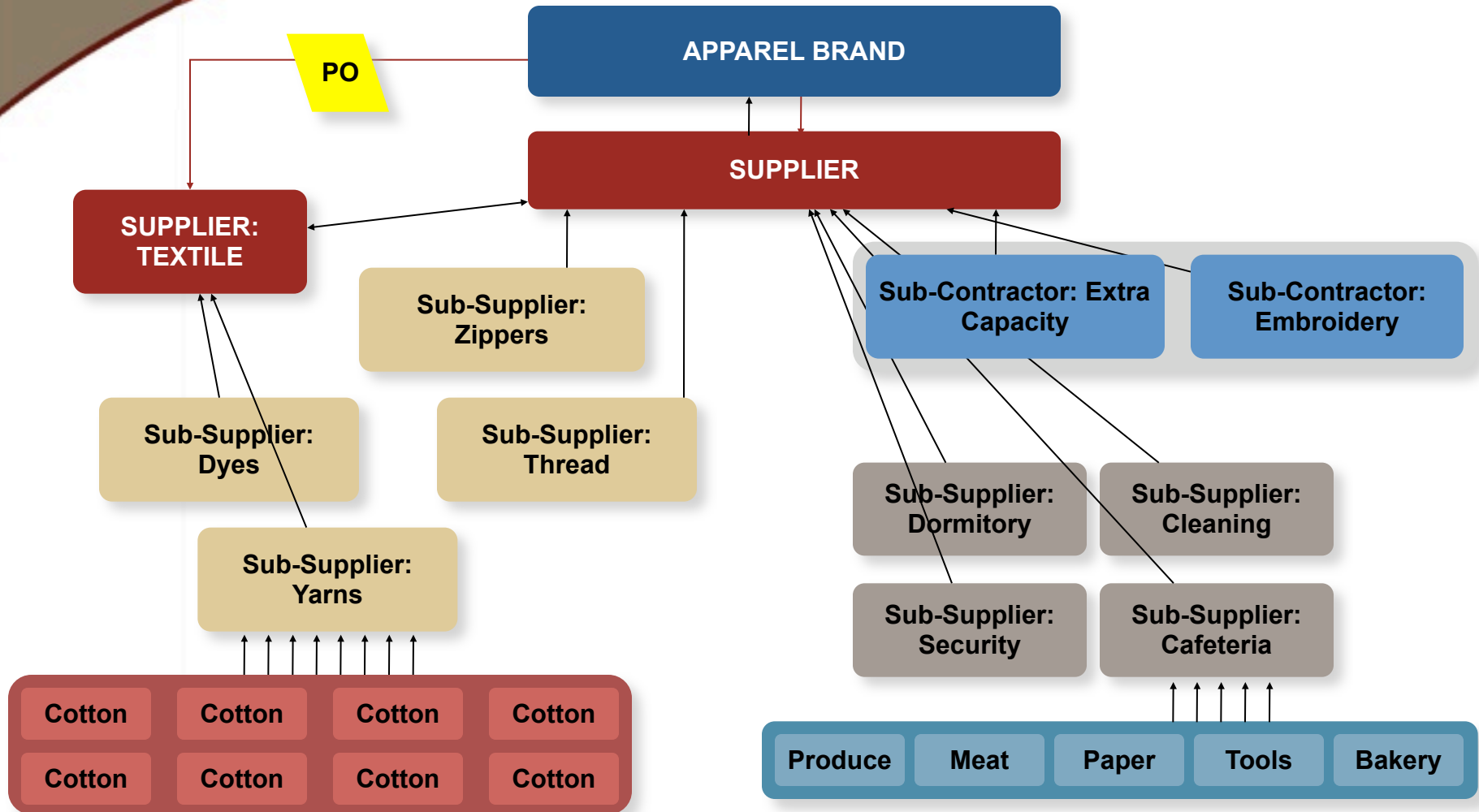
Risk & Leverage

Where is the Risk?
Where is the Leverage?

What is Risk?

- Events that push a company's financial performance below expectations
- Traditional financial risks
 - Market risk
 - Credit risk
 - Operational risk
 - Business-volume risk
- Reputational risk

Apparel Supply Chain





Trends in the Socially Responsible Supply Chain



CSR: The Big Picture

- Investors and consumer paying more attention
- Grant Thornton surveyed 500 US executives: - 77% say CSR more integrated into business strategy over next 3 years - 75% think it will enhance profitability
- McKinsey-UN Global Compact: 59% of CEOs think social and environmental responsibility should be addressed in their supply chains - only 27% currently do
- Reputational and non-financial risk – bigger issue

Socially Responsible Supply Chain Trends

- Increasing use of “Strategic Suppliers”
 - Consolidates purchasing power in fewer suppliers
 - 25 - 40% of output seems to be common target – leverage without dependence
- Working with suppliers to build internal capacity
 - Management systems - key to compliance
 - More training, less auditing
- Struggling with how to control sub-contractors
- Seeking to integrate social compliance into sourcing
- Focus on purchasing practices and impact on compliance

The Carrot or The Stick

- The Carrot
 - Preferred supplier status
 - Premium pricing
 - Training and technical assistance
 - Reduction in auditing and monitoring visits
- The Stick
 - No compliance = No Purchase Order
- The Carrot and The Stick
 - Strategic Supplier status available only to companies with higher compliance ratings
 - Participation in E-auctions
 - Development of multiple products to stabilize order flow

Vision for the Future

- Brands and retailers seeking to move away from auditing toward capacity building with their suppliers
- Suppliers taking responsibility and “ownership” of their compliance
- Mutual-recognition (equivalency) of credible industry corporate codes and standards
- Natural extension is supplier certification – SA8000™ or others



Elements of Social Compliance & SA8000™



Key ILO Conventions

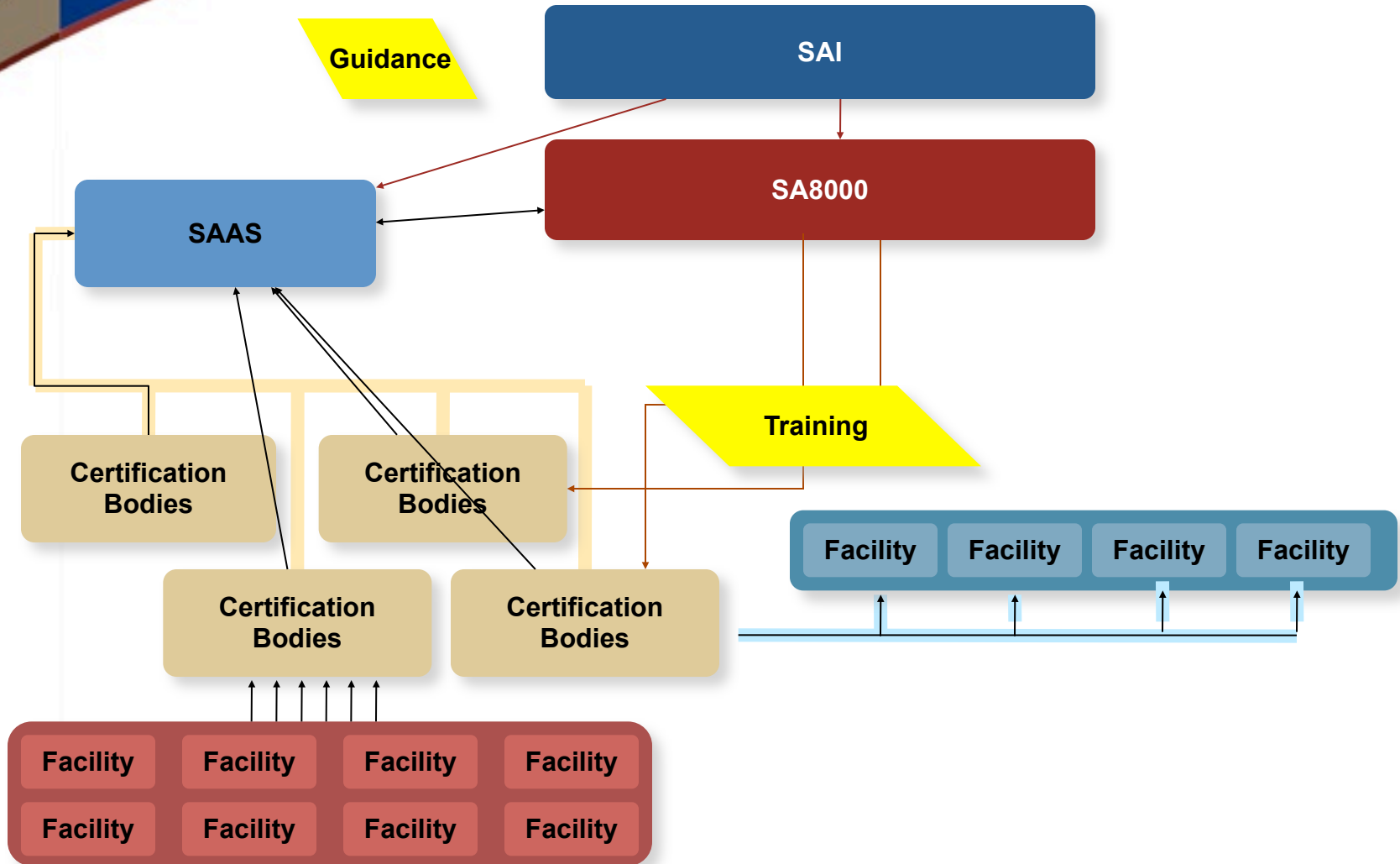
- ILO Conventions
 - Forced labor (29, 105)
 - Child labor (138, 182)
 - Freedom of association (87, 98)
 - Discrimination (111, 100, 35, 154)
 - Wages (100, 131, 95, 63)
 - Working Hours (1, 30, 63, 47)
 - Health and Safety (155, 162)
 - Homeworkers (177)
- Countries ratifying ILO conventions must integrate them into their national labor laws

SA8000: Labor Standard

Child Labor	Child labor shall not be used
Forced Labor	People have the right to change jobs and shall not be forced to work
Health & Safety	People must not be endangered at work
Freedom of Association	People have the right to organize and be heard at work thru collective bargaining
Discrimination	Hiring, promotions and wages must be equal and fair
Discipline	People must not be abused at work and free from all corporal punishment
Working Hours	Overtime is limited, voluntary and paid at a premium
Compensation	People must earn enough to live on during a regular work week
Management System	A management system is the key to sustainable compliance



SA8000 Certification System





Three Year Audit Cycle

**Certification Audit
Covers all elements
of SA8000**

*Number of days dependent upon
number of workers, sector
and risk levels*

**Surveillance
Audit
Partial Coverage**

**Unannounced
Surveillance
Audit
Partial Coverage**

**Surveillance
Audit
Partial Coverage**

**Surveillance
Audit
Partial Coverage**

**Surveillance
Audit
Partial Coverage**

Every six months

**Recertification
Audit
After 3 Years**

Three Levels to Consider

- Management systems to improve social compliance in your company
- Management systems to manage the social performance of your supply chain
- Assist your suppliers to use management systems to improve their social performance and that of their suppliers and sub-contractors

Child Labor: Guiding Principles

- Child labor is never allowed.
- Young workers may be employed, but must be granted special protection.
 - No night work.
 - Maximum of 10 hours per day for work, school and transportation.
 - Maximum of 8 hours of work per day.
- Child is defined as anyone less than 15 of the local legal school age if higher.
- Young workers are between the minimum working age and 18.



Forced Labor: Guiding Principles

- Worker has the right to choose their workplace
- Worker has the right to retain their personal documents and money
- Freedom to leave the workplace after working hours
- Freedom to resign



Courtesy of Dana O'Rourke

Health & Safety: Guiding Principles

- People must not be unreasonably endangered at work
- All necessary precautions are taken to mitigate work-related risks
- Workers are trained in use of Personal Protection Equipment (PPE) and dangers of non-use
- PPE is provided to the workers at no cost and its use is required

Freedom of Association: Guiding Principles

- People have the right to be heard at work, bargain collectively and organize
- Management cannot interfere with or discriminate against workers who choose to organize
- Worker representatives must have access to management
- Workers must be allowed to meet for work related and personal issues

Discrimination: Guiding Principles

- People should be solely hired, promoted and compensated based on their ability to do the job
- All workers should have equal access to training, tools and opportunities for advancement
- All workers should be free from harassment
- Positive discrimination may be allowable
- Intent is key:
 - Negative - denial of benefits, jobs and opportunities
 - Positive - designed to protect disadvantaged groups

Discipline: Guiding Principles

- All personnel must be treated with equal respect and dignity
- People must not be abused at work - either physically or mentally
- People must be free of all corporal punishment

Working Hours: Guiding Principles

- Overtime is limited, voluntary and paid at a premium
- Workers should make sufficient basic wages in normal work week so overtime is not necessary to earn a living wage
- Companies can require workers to do overtime to meet short term demand if there is collective bargaining agreement

Remuneration Guiding Principles

- People must earn enough to live on during the regular work week
- Services provided to employees for a fee such as dormitories, food plans and medicine shall be provided at the cost to the provider
- Companies can choose to pay by the hour or for performance
- Wages must be:
 - Understood by workers
 - Paid in a convenient manner
 - Paid in a timely and regular fashion
 - Accurately calculated
 - Paid in accordance with contract



Business Benefits in Marketing & Production



Marketing

- ⊗ Consumers Reward and Punish Corporate Practices
 - ⊗ 71% of consumers avoid purchasing from companies whose practices they disagree with

(BBMG Conscious Consumer Report 2009)

- Research starting to show that consumers will pay more for goods that are “ethically produced”
 - ⊗ SAI-Harvard study shows 11% premium for identical goods from SA8000 certified factory

Production

- ⊗ Improved product quality and reduced waste
 - ⊗ Cambodia: Product Rejection rate reduced by 44% overall
 - Pakistan: Product Rejection rate reduced from 13% to 0.5%
- Improved worker retention
 - ⊗ Lower training and recruitment cost
 - China: annual employee turnover decreased from 78 to 32% in three years
- Fewer accidents / work days lost –
 - ⊗ Accident rate increases sharply beyond 60 hours per week
 - Cambodia: absenteeism fell 8%



Management

- ☒ 80% of CFOs and professional investors see existence of high performing CSR programs as a proxy for how effectively a business is managed

McKinsey Quarterly - Feb. 2009

(238 CFOs, investment professionals and finance execs + 127 CSR professionals)



social
fingerprint™

**Measure & Improve Labor
Standards Performance**





Social Fingerprint™ Program Approach

- ⊗ Focuses on processes and management systems – not only code violations
- Builds on SA8000™ management systems approach
- ⊗ Supports continual improvement along any standard, industry code or corporate code
- ⊗ Allows measurement of baseline and ongoing performance levels - “Measure & Improve”
- Identifies clear targets for making improvements



Uses

- ☒ Self-Assessment
 - ☒ Internal tool to measure and improve
 - Risk assessment tool
- “Remote” Independent Evaluation
 - ☒ Phone interview and document review
 - Benchmarking
- Field Verification
 - ☒ Public reporting



Social Fingerprint™ Company System

9 Rating categories (1-5 scale: 5 highest)

- Management Systems
- Internal Social Performance Team
- Worker Involvement & Communications
- Complaint Management & Resolution
- ☒ Level & Type of Non-Conformances
- Progress on Corrective Actions
- External Verification & Stakeholder Engagement
- Training & Capacity Building
- Management of Suppliers & Contractors

Rating 5 is highest	Management Systems	Internal Social Compliance Team	Worker Involvement & Communication	Complaint Management & Resolution	Level and Type of Non- Conformances	Progress on Corrective Actions	External Verification & Stakeholder Engagement	Training & Capacity Building	Management of Suppliers & Contractors
5	Mature management system implemented. Demonstrated commitment to continual improvement using annual improvement plans.	Team has implementation authority. Formal coordination with business units and suppliers. Team role part of performance review.	Routine two-way dialogue between workers and managers, fully utilizing formal and informal communication channels. Active participation by workers in workplace initiatives.	Fully functional system extended to supply chain and external stakeholders. Commitment to continual improvement of system through worker input.	Isolated minor violations. No major violations. No system failures.	Systematic implementation of improvement plan targeting root causes. Measurable targets for continual improvement.	Continual engagement with external stakeholders to implement programs to improve workers' lives in the workplace and community.	Team provides regular and effective training on full range of compliance issues for employees and suppliers. Focus on use of management systems to help suppliers measure and improve.	Social compliance integrated into sourcing decisions. Supply chain map and risk assessment extended to key sub-contractors and sub-suppliers.
4	Policies, procedures and records centrally maintained and routinely reviewed. Wide awareness in company.	Multi-departmental team including worker rep. Team fully trained, meets and reports regularly. Clear team leadership. Top management support.	Key company policies understood by workers. Formal channels established for worker participation, including worker committees and worker representatives.	System well communicated and utilized by workers. Complaint resolution well documented and effective.	Occasional minor violations. Isolated system failures causing major violations.	Corrective action system fully operational. Consistent, effective follow-up with specific timeframe for improvement.	Routine proactive communication with stakeholders, including workers' organizations.	Ongoing training for key departments on management systems. Joint worker, supervisor and manager training. Introductory briefings to suppliers.	Fully operational monitoring and evaluation program of direct suppliers.
3	Complete set of policies and procedures in place meeting selected Code or Standard. Sporadic communication, implementation and review.	Team in place, including worker rep. Team lacks training, experience, and/or authority.	Policies and procedures in place for worker-manager communication. Sporadic utilization of communication channels by both managers and workers.	Documented system in place to receive and respond to complaints. Utilization and resolution not systematic.	Few major violations, none with immediate threats to worker well-being. Some system failures, with recurring minor violations.	Corrective action system developed and documented. Sporadic implementation and verification. No specific timeframe for improvement.	Established procedures for engaging stakeholders, including workers' organizations. Some proactive communication.	Full introductory training on the selected Code or Standard for all employees. Sporadic follow-up training in some departments.	Complete supply chain map and risk assessment. Supplier rating and evaluation system partially implemented.
2	Policies in place meeting selected Code or Standard. Sporadic, conflicting or confusing procedures.	Clearly a secondary responsibility in HR department, with limited awareness. No awareness in other departments	Sporadic and ineffective communication with workers. Some effort by management to inform workers, but all top-down communication.	Documented system for receiving complaints. No systematic way to respond to complaints. Sporadic resolution.	Some major violations with immediate threats to worker well-being. Serious recurring system failures.	Sporadic progress on corrective actions. No system for tracking corrective actions.	Documented procedures for cooperating with external auditors. Sporadic and selective responses when approached by external stakeholders.	Brief mention of labor compliance issues and workplace rights in new employee training.	Limited communication with suppliers and contractors. Partial map and risk assessment. Sporadic monitoring or evaluation.
1	No Code or Standard adopted. No related policies and procedures.	Little or no internal awareness. No formally assigned responsibility.	Little or no communication between management and workers. Little or no awareness among workers about company policies.	No documented system to receive, address or report on complaints. Signs of possible retribution for complaints.	Frequent major violations of core labor standards with immediate threats to worker well-being. Lack of credible information.	No plan or evidence of effort to improve labor compliance towards any Code or Standard.	Little or no transparency with external stakeholders or auditors. Signs of resistance when approached. Possible retribution when workers engage.	No mention of labor compliance issues or workplace rights in employee training.	Little or no awareness of issues related to suppliers or contractors.

Linking the Processes to the Labor Code Elements

- ⊗ Management Systems – human resource policies and procedures meeting code or standard
- ⊗ Internal Social Performance Team – trained team leads the effort
- Worker Involvement & Communications – how effective are the two-way communication channels
- Level & Type of Non-Conformances –severity and frequency of problems in meeting labor standards
- ⊗ Progress on Corrective Actions – effectiveness in addressing problems and making changes to prevent them from recurring



Linking the Processes to the Labor Code Elements

- ⊗ Complaint Management & Resolution – the system for handling and addressing grievances
- ⊗ External Verification & Stakeholder Engagement – how you cooperate with outside auditors or involve external stakeholders to enhance efforts
- Training & Capacity Building – system for training in your company and supply chain on the attitude, skills and knowledge needed
- Management of Suppliers and Contractors – how you influence them to meet the code or standard and improve



Social Fingerprint™ Supply Chain Management System

6 Rating categories (1-5 scale: 5 highest)

- ☒ Program Scope & Risk
- Aggregate Social Compliance Score of Suppliers
- Annual Improvement of Supply Base
- ☒ Internal Integration of Compliance & Sourcing
- Supplier Communication & Purchasing Practices
(External Integration from the supplier's perspective)
- Complaint Management System



Benefits

- ⊗ Identifies clear improvement targets for capacity building
- ⊗ Not tied to any specific labor standard or code – supports SA8000 management system approach
- Dialogue with suppliers instead of “cat and mouse”
- ⊗ Improves integration between sourcing and compliance departments in the brand/retailer

Common Problems

- ⊗ Policies and procedures are incomplete
- ⊗ Policies not clearly communicated to employees or suppliers
- ⊗ Job performance measurements do not support stated policies
- ⊗ Incentives do not support stated policies
- Policies from department to department are conflicting
- Management reviews not conducted
- Budget allocations insufficient to meet stated goals
- Lack of regular, systematic training



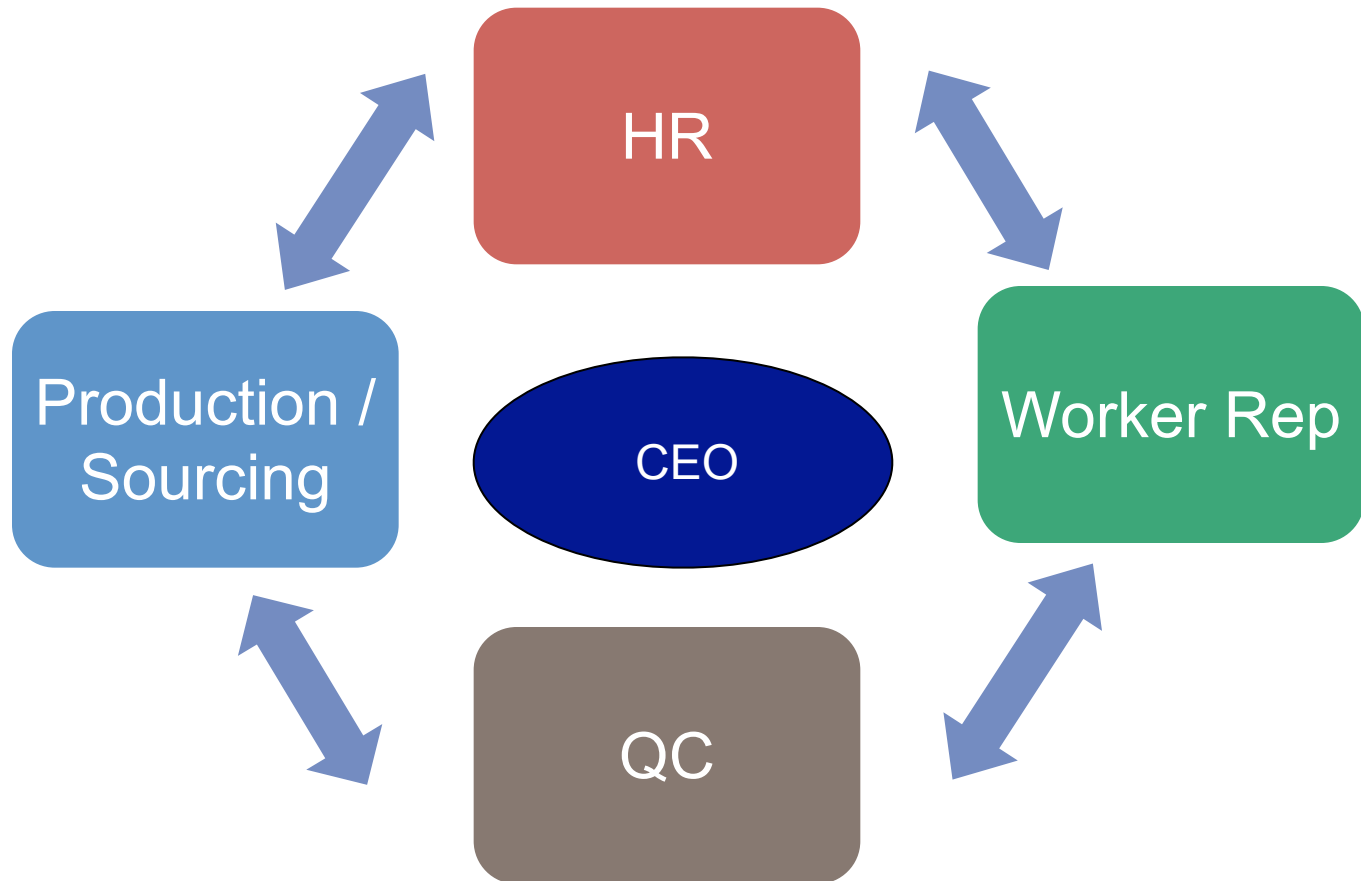
Building Internal Compliance Teams



Roles of Internal Compliance Team

- ⊗ Develop and implement policies and procedures
- ⊗ Conduct internal audits as per ISO 19011:2002 and 17021 guidelines
- ⊗ Participate in management review
- Conduct management and worker training
- Establish worker communication channels
- ⊗ Control sub-contractors and suppliers
- Engage local NGOs, trade unions and government agencies
- Coordinate with customer CSR and sourcing staff

Team Members



Team Leader Training Requirements

- ☒ Management systems and control issues
- ☒ Code of Conduct elements and local labor law
- Common violations and potential corrective actions
- Social auditor training
 - ☒ The art of verification: Visual observation, Interviews and Document Review
 - ☒ Interview methods and techniques (worker interviews, management interviews)
 - ☒ Soliciting and incorporating local NGO and trade union feedback
- ☒ Control of your sub-contractor and suppliers
- Interacting with brands and third party auditors



Questions & Answers