

Ethical and Sustainable Procurement

with input from



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Cover photo

Workers in the crater of the volcano Ijen Java, Indonesia, Asia May 2011.
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CIPS implores Procurement practitioners to read this guide, use it to influence their CEOs and implement the approach described.

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Foreword

In a world where everything is connected, understanding the impact of our sourcing and buying decisions is critical. Whilst the concept of ethical and responsible procurement is not new, the increase in global sourcing opportunities has highlighted some serious issues in procurement practices that must be addressed. Ethical and responsible procurement is now an economic and reputational imperative, and in some contexts a legal requirement.

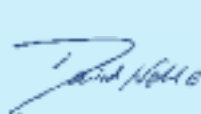
Procurement professionals, working in conjunction with their suppliers, can demand better governance of procurement with the end goal of creating an environment intolerant to criminal conduct, such as any form of modern slavery, corruption or bribery, and minimising or eradicating harmful environmental and social impacts. They must ensure that labour conditions for workers in their supply chain are improved and human rights are safe-guarded. The bigger picture is to ensure a better result for all including increased business returns for the buyers, suppliers and workers.

This guide is a starting point and is aimed to help improve workers' conditions in all situations, especially where buyers deal with businesses who may operate outside the law (often without the buyers' knowledge), or those who fail to implement minimum legislative requirements. We recognise these are very difficult situations to manage.

Due to cheaper labour costs, sourcing from unfamiliar places is becoming increasingly popular. Procurement professionals have an obligation to ensure that these savings do not have a human cost. Workers and sub-contractors, who sometimes may even be children, are often not protected by legislation, and many suffer criminal conduct and poor pay and conditions, often with little regard for health and safety. In many instances workers suffer harassment and abuse and, in extreme circumstances, workers can be in situations of forced or bonded labour. This is not acceptable in the 21st Century and should not be tolerated.

Although awareness of these issues is increasing, including the mounting pressure from consumers to have ethically sourced goods and services, significant problems still exist. It is not acceptable in anyone's world for suffering or human misery to take place in the desire to meet the demands of increasingly competitive supply chains.

Whatever sector or global region you work in, we urge you to read this guide and start to make the changes – ensure you become part of a more responsible approach to procurement professionalism. We urge all senior executives to put in place objectives for procurement professionals to follow the principles in this guide. We urge all procurement professionals to take this challenge to the most senior levels and start to make a real impact and difference on business and society.



David Noble
Group CEO,
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Margaret Vaughan
CEO,
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Andrew Forrest
Chairman, Fortescue Metals
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Introduction

This publication introduces procurement professionals to the key concepts behind ethical procurement and provides practical advice for getting started. It not only addresses procurement specifications, but recognises the importance of how a buyer conducts their relationship with suppliers, including contract negotiation.

The guide has a specific focus on procurement across borders, especially when buying from unfamiliar places with weak worker protections, or countries with potentially unfamiliar work cultures.

Alongside general discussion of the buyer-supplier relationship, the main body of guidance presents considerations when sourcing abroad within a seven-step procurement cycle. Appendices are included, together with a section containing resources to explore further.

What is ethical and sustainable procurement?

Ethical procurement (often referred to as responsible procurement) refers, in this guide, to procurement processes which;

- respect fundamental international standards against criminal conduct (like bribery, corruption and fraud) and human rights abuse (like modern slavery), and respond immediately to such matters where they are identified, and
- result in progressive improvements to the lives of people who contribute to supply chains and are impacted by supply chain decisions.

Sustainable procurement considers the environmental, social and economic consequences of design, materials used, manufacturing methods, logistics and disposal.

Buyers need to address these issues throughout the supply chain. To achieve this, suppliers, especially in developing countries or countries with weak workplace regulatory environments, need knowledge, guidance and incentives to improve from the organisations they supply.

Working with suppliers and focusing on economic, social and environmental performance is good for a buying organisation's brand reputation as well as efficiency, quality and security of supply. Increasingly, buyers have legal obligations (even extraterritorially) to ensure that they take measures to prevent illegal conduct such as fraud, corruption, bribery and modern slavery, and other human rights abuses, from entering their supply chains. Supplier countries and communities can reap economic and social benefits through ethical sourcing relationships. Buyers must be mindful of the impact of their decisions and ensure that they do not cause harm to suppliers and workers.

Why procure ethically and sustainably?

Increasingly, the corporate world is focusing on social issues in supply chains such as slavery, forced labour and human trafficking. In this guide, we will use the term "modern slavery" to include all of these practices. The evidence suggests that the risk affects almost every industry: electronics and high tech, steel and automobiles, agriculture and seafood, mining and minerals, garments and textiles, and shipping and transportation. The evidence also suggests that, while modern slavery is illegal in every country in the world, it still occurs in every country in the world. The risks are more pronounced in:

- places where workers have fewer protections
- where there are high levels of poverty
- where there is widespread use of migrant workers
- some specific high risk industries (typically industries involving raw materials)
- labour intensive stages of supply chains where the end product is cheap.

Governments and consumers are increasingly aware of such issues and are supporting, if not demanding, that businesses act to implement ethical sourcing programmes. Organisations will suffer reputational damage if they are found to be sourcing from suppliers which use exploitative labour. Companies may face legal sanctions if their suppliers are found to be involved in corruption or bribery. Increasingly, staff face criminal prosecution for involvement in fraud, corruption and bribery, even where this happens offshore. Negative impacts may also be costly, for example, when pollution needs to be cleaned up, or warranty claims are paid out as a result of using cheap but poor-quality suppliers. Organisations naturally want to avoid these negative impacts. On the other hand, a track record of sustainable and ethical procurement activity can encourage investment and improve employee morale as well as exceed legal requirements.

Procurement professionals have an important role to play in sourcing in a manner that enables and rewards suppliers for good employment practices, rather than purchasing in a manner which drives the use of modern slavery practices. This guide sets out how.

29.8m People in modern slavery¹

1. Source: Walk Free Foundation (2013). 'The Global Slavery Index 2013'. www.globalslaveryindex.org

Considerations when sourcing



ETHICAL OBJECTIVE

Where breaches of basic standards occur, such as those involving corruption, fraud, bribery and modern slavery, a 'zero tolerance approach' should be adopted, with such breaches addressed immediately. This does not mean that a buyer 'cuts and runs' from a supply relationship, but that immediate action is taken to investigate the conduct and remediate it where possible. In relation to workers, the ethical objective is to achieve at least minimum working conditions as defined by the International Labour Organisation (ILO).

The Global Slavery Index estimates there are 29.8 million people globally in modern slavery. Within this massive number of people, the International Labour Organisation (ILO) estimates business and governments are responsible for the largest majority of people in forced labour. Of those exploited by businesses, the largest proportion were subjected to forced labour in industries such as agriculture, construction and manufacturing.

USEFUL TIPS

Tips for cross-cultural communication

Good communication with suppliers is vital in making sure appropriate standards are set and upheld. [The table on page 5](#) suggests actions for the buyer to take to ensure good communication with their supplier.

2. Declan Walsh and Steve Greenhouse "Certified Safe, A Factory in Karachi Still Quickly Burned" The New York Times, 7 December 2012, available at http://www.nytimes.com/2012/12/08/world/asia/pakistan-factory-fire-shows-flaws-in-monitoring.html?pagewanted=all&_r=0

from another country

RESOURCING AND GOVERNANCE	PROCESSES
Suppliers abroad may well be communicating in their second or third language. Some words do not have direct translation and the concept behind a word may not exist in another language or culture.	Check that buyer and supplier share an understanding of objectives and terms.
Building trust may take longer. In some cultures it is difficult for a supplier to say no or indicate uncertainty. This can lead to misunderstandings and delay the foundation of a strong relationship.	<ul style="list-style-type: none"> Learn about cross-cultural communications for specific supplier countries. To overcome common supplier caution over voicing problems, invest time up-front in getting to know suppliers Buyers need to check understanding sensitively and be able to pick up on small clues which indicate uncertainty.
The knowledge and implementation of labour laws by suppliers may be weak or absent. It may not be a priority or there may not be sufficient national budget for the local government to update or enforce labour laws, or provide protection for workers that are informally employed, do home-based work, are smallholders, temporary and contract workers. Owners, managers and workers may not be aware of their own laws. In some countries the law on minimum wage has not been updated, which results in workers earning insufficient wages to live on. Workplaces where workers are in debt or very poorly paid provide a context for exploitation, sexual harassment and modern slavery.	<ul style="list-style-type: none"> Depending on risk, do desk-based research looking at International Labour Organisation's statistics, contact local civil society organisations, including trade unions to advise on working conditions. Use audits and other compliance and accountability mechanisms to inform follow-up conversations between the purchaser and supplier Communicate minimum standards (such as those in relation to fraud, bribery, corruption and modern slavery) through a clear code of conduct.
Be aware of underlying social issues, such as a lack of social security. For as many as half of the world's workforce there is no unemployment or incapacity benefit, old age pension or social housing. In general, medical care is not free and provision of free education varies across countries. Therefore, benefits such as day care, free transport or medical checkups are key parts of an overall employment package. These provisions should be regarded as a positive commitment of the supplier to its workforce, unless these services are provided in a manner that "ties" workers to the employer.	Develop an understanding of local social conditions and consider this when checking the breakdown of a supplier's price and comparing prices across countries.
Gender discrimination can be acute. On worksites with a high proportion of women workers buyers need to be alert to circumstances that could have a disproportionate impact on women or put them at risk.	Investigate, encourage and promote equal opportunities for women or minorities into supervisory and management roles in a supplier's workplace, particularly if they are under-represented. This is good practice at sites with a high percentage of women or workers of a different culture/class to management, since it lessens the risk of exploitation.
Bribery and corruption can be an issue in some locations, channelling money away from productive, transformative activities within a supply chain and reducing opportunities for living wages to be paid to workers.	Require suppliers and buyers to sign up to a code of ethics (see Appendix 3 for the CIPS Code of Conduct). Also ensure systems are in place to detect and respond to bribery and corruption.
Health and safety legislation may not have been updated. There may be insufficient fire exits ² , unsafe buildings ³ , or hazardous materials may inadvertently be used.	Encourage suppliers to have an effective health and safety committee, ⁴ have independent checks and systems for whistleblowers, and become knowledgeable on health and safety hazards associated with production processes.

3. Sarah Butler "Bangladeshi Factory Deaths Spark Action Among High-Street Clothing chains" The Observer, 23 June 2013 available at <http://www.theguardian.com/world/2013/jun/23/rana-plaza-factory-disaster-bangladesh-primark>

4. Workers at Spectrum factory warned supervisors of cracks in the wall before the building collapsed, killing and injuring workers (www.cleanclothes.org).

Organisational considerations leading to effective ethical procurement

External drivers

The following external drivers influence an organisation's choice to purchase abroad, or from a particular supplier:

- Economic – exchange rates, profit margin, duties, tariffs, insurance, the employment market and availability of resources. Sustainable innovation can lead to the creation of new market space for products and services
- Technological – the ability to communicate real-time information enables developing country suppliers to compete effectively
- Legislation – social, technical, environmental and economic/competition
- Social – social consciousness, e.g. avoidance of worker exploitation, influences consumer behaviour and political activity. Increased worker satisfaction can improve productivity
- Environmental – use of energy, re-useable, non-toxic materials, reduction of waste and processes to improve profit margins, reduction of carbon in supply chains, etc.

How an organisation chooses to respond

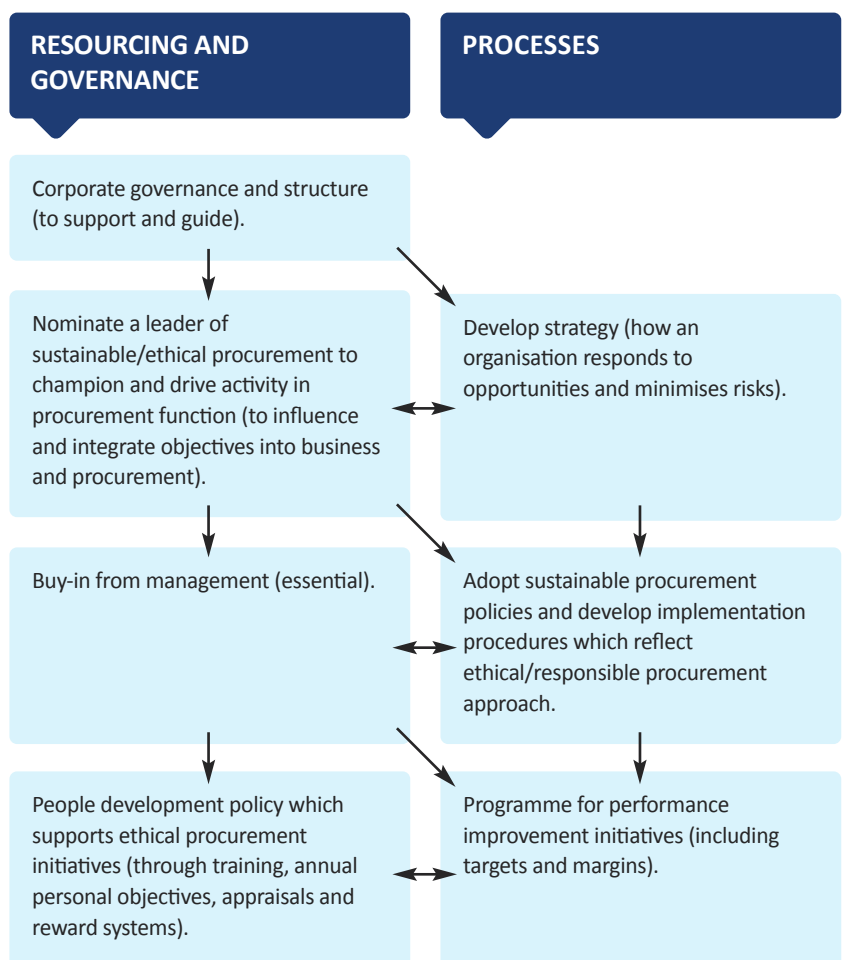
Due to the business risk of unethical procurement practices, many organisations already have Codes of Conduct that set out minimum standards and parameters for procurement other than simply cost. Where they are not already in place, procurement professionals need to play a role not only in implementing the above policies and initiatives, but also in shaping their organisation's approach. The complementary publication for senior procurement management, 'Taking the Lead', provides guidance on issues to be considered when organising internal policies, structures and processes, and outlines the business case for ethical procurement.

Buyer organisations need to support individual procurement professionals to improve conditions in their supply chains. They need to develop systems and ways of working which:⁵

- collect and provide all parties with the information they need to plan more effectively, (e.g. share audit reports)
- lead to efficient communications and formalised, streamlined buying and production processes
- empower procurement professionals to select and reward good practice and leadership of suppliers

- encourage buyers and suppliers to collaborate with organisations who have expertise in addressing systematic problems within the supply chain
- identify and address unacceptable practices like fraud, bribery and modern slavery
- enable the buyer to collaborate with others who are purchasing from the same supplier (where appropriate).

Organisations should take an approach that recognises the shared responsibility for suppliers to implement good workplace practices and for buyers to select, enable and encourage good performance by suppliers. Where bad performance is identified, especially where it concerns conduct that violates minimum standards, this should be addressed as a priority. An integrated balanced scorecard for performance appraisals of both individual buyers and suppliers can be used (see Appendix 1).



5. Traidcraft and Impactt Limited (2008) 'Material Concerns', page 14, for tools which support purchasers, and page 16 for how responsibilities of staff within a garment brand can be streamlined to support sustained improvements.

The procurement cycle

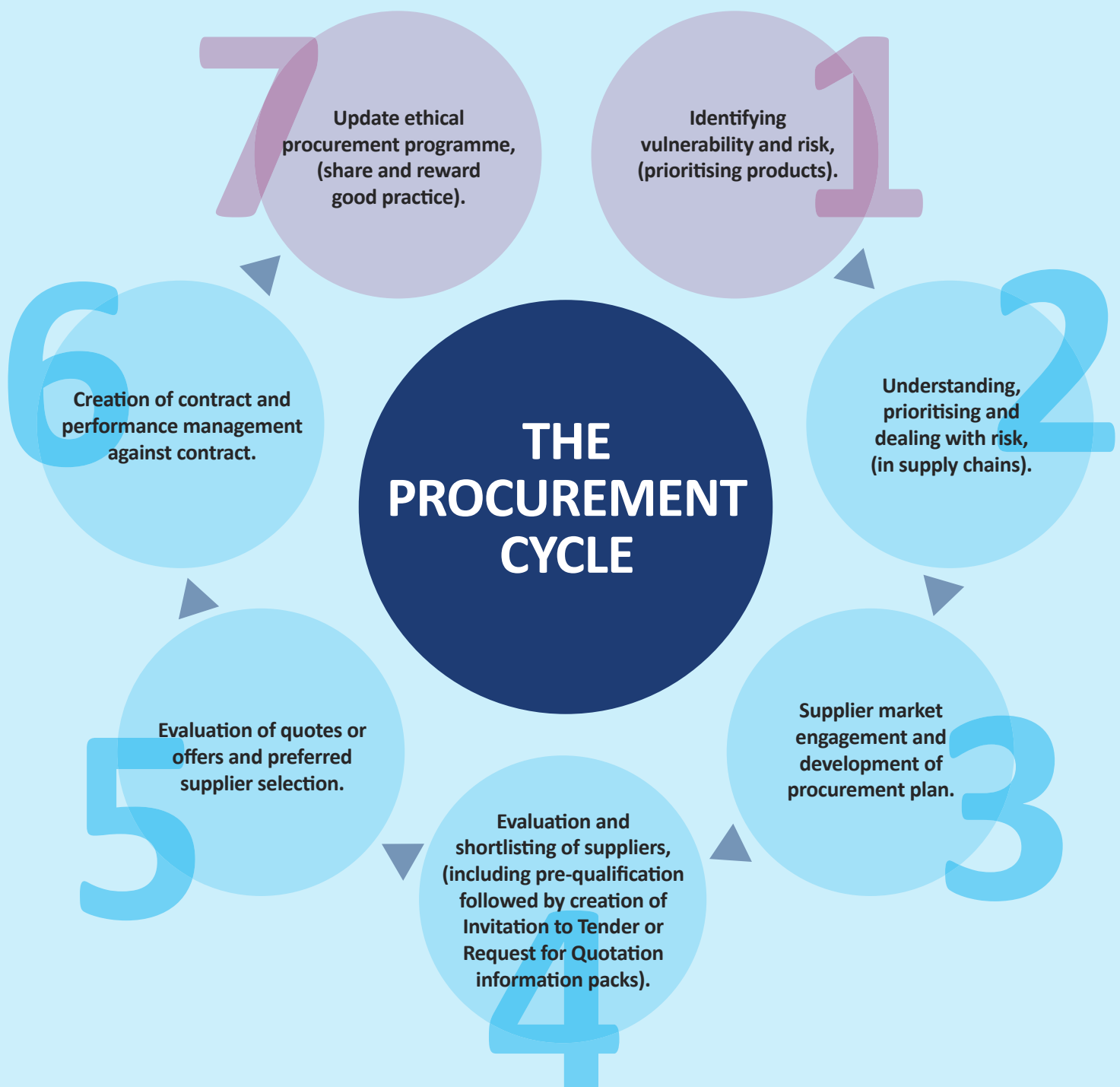
A detailed procurement cycle breaks down into seven major stages. The following section examines each of these stages, highlighting good practice and, specifically, what a buyer should bear in mind.

Stages 1 and 7

Stages 1 and 7 focus on the ethical/responsible purchasing programme, covering all purchases.

Stages 2 – 6

Stages 2 – 6 are the stages a purchasing organisation goes through in relation to each purchase.



1

Identifying vulnerability and risk

An organisation needs to identify risks and vulnerabilities in its supply chain to be able to prioritise its actions to improve social and environmental impacts.

Identify vulnerabilities

In the initial stages of risk assessment, it is useful to look for 'known' supply chain vulnerabilities: these can be broken down on a geographical, sector, commodity, product or services basis. For example, there are known vulnerabilities to modern slavery where migrant workers are used.

Assess risk against importance to the organisation

Initially assess purchases made against the following to establish which to prioritise:

- Level of spend vs. level of business critical or operational risk (Kraljic matrix)
- Level of 'sustainability risk' or likelihood of non-compliance with the organisation's ethical or sustainability objectives
- Likelihood of non-compliance with international or national law, including vulnerability of supply chain to serious issues like fraud, bribery, corruption and modern slavery. (See table 1. Oxfam's Product Risk Assessment).

Traditional Kraljic (spend vs. operational risk) matrix assessments fail to highlight areas of sustainability risk and may suggest inappropriate 'win/lose' procurement relationships. Some purchases made using this relationship style result in worker exploitation or harmful environmental impacts, particularly if sourcing from countries where the enforcement of laws is weak. Some of these purchases or categories when assessed on a 'sustainability risk vs. importance to organisation' matrix may fall into the high sustainability risk. (See table 2. Centrica Example, plotting categories of likelihood of non-compliance against importance to organisation).

Assess risk against scope for improvement

Buyers should look further into categories judged to have a high risk, to assess potential risk to be addressed proactively or for improvement to be made in conditions. There is frequently scope for improvement through better models, alternatives and innovation opportunities. On the other hand, the product or service may be inherently unsustainable or harmful. (See table 3. 'Sustainability Risk' vs. 'Scope for Improvement Objectives').

Set targets for ethical procurement programme

Two types of targets are needed:

1. Operational targets may support an ethical procurement programme, e.g. policy development, implementation of business systems, training
2. Purchasing activity targets may focus on categories or the number of purchases/tenders achieving a particular level of social or environmental performance.

PRACTICAL CONSIDERATIONS

- Are any key contracts coming up for renewal?
- Are lower risk alternatives available?
- Do staff members have specific expertise or knowledge?
- Can external experts be engaged to assist in innovation and improvements?

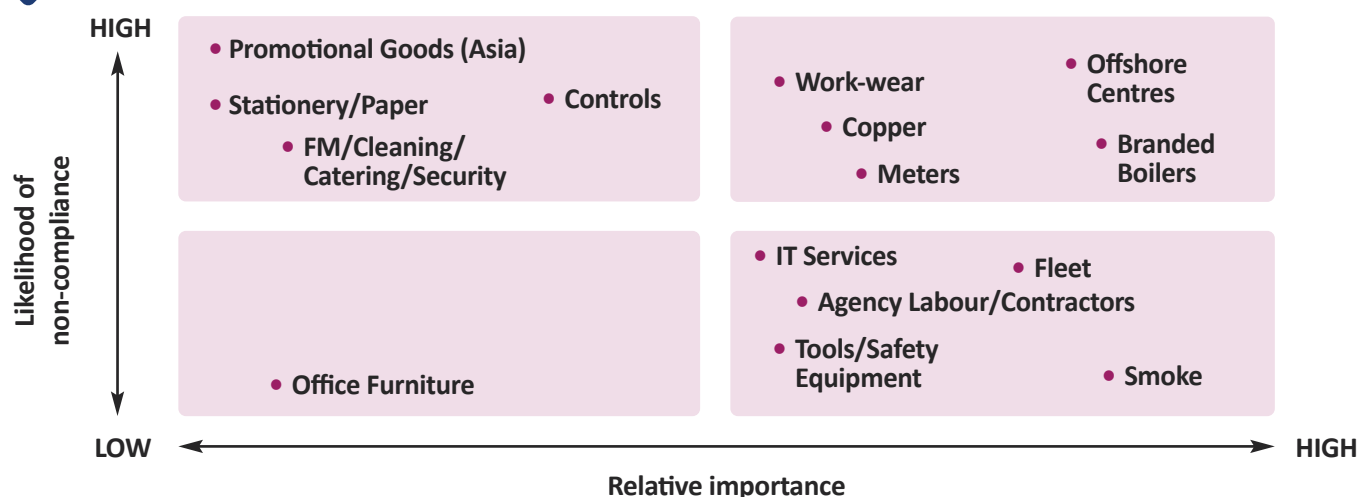
At the end of this stage the buyer has identified the vulnerabilities in their supply chain to ethical and sustainability risk, relating to supplier or product risks, as well as found low risk or alternative sources/suppliers/products or where there is scope to improve, to avoid unacceptable risks.

1. OXFAM'S PRODUCT RISK ASSESSMENT

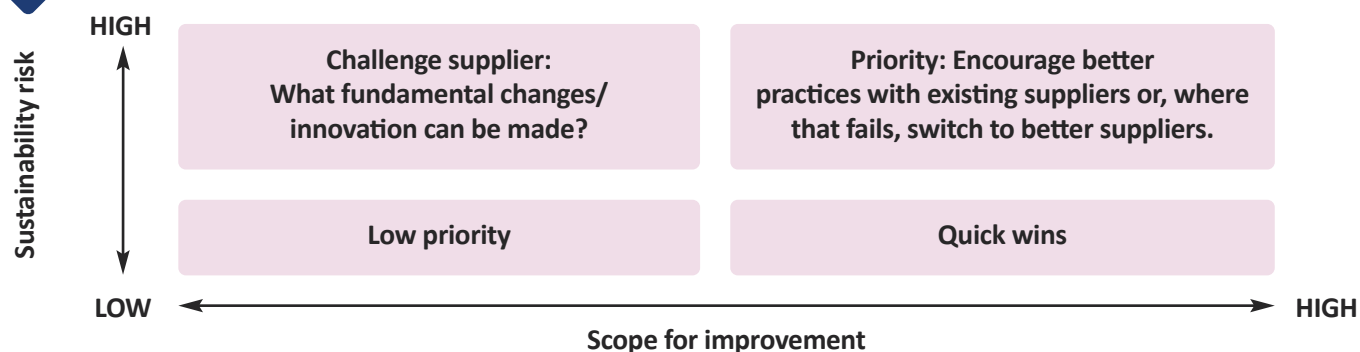
Supply chain risks are based on assessment of both product and supplier:

- Products made using production processes likely to have poor labour standards
- Products which carry the Oxfam brand
- Products sold in Oxfam shops
- Information given by suppliers who complete Oxfam's ethical (labour standards) questionnaire (see Stage 4).

2. CENTRICA EXAMPLE: 'SUSTAINABILITY RISK' VS. 'IMPORTANCE TO ORGANISATION' MATRIX ⁶



3. 'SUSTAINABILITY RISK' VS. 'SCOPE FOR IMPROVEMENT OBJECTIVES'



6. BITC (2009) 'How to Manage Your Supply Chains Responsibly' page 18.

2

Understanding, prioritising and dealing with risk

If it is not already clear from the Code of Conduct and procurement policies, procurement professionals should work with internal colleagues who requisition products, as well as other colleagues, to shape the technical, social and/or environmental criteria of the specification.

Understand the supply chain behind the purchase

For suppliers/products deemed to be high risk, buyers should develop a map of their supply chains. There are various products and services on the market to assist companies in this task (e.g. [Sedex Ethical Data Exchange](#)). In this way, labour-intensive stages of production and other vulnerabilities can be identified and proactively managed to ensure good human resource management occurs and that workers are not exploited. The [diagram below](#) shows a supply chain map (in this instance for a cotton garment supply chain), organised according to the main phases in the chain.

This process will enable buyer and supplier to explore together how best to prioritise and address issues of concern. For example, a garment retailer consciously focused first on the social issues of manufacturing, and later considered environmental aspects such as packaging and the use of organic cotton.

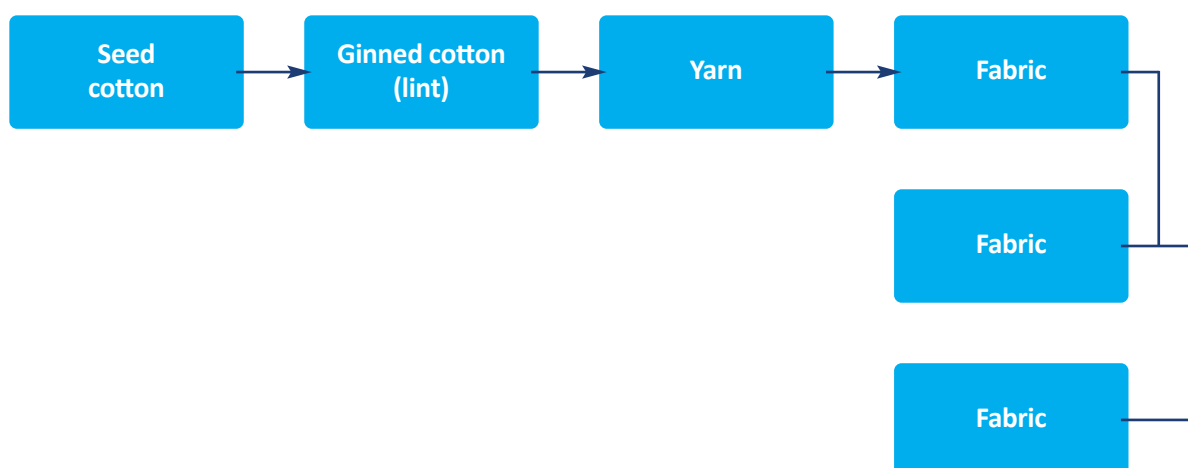
This enables buyers to highlight social and environmental issues of particular concern, directly with the supplier.

Achieve visibility over deep tiers of the supply chain

Buyers should look beyond the first, second and even third tiers of their supply chain. Workers at the bottom of the supply chain, or on the branches of the supply chain, such as migrant workers recruited through labour-hire intermediaries, will often be most vulnerable to exploitation.

It takes work to achieve this level of visibility, however a diligent procurement professional will be able to see and flag these risks. Modern slavery, for example, presents serious reputational risk to a buyer company at any point on the supply chain.

EXAMPLE: COTTON GARMENT SUPPLY CHAIN MAP



Example of cotton garment supply chain process enabling the buyer to engage with supplier about each step of the process in order to identify and prioritise issues.

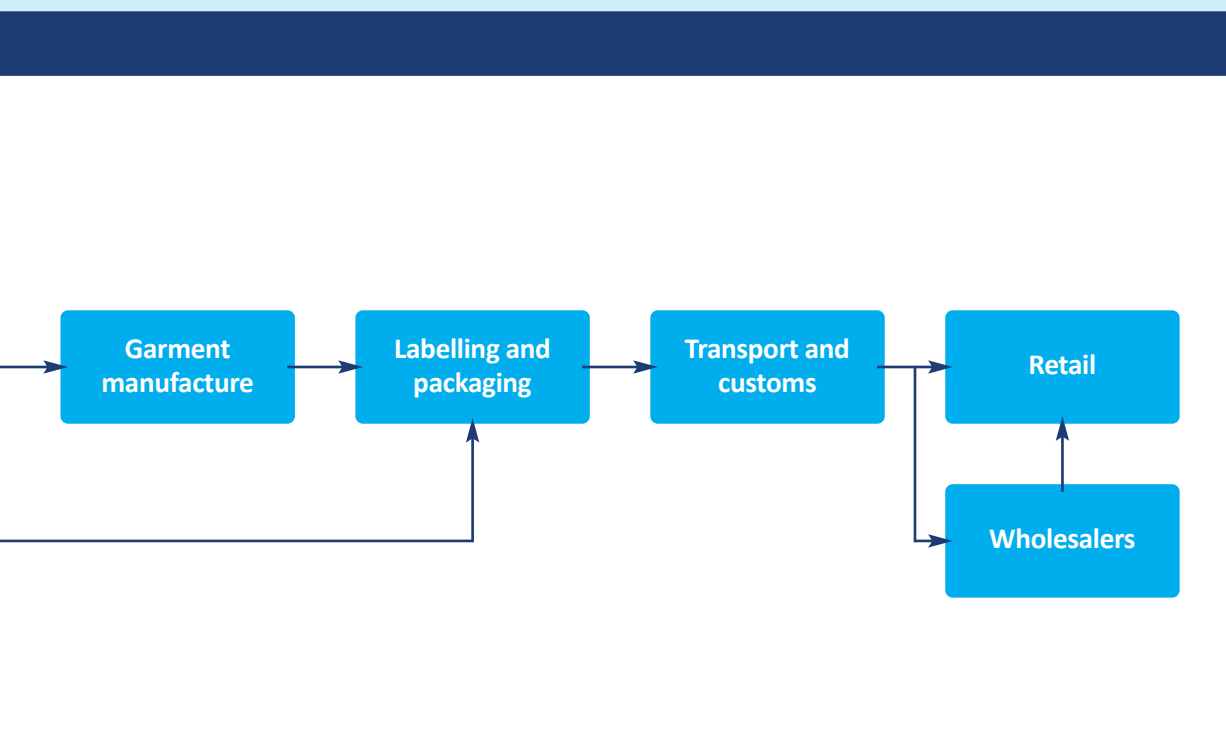
Draft social and environmental criteria for the specification

The social, environmental or economic criteria within the specification need to be shaped by:

- buyer objectives (as set by their corporate governance, business principles, corporate social responsibility or sustainable development programme), and
- the specific vulnerabilities of the supply chain.

For example, the buyer may have a corporate policy of procurement only from production sites which meet minimum standards set out in the International Labour Organisation's core conventions, or use fair trade criteria. The buyer may also seek statutory declarations from suppliers that minimum standards are upheld. The use of these standards or codes of conduct can progress ethical procurement when supported by the economic and business parameters negotiated in a contract. (See [Appendix 2](#) for further information.) Specifications which are output-based rather than input-based can increase supplier innovation, reduce waste, and minimise harmful social and environmental impacts.

At the end of this stage the buyer is more aware of specific environmental, social and economic issues associated with a product's production process and has drafted social, economic and environmental criteria for inclusion within the specification. The buyer will build systems to identify and deal with the risk of serious activity such as fraud, corruption, bribery and modern slavery, and to achieve visibility over complex and deep supply chains.



3

Supplier market engagement and development of procurement plan

Engage suppliers

Engage with suppliers to assess:

- Are there suppliers which meet the organisation's desired standards, or should the buyer ask suppliers to progress towards these standards?
- What are examples of good practice amongst current or potential suppliers?
- What issues have suppliers identified? What expertise can they bring to a discussion about improvements?
- Which suppliers have the awareness and skills needed to improve?
- Do suppliers understand what the buyer considers to be high priority or high risk areas?

- Have multi-stakeholder initiatives (involving organisations with relevant expertise) been established to address problematic practices within a supplier country or a sector? How effective have they been?
- Which suppliers are working with internationally respected independent trade unions or NGOs?
- Is there current or recent research pointing to critical concerns in an industry or country?
- What standards or codes of conduct are currently in use?

If there are enduring labour concerns, it is best to take a multi-stakeholder approach to harness expertise.

Supplier market assessment

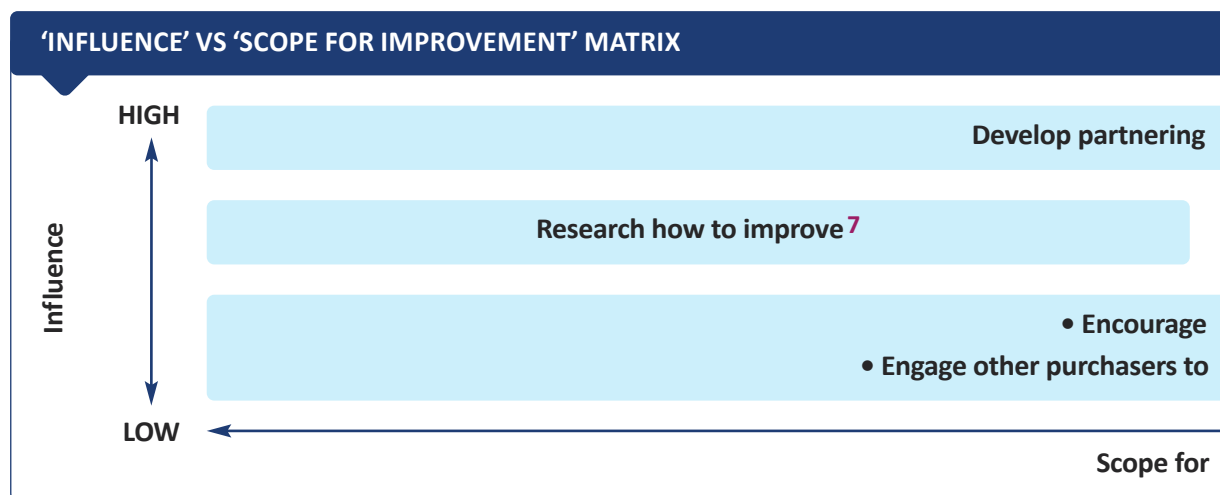
Buyers may wish to assess the following:

- The economic situation of the workers in that supply chain. Do they earn a living wage or are they trapped in cycles of debt? Are they able to influence their terms of employment? Have they paid a fee to get that job? Have they borrowed money for travel and recruitment fees? How does this impact on the risk of forced labour?
- Are laws updated and enforced?
- Are there relevant national or sectoral initiatives to improve worksites?

Develop procurement plan

Procurement professionals give feedback to internal colleagues on what the market is able to provide, and the implications of different sourcing approaches, including timings.

The buyer develops a plan for the procurement process along with time frames (pre-qualification, tendering) and evaluation criteria, and records who within the organisation will be involved and at what stage in the process.



Practical considerations;

- is further research needed?
- does the buyer need to include time and resource to work with civil society organisations based in the country of production?
- if purchasing a labour-intensive product, is there sufficient lead time to avoid excessive overtime during production?
- how will the buyer monitor compliance with ethical requirements and mitigate the risk of corruption/bribery?

At the end of this stage the buyer has updated the specification and decided whether to include a standard or code. In addition, they may have identified a need for a multi-stakeholder approach. Additional time and resources should be included in the procurement plan.

CASE STUDY

Multi-stakeholder initiative⁸: South Africa's Agricultural Ethical Trade Initiative (AETI)

AETI was created in 2002 as a result of collaboration between UK purchasing companies, NGOs and union members of the Ethical Trading Initiative to address racial discrimination and sexual harassment in the vineyards of South Africa. Vineyards and farms which are members of the association undertake to meet certain requirements and workplace standards. AETI organises regular inspections and training courses to support improvements. Part of its success is due to its track record in addressing systemic problems, and to support from international buyers who recognise the value of the association and only purchase from its members.

relationship with suppliers to:

Implement better practices

supplier to improve
influence sector and supplier market

improvement

HIGH

7. AETI's executive committee is composed of agricultural producers, unions, NGOs and the South African government's Department for Labour.

8. For example, the UK prison service stimulated suppliers to develop 100% recyclable mattresses for prisons, HM Prison Service (2005) Sustainable Development Report 2004–2005 and Action for Sustainability 'Sustainable Procurement – Myths and Legends', US Department of Labor research www.dol.gov/ilab/programs/ocft/2012TVPRA.pdf

4

Evaluation and shortlisting of suppliers

During this stage buyers reinforce to suppliers the importance of environmental and social performance, and assess suppliers' willingness to meet ethical standards.

Given their role in understanding supply markets and communicating with suppliers, procurement staff should;

- incorporate ethical and sustainability concerns into procurement decisions, as well as into contract material
- continue to communicate the organisation's sustainability policies to suppliers
- measure suppliers' practices in relation to the buyer's sustainable procurement objectives

- coordinate clear, consistent communications, particularly if a number of staff communicate with a supplier. Contradictory messages will undermine the relationship.

Issuing a pre-qualification questionnaire and an Invitation to Tender (ITT)/Request for Quotation (RFQ) is a perfect opportunity to communicate the buyer's commitment to sustainability and ethical procurement alongside gathering relevant information.

EXAMPLES OF ASSESSMENT CRITERIA

Economic	Social	Environmental
Previous/current experience	Accreditation by independent certification organisation to a standard	Impact of materials used and processes of production
Productivity/service capacity	Evidence that workers know their rights and responsibilities at work	Impact of packaging
Design robustness/innovation	Presence of independent trade unions or effective management/worker committees which address workers' priorities, including pay, hours and conditions	Impact of transport (air freight from Europe may be greater than sea freight from Asia/Africa)
Whole-life costing of product	Sub-supplier practices and conditions	Impact of product life cycle, including disposal
Switching cost of current supplier	Participation in multi-stakeholder initiatives that educate and change practices to address ingrained problems	

9. See BITC (2009), 'How to Manage Your Supply Chains Responsibly', and as an example, Oxfam's supplier questionnaire, www.oxfam.org.uk/resources/suppliers

10. ICLEI Respiro Guide (www.iclei-europe.org/index.php?id=4919) and www.mairie-lille.fr

Shortlist suppliers

The pre-qualification questionnaire may ask about policies, processes and performance.⁹

From the information which the supplier submits, buyers will be able to assess;

- a) the supplier's attitude
- b) what standards a supplier is working to
- c) the current situation, if the supplier submits previously completed audit reports
- d) whether the supplier will be willing to meet the buyer's ethical and sustainability standards.

These questionnaires can also be used to assess the economic, social and environmental performance of existing suppliers.

Develop ITT or RFQ

The ITT/RFQ is sent to the shortlisted suppliers, giving a list of criteria for selecting the winning bidder. (Examples of non-cost criteria are given below.) Weightings should be applied and tenders should be scored against each criterion in order to rank results. Usually, cost and non-cost aspects are scored separately, weighted and combined to give an overall score.

At the end of this stage the buyer has shortlisted potential suppliers and sent them ITT or RFQs, which explain how the bid will be assessed, and what standards the successful tenderer will need to achieve or work towards.

Sustainable development criteria in contract award

The City of Lille includes 'sustainable development performance' as one of the award criteria in its calls for tender. The award matrix is as follows:

- Technical quality: 50%, evaluated on the technical description
- Price: 30%
- Sustainable development performance: 20%, evaluated on information requested from tenderers. This includes declarations on respecting the ILO Core Conventions.¹⁰



5

Evaluation of quotes or offers and preferred supplier selection

When buyers assess pre-qualification questionnaires, tenders or audit reports from suppliers abroad, it is important to look for inter-related elements (see Stage 4, Examples of assessment criteria).

If a more detailed assessment is undertaken, for example through face-to-face meetings, it is recommended that the following questions are asked:

- Is there evidence of leadership by the supplier to improve workplace conditions, the local environment or address community needs?
- If a union is present, are workers' representatives appointed by Management? (The workers, not the supplier, should determine whether or not they join the union)
- If unions are not present, what is the workers' and the supplier management attitude to trade unions and the existence of an ongoing management process that negotiates with their workers, through, for example, workers' committees?¹¹
- What is the economic situation of the workforce? Are fees paid during the recruitment process? Do they hold their own identity documents?
- Does workers' pay equal or exceed the income needed to meet their living costs? This may indicate the effectiveness of the dialogue between managers and workers' representatives
- What are the labour hire practices of the supplier? Are there recruitment intermediaries? Do they employ migrant workers? What is the legal status of such workers? Do they have effective protections?
- Has the company ever detected bribery or corruption and what was the response?
- What fraud control measures are in place?

Assessing these inter-related elements may best be done by talking to local organisations around the supplier's worksite(s), as well as the relevant trade union. Good relationships between management and workers will reduce the likelihood of strikes (causing product delivery delays) and yield higher quality products, as well as providing the context for innovation. Sufficient wages to live on and being paid on time are necessary for workers and their families to be healthy, resulting in a more productive working environment and removing the circumstances for reputation-damaging stories. Almost all cases of child labour can be traced to adult workers' pay being insufficient to meet their families' basic needs.

Suppliers with poor social and environmental practices may be able to offer lower prices than existing suppliers with better conditions. Unless robust measures are in place to ensure good minimum standards before any new supplier is selected, the buyer will undermine its own ethical policies, expose itself to reputational risk, and signal to the market that they value sustainability less than other criteria.

Given the business case for good relationships between management and workers, buyers can:

- select suppliers who have collective bargaining agreements formed between management and worker representative or an independent trade union
- discuss with preferred suppliers the value of a modern human resources approach, which recognises the value of effective dialogue between management and worker representative or unions. In situations where suppliers are hostile to representative structures for workers, establishing a health and safety committee can demonstrate the benefits of discussing production processes with workers, often achieving rapid results.¹² If a supplier remains hostile to effective dialogue with its workers, this provides context for exploitation and the purchaser should seek alternative suppliers
- sign an international framework agreement with an international trade union. For example, Inditex, an international garment retailer, signed such an agreement with the International Textile, Garment and Leather Workers' Federation¹³
- take measures to ensure the labour hire matters are addressed, and that migrant workers have specific protections. Have fraud control measures in place.

At the end of this stage the buyer has selected a supplier on the basis of their performance against ethical standards and evidence of willingness to improve.

¹¹Independent union activities may be restricted in Export Processing Zones, or in some countries e.g. China.

¹²Impactt Limited found that the presence of health and safety committees at the Chinese supplier sites of their clients reduced the prevalence of issues around overtime premiums and excessive working hours, indicating that these committees are helpful in managing dangerous levels of overtime (www.impacttlimited.com/resources/getting-smarter-ethical-trading-in-the-downturn).

¹³International Framework Agreement Between Industria De Diseño Textil, S.A. (Inditex, S.A.) and the International Textile Garment Leather Workers Federation on the Implementation of International Labour Standards throughout the Inditex Supply Chain (2007), www.itglwf.org

CASE STUDY

Mining company

A mining company triggered an audit process of a supplier after receiving information that it was holding workers' passports. Retention of passports is a widely recognised indicator of risk of forced labour, although the supplier argued this was common practice in the Middle East.

The buyer engaged social auditors Verite to undertake a labour standards audit of the supplier's Middle East operations, focusing on an assessment of recruitment and onsite management of foreign workers, and working conditions across multiple sites and projects, with specific focus on comparison of labour and human rights conditions against internationally accepted norms and indicators of forced labour.

The audit found nearly 80% of the workers interviewed (94 out of 120) had paid agent's fees far in excess of the company limit of INR 20,000 (USD \$385). 24 of the 83 Indian workers had borrowed money to pay these fees at rates of 60% interest. The audit report noted that:

"Three years after coming back to India, workers are still unable to pay the principle amount on the loan, and are only able to pay interest."

The audit process also confirmed that while management considered production workers agreed to have their passports stored, workers did not consider this process to be voluntary. The findings confirmed the risk of debt bondage and the retention of passports clearly highlighted that the practice of forced labour in the workforce was very real.

Following the audit results, the senior executives of both supplier and buyer companies worked on the remediation strategy. The supplier paid \$45,000 worth of illegally charged fees to workers and instituted a program of ensuring there were safes available to workers in their rooms in the labour camps, so they could safely store their own passports.

At this stage the purchaser is either selecting a supplier which is able to meet desired standard of ethical practice, or the purchaser will make it a condition of contract for the supplier to improve their practices over the life of the contract. Where a purchaser only takes small volume or small percentage from a supplier then the purchaser will identify other purchasers to work with to build a pool of suppliers who do meet desired ethical standards as part of their activities in Stage 7.

ADVICE AND GUIDANCE

Agreements between companies and workers

At the heart of a good workplace lies a good relationship between management and workers. It is good practice for companies and worker representatives, or ideally, supported by an independent trade union on behalf of the workers to negotiate a collective bargaining agreement. This can:

- help improve and monitor human resource practices. In one factory workers went on strike over inconsistent use of regulations when a worker caught stealing received merely a first written warning, while another worker arriving five minutes late was fired on the spot
- put in place fair and transparent terms and conditions, e.g. rewarding workers for experience, skills and effort rather than on the basis of gender, race or religion
- be the best way to achieve improvements. Negotiating with an elected workforce representative to make overtime optional, and discussing how to improve production techniques, upgrading skills or improving health and safety, is likely to be more effective than imposing overtime on a tired workforce.

ADVICE AND GUIDANCE

Preferred supplier selection guidance

If there is a supplier able to deliver the working conditions which meet the buyers code of conduct, then strongly consider giving them the business.

Business with good working conditions are eroded when contracts are awarded to competitors with worse working conditions. If a supplier is not able to deliver working conditions which meet the buyers code of conduct, then make it a condition of the contract - over the life of that contract.

This approach encourages transparency, rather than pushing suppliers in a position where they lie, and do not address the issues they have with working conditions.

6

Creation of contract and performance management against contract

Create contract

Contracts state all the important aspects of the business transaction, such as price, deadlines, quality and terms of payment, as well as expectations regarding ethical and sustainable supply. The economic and business parameters which are negotiated impact social responsibility through a series of positive or negative consequences for the supplier or the environment. Ethical procurement and sustainability targets should be included in the contract as well as in the specification. Key Performance Indicators (KPIs) can measure the progress towards targets in relation to;

- example criteria to assess suppliers against (see Stage 4)
- elements from the supplier ethical scorecard (see Appendix 1)
- progress in implementing a corrective action plan to meet a code of conduct or standard.

These targets can be adjusted or prioritised according to learning from market analysis or particular supplier circumstances.

Checklist for managing contracts

- Communicate the contents of the contract, emphasising sustainability and ethical procurement requirements if these are new
- Obtain feedback from users to ensure any impacts of sustainable procurement provisions are understood, assessed and acted on
- Obtain initial feedback from suppliers to check shared understanding, hear ideas for how to improve their social and environmental performance, and establish how the buyer can support and facilitate improvements¹⁴

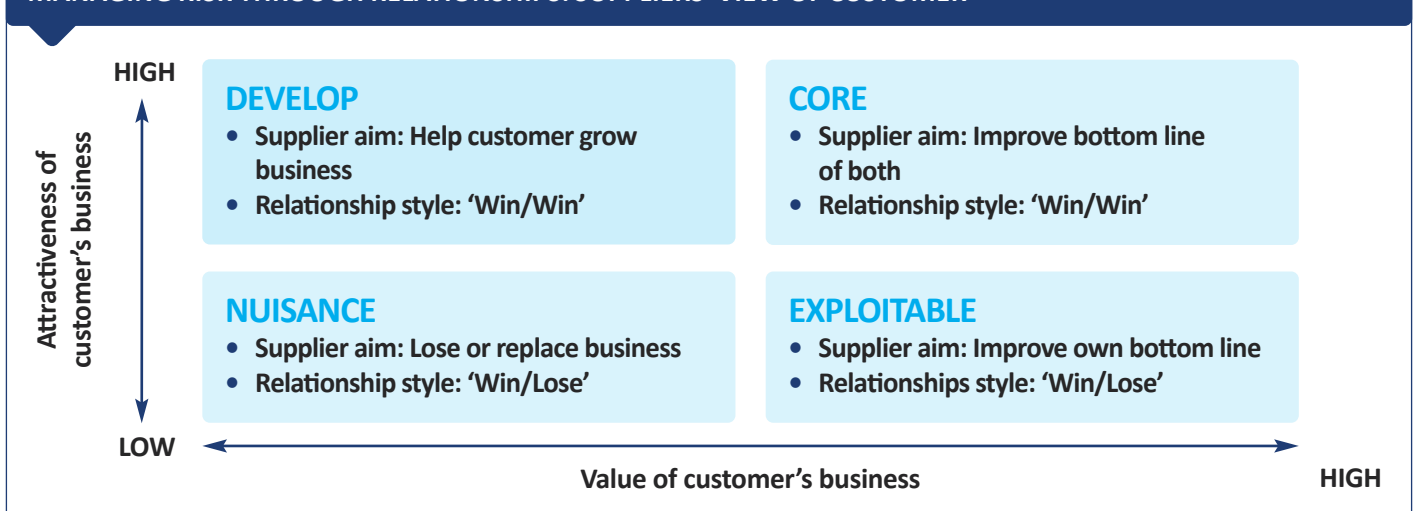
- Monitor supplier performance on KPIs. Get additional feedback from local organisations about workplace or environmental performance at supplier sites
- Manage supplier performance. Agree actions to be taken as a result of information gathered. Where suppliers lack expertise, facilitate relevant training or develop an action plan to address skill gaps. Where the buyer has little leverage or it is a short-term relationship, collaborate with other buyers
- Provide appropriate incentives. Reward suppliers for performance related to sustainability (e.g. higher volume orders, contract extensions, additional opportunities to tender for contracts, higher price for higher social and quality performance)
- Implement appropriate accountability measures.

Manage performance against contract

Buyers need to assess supplier performance against the desired level of social or environmental performance, focusing on elements identified in corrective action plans or improvement initiatives recorded in the contract.

Feedback on performance is a two-way process and a buyer needs to consider how the supplier regards them as a customer. A buyer should avoid making such high cost ethical demands (compared with the value of the business) that the supplier puts them into the Nuisance box (see matrix below). Where conduct breaches basic standards, buyers will need to respond quickly but sensitively. Ideally, the supplier will view their business with the buyer as being in the Develop or Core box.

MANAGING RISK THROUGH RELATIONSHIPS: SUPPLIERS' VIEW OF CUSTOMER



CASE STUDY

'Brand A found a new accessory supplier in Taiwan and told us [the factory] to use this new one for the next order. We confirmed the delivery date. The brand delayed giving details of the new supplier who, when contacted, was already at full capacity. These delays caused us to do excessive overtime and still shipment was delayed. We ended up paying for the [air] freight as a penalty for late shipment.'¹⁵ Factory manager

At the end of this stage the buyer has signed a contract with the supplier which includes sustainability and ethical procurement standards and targets. It has put in place a structured relationship oversight and review process, which aims for continuous improvement. Exit strategies, for where a supplier fails to meet basic standards, should also be considered, only after safeguards have been put in place for workers.

The importance of zero tolerance for slavery, fraud, corruption and bribery

Where breaches of basic standards occur – such as those involving corruption, fraud, bribery and modern slavery, such breaches must be addressed immediately. This does not mean that a buyer 'cuts and runs' from a supply relationship, but that immediate action must be taken to investigate the conduct, remediate it where possible, and plan so that it is prevented from recurring in the supply chain. This is because breaches of this nature are illegal and have the potential to cause enormous reputational damage to the buyer organisation.

The importance of progressive standards

Where suppliers which meet the desired standards are not available, buyers should consider how these standards are going to be achieved. A simple 'pass or fail' tick-box approach does not often lead to improvements for suppliers and their workers, and can simply shift problems elsewhere. This may be because the supplier does not understand the standards or their benefits. Progress standards, on the other hand, allow some flexibility and encourage improvements to be made. The key to achieving progress is in the supplier and buyer's mutual willingness to bring about change and their ability to work together to do so. Above all, communications with suppliers should stress the importance of transparency over compliance. Concealing issues makes it harder for them to be addressed.

Supplier relationships and exit strategy

The type of supplier relationship should be appropriate. For high risk sectors or strategic/critical categories, partnering relationships may be essential to encourage trust, collaboration, sustained improvements and co-operation.

Where a problem is not being resolved, an effective escalation process should be used to ensure that threats to the development programme are being communicated and that accountability for resolution of threats is correctly assigned.

In extreme cases, where required improvements have not been made, it may be necessary to exit a relationship with a supplier. This should be a last resort, after the buyer has made significant effort to support the supplier but the supplier demonstrates no intention or activity to improve. To continue to source from such a supplier indicates to competitors and other suppliers that the buyer is not serious about working to a required standard.

When terminating a relationship, buyers should check that workers have been and will be paid correctly if their work ends before any final payments are made. There have been instances where laid-off workers have protested against both buyer and supplier, which can damage the purchasing organisation's reputation and denies people wages which you as buyer have effectively subsidised.

Buyers work with suppliers to reduce child labour

*'Of the world's children, one in seven is in child labour of some kind. In the Asia-Pacific region 122 million children aged 5–14 work.'*¹⁶

BBC Worldwide, C&A Europe, CWF, Hallmark Cards UK, Kingfisher and New Look are integrating Child Labour Operational Procedures (CLOP)¹⁷ into their ethical programmes. These set out how the companies will work with their suppliers, factories and locally-based organisations to get children back to school whilst ensuring that the family's financial position is not jeopardised, rather than abandoning a supplier and its workers.

¹⁴. For example, Traidcraft Plc supplier feedback www.traidcraft.co.uk/about_traidcraft/social_accounts/trading/working_with_producers/comments.htm

¹⁵. Pentland (Summer 2009) Corporate Responsibility Review

¹⁶. ILO (2006), 'Facts on Child Labour', www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_067558.pdf

¹⁷. Impactt Limited (2008), www.impacttlimited.com/resources/impactt-child-labour-remediation-guidelines-in-the-industrial-context/

Audit – a useful tool?

In cases where a contract requires social or environmental standards of the supplier, an audit can be invaluable in determining which parts of the standard were met. Some buyers provide their suppliers with self-assessment workbooks or explanatory guides.¹⁸ This is particularly helpful when national laws or international standards are not well known by both communities. Prior to an audit, buyers should check the supplier's understanding of the desired standard.

Audits involve in-situ checking of the supplier's conditions, and, in some cases, off-site interviews with workers and ex-workers in places where they are free to speak honestly. Audits can be undertaken by a third party (NGOs, commercial audit companies) or by staff of the buyer. A combination of approaches may elicit more reliable information. Interviews and document review are essential components of good auditing. Interviews should be conducted in local languages and should occur at three levels: management, middle management/supervisors, and floor workers. Document reviews should be used to identify inconsistencies between what is said in interviews and what is recorded. Buyers should check that individual auditors have appropriate competencies and sensitivity to the confidentiality of workers' statements.

Suppliers with experience of selling internationally may already have been audited, and buyers could ask to see recent results. Initiatives like Sedex¹⁹ have been set up to share audit data to avoid duplication and reduce supply chain costs.

To enable swift progress to be made at the end of an audit, the Corrective Action Plan (CAP) needs to be shared with all relevant decision makers, i.e. not only site managers, supplier owners and buyers but also workers' representatives. Since it is workers' rights which are usually assessed through audits, sharing audit data with workers' organisations supports their capacity to negotiate fair conditions – the sustainable and ethical long-term solution. Workers can comment on the veracity of the audit, suggest improvements and highlight the highest-priority changes. Workers are the best monitors of whether changes have occurred at their workplace. Commercial audit companies may offer to monitor the implementation of the 'corrective actions'. However, the buyer's direct involvement in discussions with suppliers and worker representatives emphasises the buyer's desire for improvements to be made. For example, they could update the contract to make a commitment to the supplier for a fixed term, on the condition that improvements are satisfactorily implemented.

The manner in which audits are undertaken can, however, undermine the social or environmental objectives. A supplier's goodwill can be lost if the buyer requires them to pay for audits and improvements but fails to enable and support improvements. Buyers may need to adapt their commercial terms and think twice about requiring a supplier to make the costly investment of an audit when there is no guaranteed order. In the worst case, this can result in suppliers falsifying records for an audit, asking workers to lie in audit interviews or bribing the auditor. The table below highlights the frequency of double books and coached workers.²⁰

INSTANCES OF DOUBLE BOOKS AND COACHED WORKERS DURING 2012/13 INSPECTIONS

Region	Prevalence of double books	Prevalence of coached workers
South East Asia	31%	29%
China	35%	34%
Bangladesh	50%	29%
India	75%	75%
UK	4%	4%

Reliance solely on audits is not advisable. Having trade union representation or an independent workers' organisation at a supplier site can be an advantage for the buyer. Unions can provide information, inform workers about their rights and provide a structured process for supplier management to discuss workers' priorities and grievances. The key to whether audits lead to positive or negative outcomes lies in how the results are used and whether processes are put in place which lead to sustainable improvement in conditions. Building up worker awareness of their rights and establishing an effective worker-management dialogue mechanism is a cost effective way of ensuring sustainable improvement in conditions.

18. Kingfisher (2006), 'Kingfisher Guide to Indian Workplace Laws and Regulations', www.kingfisher.co.uk/managed_content/files/sr_pdf/KF_IndiaLaw.pdf

19. Supplier Ethical Data Exchange (SEDEX) is a secure database where suppliers can upload data about their sites. See SMETA for best practice guidance on conducting ethical trade audits www.sedex.org.uk/sedex/go.asp?u=/WebSite/Home&pm=6&location=Smeta

20. Impactt Limited (2013), www.impacttlimited.com/resources

7 Update ethical procurement programme...

...including standard setting and share and reward good practice

Building on reviews of suppliers' performance against individual contracts, the buyer needs to review and update its ethical procurement programme, assessing it against the following:

- Were planned standards met and procedures implemented?
- Were the desired social or environmental standards achieved? Consider assessing both the extent to which the standard was achieved and the percentage of suppliers and/or spend associated with sites which have achieved the desired standard
- Do suppliers take an attitude of encouragement, guidance, fair trading terms and rewards for good economic, socially and environmentally responsible management when dealing with second and third-tier suppliers?

Contractual targets and agreements which recognise the shared responsibility for bringing about social and environmental improvements can be incorporated. This approach will result in supplier development as well as delivery against outcomes from procurement strategy.

Identify root causes and barriers to improvement

Assess:

- What are the root causes of non-compliance or poor performance? Within the buyer? Within the supplier? Elsewhere?
- What were the barriers for buyers to bring about improvements at supplier sites?

Act to address root causes

Many organisations are moving to what is termed 'beyond auditing' and focusing on what is needed to help a supplier improve its social and environmental performance.²¹

An important component of this is training and awareness-raising within both buyer and supplier organisations, to ensure standards are clearly communicated and understood.

ACTIONS TAKEN BY PURCHASING ORGANISATIONS TO ADDRESS ROOT CAUSES OF POOR WORKING CONDITIONS²²

Company name, country	Publically committed to the ILO?*	Participate in industry/multi-stakeholder approach?	Factory training provided?	Factory audit results disclosed?	Unannounced audits and use of worker interviews?	Addressing purchasing practices?	Tackling difficult labour standard challenges e.g. living wages, trade union rights?
Adidas, Germany	●	●	●	●	●	●	●
Carrefour, France	●	●	●	●	●	●	●
H&M, Sweden	●	●	●	●	●	●	●
Inditex, Spain	●	●	●	●	●	●	●
Nike, USA	●	●	●	●	●	●	●
Tesco, UK	●	●	●	●	●	●	●

*International Labour Organisation

²¹F and C Investments (2009), 'Factory Labour Standards in Emerging Markets: An investor perspective' www.fundnets.net/fn_filelibrary//file/co_gsi_Factory_Labour_Standards_in_Emerging_Markets.pdf

²²Business Leaders Initiative on Human Rights (2009), 'A Guide to Integrating Human Rights into Business'



Update ethical procurement programme...

Increase the capacity of workers and suppliers to improve

The buyer should facilitate the building of workers' and suppliers' knowledge, skills and processes, for example, by providing them with guidance on good practice and/or providing training for workers. Support is more effective when buyers collaborate with organisations experienced in bringing about workplace improvements in that country. Multi-stakeholder organisations have helped buyers to collaborate, discuss how to bring about improvements, and produce guidance. (See Resources on page 30.)

Share good practice

A review of the ethical, procurement programme will identify in which areas suppliers have implemented good practices, and in which areas they may be weak. Multi-stakeholder organisations, others sourcing similar products or from the same area and organisations based in the supplier community may also know of good practices.

Supplier development can help improve the practices of specific suppliers, and supplier co-ordination can help share good practices and initiatives between groups of suppliers to bring about improvements, increasing the likelihood of achieving agreed targets for the benefit of both parties.

Improve procurement practices

Feedback from supplier and workers' organisations indicates that, on some occasions, it is the procurement practices of the buying organisation which limit the improvement of working conditions for example, placing large urgent last minute orders on the supplier. Buyers need to find ways of harnessing supplier feedback to improve their own ability to support positive social and environmental outcomes.

Benchmarking

The buyer can benchmark the performance of their ethical procurement programme against others. Both performance and processes, such as the actions listed in the table on page 21, can be used in the benchmarking exercise. Buyers are reluctant to be at a competitive disadvantage on ethical procurement issues. Investors, customers and other stakeholders may also exert pressure to improve.

Update ethical procurement programme and set new targets

Building on their assessment of the current ethical purchasing programme and benchmarking, the buyer can now undertake a gap analysis between desired and actual performance (determined by supplier assessments and other information). Any gaps identified will form the basis for improvement targets and objectives for the new ethical purchasing programme.

Recognise and reward good performance and leaders in ethical procurement

Ethical procurement is a process of continuous improvement involving both the buyer and the entire supply network. The buyer can consider introducing supplier awards to recognise progress in aspects of social and environmental performance, for example through 'preferred supplier' status or similar mechanisms which direct orders towards better-performing suppliers. In some contexts the owners or managers of suppliers are under peer pressure from other managers not to improve conditions. In these cases it becomes even more crucial that the buyer supports leadership in good social and environmental performance at production sites.

Appendix 1 includes an integrated performance scorecard for both buyers and suppliers. This tool can help the buyer embed recognition and reward structures for good supplier practice in how sites are managed and for the way in which buyers select suppliers and enable good workplace outcomes through their procurement.

At the end of this stage the buyer has updated their procurement programme based on feedback, learning and an assessment of progress towards desired social and environmental outcomes. This information guides activities within the programme to address root causes of problems, identifying areas in which the buyer can facilitate learning across suppliers, and where reward structures both for suppliers and buyers should be adjusted.

CASE STUDY

Indian supplier: The business benefits of improving working conditions

A Calcutta-based supplier realised business benefits after making changes following a labour standards audit. The 250,000 unit-per-month factory with an annual turnover of £3.8m employs approximately 500 workers to make bags, accessories and clothes for the European, US and South American markets.

'In 2006, after audit results indicated there was room for improvement, we reorganised production to try to motivate workers. The audits were required for the factory to continue supplying certain customers. In our opinion, the additional costs of compliance have been far outweighed by the benefits arising from productivity, lower employee turnover, better quality due to increased job security and, most importantly, access to better customers.

As a result of implementing changes, labour costs increased by 20%. However:

- Productivity increased by 10–20% (after providing workers with steel gloves, face masks, and needle guards)
- Worker turnover went from 30% to less than 5%, reducing training costs.

To facilitate discussions and ensure collective bargaining, a 21-member workers' committee has been established. This committee meets once a month, firstly on its own, and then with the factory manager and two senior staff. Its purpose is to raise concerns and share ideas for how the factory could be run better.

The factory also operates an ambulance service, as the nearest is more than an hour away. Workers now feel proud to work at the factory because of the benefits it shares with their community.²³

Ethical procurement is increasingly an economic and reputational imperative. Purchasers working in conjunction with their suppliers can start to improve labour conditions for workers in their supply chain and limit any harmful environmental impacts, resulting in business benefits for both purchasers and suppliers.

²³ Interview with managing director



Appendix 1:

Good practice suggests that individual buyer and supplier performance appraisals should both include elements which assess their contribution to the responsible purchasing programme, and that these are combined with traditional commercial key performance indicators.²⁴ An integrated balanced scorecard for performance appraisals can be used to reward good performance. A complementary reward approach recognises the shared responsibility which exists for suppliers to implement good workplace practices and for buyers to select, enable and encourage good performance by suppliers.

In the table opposite, the scorecard components of social responsibility for buyers and suppliers are aligned in rows. The indicators of desired workplace outcomes which are the shared responsibility of both buyers and suppliers are indicated in the far right-hand column.

Complementary buyer and supplier for rewarding good workplace performance

'SUSTAINABLE' COMPONENT OF BUYER BALANCED SCORECARD

Desired behaviour	Indicators
<ul style="list-style-type: none"> Choice of and loyalty to suppliers who demonstrate commitment and actions to improve working conditions. 	<ul style="list-style-type: none"> % of business through suppliers scoring well on this indicator (through no sites with active trade union, steps towards paying a living wage, provision of social benefits (healthcare, schooling, nutrition, etc.), lower staff turnover).
<ul style="list-style-type: none"> Retaining suppliers who are willing to work through labour standard problems Exiting from suppliers who have demonstrated no commitment to improving working conditions. 	<ul style="list-style-type: none"> % of suppliers who have acknowledged issues and made improvements % of suppliers making no progress who have been delisted.
<ul style="list-style-type: none"> Loyalty to suppliers with long relationship with production sites. 	<ul style="list-style-type: none"> Average length of relationship with individual production sites.
<ul style="list-style-type: none"> Commitment to a critical path which allows sufficient planning and production time. 	<ul style="list-style-type: none"> No. of deviations from critical path Sampling hit/conversion rate No. of late changes in orders.
<ul style="list-style-type: none"> Contributing to an enabling environment for improved labour standards within the supply chain. 	<ul style="list-style-type: none"> Level of willingness to work collaboratively (e.g. with NGOs, trade unions, government, trade associations and suppliers) to bring about sustainable labour standards improvements within the supply chain No. of active collaborative projects with NGOs, trade unions, government, etc. to improve labour or environmental standards.
<ul style="list-style-type: none"> Demonstrating ongoing commitment to learning about sustainable/responsible procurement. 	<ul style="list-style-type: none"> Relevant personal development objective, no. of hours of training attended, no. of external contacts with whom tools and learning are shared.
<ul style="list-style-type: none"> Ethics integrated into core business process. 	<ul style="list-style-type: none"> No. of contracts with ethical criteria for supplier selection.

²⁴. Institute for Supply Management (2008), 'Principles of Sustainability and Social Responsibility with a Guide to Adoption and Implementation', www.ism.ws/files/SR/SSRwGuideBook08.pdf

scorecards

rmance

'SUSTAINABLE' COMPONENT OF SUPPLIER BALANCED SCORECARD

Desired behaviour	Indicators
<ul style="list-style-type: none"> Championing better jobs for workers, good labour standards and having a positive impact in the community Actively working to a plan to improve standards. 	<ul style="list-style-type: none"> Staff turnover at production sites Good human resource management systems Good labour standards audit results Sharing good practice with other suppliers.
<ul style="list-style-type: none"> Taking pride in steps taken to demonstrate improved working conditions at all times, including when issues arise. 	<ul style="list-style-type: none"> Sites with initiatives such as active trade union representation (or worker representation where trade unions are not allowed), steps towards paying a living wage, provision of social benefits (healthcare, schooling, nutrition, etc.) Existing recognition agreement and Collective Bargaining Agreement No. workers with long-term contracts Ratio of insecure to contracted workers (differentiated by gender) Analysis of working hours.
<ul style="list-style-type: none"> Stable relationships with own suppliers/subcontractors. 	<ul style="list-style-type: none"> Average length of relationship with individual production sites Open dialogue on labour conditions.
<ul style="list-style-type: none"> Transparent about supply chain and production. 	<ul style="list-style-type: none"> Shared list of all sources of supply, including subcontractors and home workers.
<ul style="list-style-type: none"> Open dialogue on labour standards in subcontracting sites. 	<ul style="list-style-type: none"> Level of willingness to discuss issues such as pressures on working hours and pay Retrospective comparison of planned vs. actual timings and volume outputs, measured against overtime worked at site.
<ul style="list-style-type: none"> Constructive feedback on how purchasing and manufacturing process can be adapted to meet business as well as minimum social objectives. 	<ul style="list-style-type: none"> Quality of business relationship between brand/retailer and supplier, gauged by 360-degree feedback.
<ul style="list-style-type: none"> Contributing to an enabling environment for improved labour standards within the supply chain. 	<ul style="list-style-type: none"> Level of willingness to work collaboratively to bring about sustainable labour standards improvements on site.
<ul style="list-style-type: none"> Evidence that supplier uses this 'buyer ethical scorecard' for their procurement from the next tier. 	<ul style="list-style-type: none"> Selection of suppliers with good social performance.

2

Appendix 2:

Supply chain codes/standards and their context

Buyers can select the standards or code of conduct they desire their suppliers to achieve and maintain. Codes of conduct refer to an expected way of behaving. Standards refer to a particular level that a supplier has achieved, for which they may place a label on their product (to communicate to the consumer) or a logo alongside their organisation's logo (for corporate communication purposes). Codes of conduct and standards in the context of supply chains are similar, and so these terms are used interchangeably in this guide.

Labour codes of conduct

Labour standards codes are usually based on the International Labour Organisation's conventions. The ILO is a UN agency (made up of national governments, employers and workers' organisations) which sets internationally recognised standards on workers' rights. The ILO's 1998 'Declaration on Fundamental Principles and Rights at Work' set out eight core conventions whose principles are binding on all ILO member states, i.e. most countries.

Since several of these minimum labour rights are not currently achieved within international supply chains, it is increasingly common to include codes of conduct based on these ILO minimum standards into contracts with suppliers.

To reduce supplier confusion and unnecessary audits, efforts have been made to harmonise the codes used by buyers:

- Businesses have collaborated to develop the Global Social Compliance Programme (GSCP)²⁵ reference code
- Multi-stakeholder initiatives (which include companies in the GSCP group) developed the draft Join code based on the highest provisions within Social Accountability (SA8000), Ethical Trading Initiative (ETI), Fairwear Foundation, and others.

Provisions in all these codes constitute minimums, and suppliers are expected to comply with national law and/or apply provision that affords greater protection.

Codes of Conduct are only ever as powerful as the degree of effort put in to explain, communicate and implement them. Codes should be supplemented by mainstreaming their ethical values throughout the procurement policy, being clear within both buyer and supplier organisations about expectations, and rigorous monitoring programmes. This Appendix highlights complementary actions to be taken by the buyer.

Codes and standards can be subdivided in several different ways:

- Mandatory (e.g. UK Competition Commission's Grocery Supply Code of Practice) vs. voluntary (e.g. SA8000)
- Those based on minimum international standards, and those which go beyond
- Those which are independently verified
- Those which apply to an organisation and those which apply to a product
- Those which involve supplier and worker representatives in the setting and governance of the standard (as appropriate to the objectives of the standard).

This Appendix provides information on current good practice supply chain codes used by increasing numbers of buyers. For a more complete list of both internationally recognised CSR instruments and non-governmental CSR-related codes and standards initiatives, see Appendix 3 and 4 respectively of IISD's 'Corporate Social Responsibility: An implementation guide for business'.

JOIN CODE PROVISIONS

Join code provisions (building on ETI and SA8000) (linked to ILO fundamental conventions)²⁶

- Child labour ILO C138, C182
- Non-discrimination ILO C100, C111
- Freedom of association and collective bargaining ILO C87, C98
- Forced labour ILO C29, C105
- Health and safety
- Wages
- Hours of work
- Harassment and abuse
- Employment relationship.

²⁵. www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background

²⁶. Joint Initiative on Corporate Accountability and Workers' Rights (2007), 'Draft Code of Labour Practice', www.jo-in.org/pub/docs/Jo-In%20Draft%20Common%20Code%205.05.pdf

Standards which exceed international minimums

Other standards have developed to address specific issues, going beyond internationally agreed standards. These include;

- environmental standards (ISO 14001 and EMAS management systems)
- standards based on good agricultural practices (GlobalGAP)
- consumer-facing standards (Fairtrade, Rainforest, Utz Certified, Organic).

The differences in these standards reflect their different objectives, origins and governance.

Fair trade standards

The fair trade movement's standards/systems aim to improve the situation of workers and/or farmers at a particular part of the supply chain. Two recognised standards have been developed:

- World Fair Trade Organisation (WFTO) prescribes 10 principles that fair trade organisations must follow in their day-to-day work which are monitored. WFTO is also developing a Sustainable Fair Trade management system for fair trade organisations.
- Fairtrade Labelling Organisations (FLO) International sets the standard for mainly agricultural products. Products which come from independently certified sites are sold with the Fairtrade mark on their packaging. Labelled Fairtrade standards fall into two types: those to be implemented in formal workplaces ('hired labour standard') and those to be implemented by small-scale producers organised in co-operatives.

The FLO standard is included in this section because it is the only standard which guarantees the supplier a minimum price. A priority for suppliers is to know that the costs incurred to reach a particular standard will be recouped through sales of product under that standard. At fair trade production sites workers are paid a fair wage and a premium fund is established. The expenditure of the fund is decided upon by workers or members of the co-op, empowering workers and benefiting the local community.

Sometimes the fund is used to address gaps in social security provision, complementing government provision.



Context of supply chain codes

Codes work best when buyers work with suppliers to enable the objectives of the code to be met.

Involving workers and supplier management

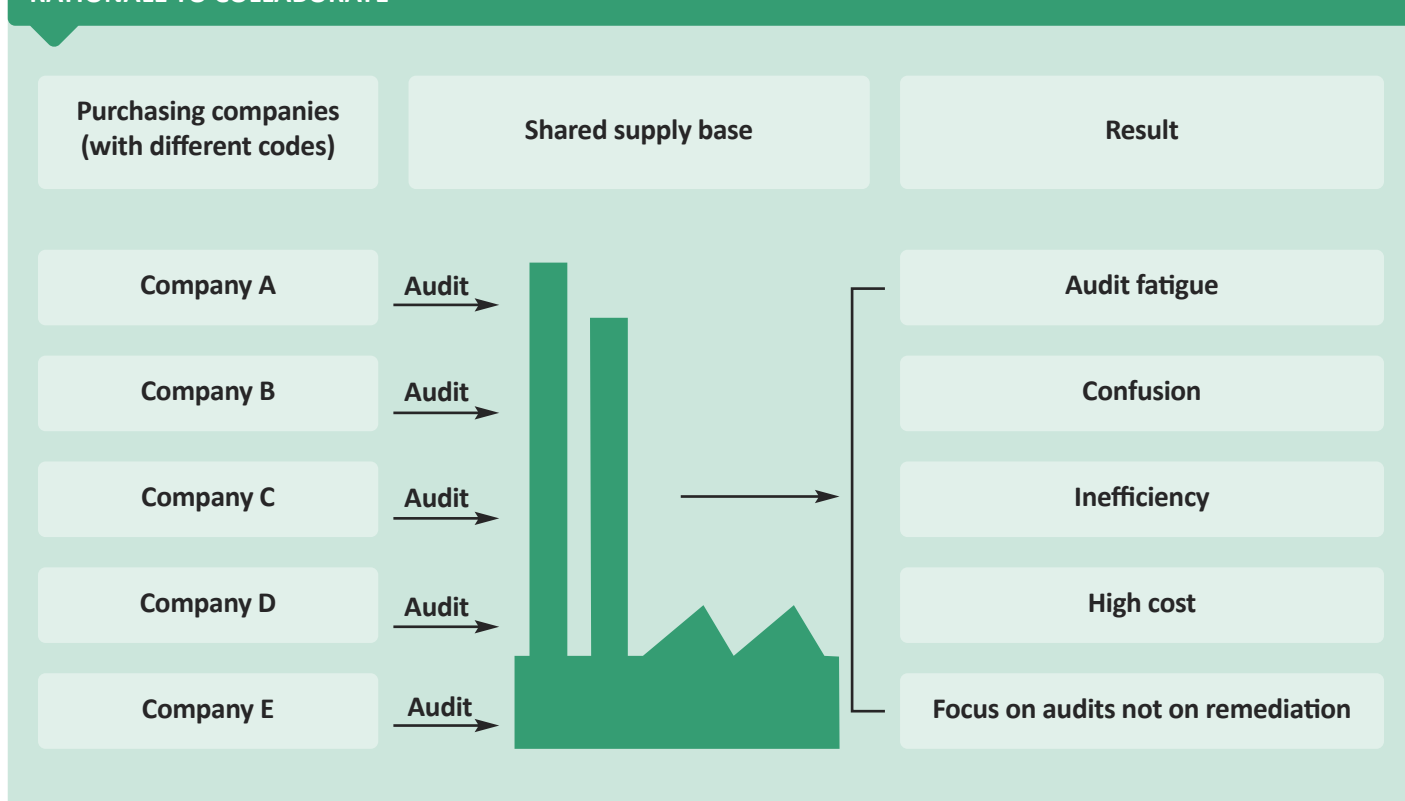
Ultimately, the sustainability of code implementation rests with workers and suppliers. Buyers are increasingly seeking to work with local organisations to raise awareness of labour standards (see [Resources](#), page 30).

Responsibility on buyers

- The Ethical Trading Initiative asks its member buyers to follow 'Principles of Implementation' which set out management practices. These complement ETI's base code
- The Fairtrade standard requires that: '[Trading terms] are based on written contracts which specify the mutually agreed price and payment conditions, including pre-payment where requested by producers, and allow sufficient lead time for production without excessive working hours, at the same time as seasonal factors affecting the producer'
- Other ethical Procurement Initiative resources also provide guidance
- Buyers should support improvements identified in corrective action plans.

Duplication of codes, as well as audits, has diverted attention and resources away from implementing improvements. Sharing audit data where approved by the supplier is efficient and enables improvement within an entire sector.²⁷

RATIONALE TO COLLABORATE ²⁸



²⁷The Supplier Ethical Data Exchange exists to enable suppliers to share socially responsible information about their sites with buyers and other selected organisations, to save duplication of audits, www.sedex.org.uk

²⁸Adapted from Global Social Compliance Programme, www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background.asp

3

Appendix 3:

Chartered Institute of Purchasing & Supply Code of Conduct

Your commitment to the profession

The purpose of this code of conduct is to define behaviours and actions which CIPS members must commit to maintain as long as they are members of CIPS.

Use of the code

Members of CIPS worldwide are required to uphold this code and to seek commitment to it by all the parties they engage with in their professional practice.

Members should encourage their organisation to adopt an ethical procurement and supply policy based on the principles of this code and raise any matter of concern relating to business ethics at an appropriate level within their organisation.

Members' conduct will be judged against the code and any breach may lead to action under the disciplinary rules set out in the Institute's Royal Charter. Members are expected to assist any investigation by CIPS in the event of a complaint being made against them.

CIPS Code of Conduct ²⁹

As a member of the Chartered Institute of Purchasing & Supply, I will:

Enhance and protect the standing of the profession, by:

- never engaging in conduct, either professional or personal, which would bring the profession or the Chartered Institute of Purchasing & Supply into disrepute
- not accepting inducements or gifts (other than any declared gifts of nominal value which have been sanctioned by my employer)
- not allowing offers of hospitality or those with vested interests to influence, or be perceived to influence, my business decisions
- being aware that my behaviour outside my professional life may have an effect on how I am perceived as a professional.

Maintain the highest standard of integrity in all business relationships, by:

- rejecting any business practice which might reasonably be deemed improper
- never using my authority or position for my own financial gain
- declaring to my line manager any personal interest that might affect, or be seen by others to affect, my impartiality in decision making
- ensuring that the information I give in the course of my work is accurate and not misleading
- never breaching the confidentiality of information I receive in a professional capacity
- striving for genuine, fair and transparent competition
- being truthful about my skills, experience and qualifications.

Promote the eradication of unethical business practices, by:

- fostering awareness of human rights, fraud and corruption issues in all my business relationships
- responsibly managing any business relationships where unethical practices may come to light, and taking appropriate action to report and remedy them
- undertaking due diligence on appropriate supplier relationships in relation to forced labour (modern slavery) and other human rights abuses, fraud and corruption
- continually developing my knowledge of forced labour (modern slavery), human rights, fraud and corruption issues, and applying this in my professional life.

Enhance the proficiency and stature of the profession, by:

- continually developing and applying knowledge to increase my personal skills and those of the organisation I work for
- fostering the highest standards of professional competence amongst those for whom I am responsible
- optimising the responsible use of resources which I have influence over for the benefit of my organisation.

Ensure full compliance with laws and regulations, by:

- adhering to the laws of countries in which I practise, and in countries where there is no relevant law in place I will apply the standards inherent in this Code
- fulfilling agreed contractual obligations
- following CIPS guidance on professional practice.

²⁹. This code was approved by the CIPS Global Board of Trustees on 10 September 2013. You can download a pdf version of the CIPS Code of Conduct at: www.cips.org/code-of-conduct

Resources...

Resources for organisational use (both buyers and supplier)

- Business Leaders Initiative on Human Rights, UN Global Compact and the Office of the UN High Commissioner for Human Rights (2009), 'The Guide for Integrating Human Rights into Business Management', www.blihr.zingstudios.com/home (online tool)
- UN Sub-Commission on the Promotion and Protection of Human Rights (2003), 'Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights' (draft), [www.unhchr.ch/huridocda/huridoca.nsf/\(Symbol\)/E.C.N.4.Sub.2.2003.12.Rev.2.En](http://www.unhchr.ch/huridocda/huridoca.nsf/(Symbol)/E.C.N.4.Sub.2.2003.12.Rev.2.En)
- UN Global Compact's Recommended Tools and Guidance Materials, www.unglobalcompact.org/Issues/human_rights/Tools_and_Guidance_Materials.html#specific
- International Institute for Sustainable Development (2007), 'Corporate Social Responsibility: An implementation guide for business', www.iisd.org/pdf/2007/csr_guide.pdf
- Sedex Supplier Workbook, available for download from Sedex website: www.sedexglobal.com

Resources for buyers

General:

- Institute for Supply Management (2008), 'Principles of Sustainability and Social Responsibility with a Guide to Adoption and Implementation', www.ism.ws/files/SR/SSRwGuideBook08.pdf
- CIPS Knowledge, 'Ethical Business Practices in Purchasing and Supply Management', www.ekobai.com/links/link/7 and Sustainable Procurement www.cips.org/documents/KS_Sustain_procure_v3.pdf
- RESPIRO Guides on Socially Responsible Procurement (SRP), www.iclei-europe.org/index.php?id=3896
- Business in the Community (2009), 'How to Manage Your Supply Chains Responsibly', www.bitc.org.uk/marketplace/suppliers/index.html
- Chartered Institute of Purchasing and Supply, Institute of Environmental Management and Assessment and the NHS Purchasing and Supply Agency (2002), 'Environmental Purchasing in Practice', www.iema.net/iemanews?aid=3672
- Declaration on Fundamental Principles and Rights at Work' and country status reports on labour rights, www.ilo.org/declaration/lang-en/index.htm
- Supplier Ethical Data Exchange, www.sedex.org.uk
- Ethical Trading Initiative, www.ethicaltrade.org
- Big Room Label list, www.ecolabelling.org
- International Social and Environmental Accreditation and Labelling Alliance (ISEAL), www.isealalliance.org
- The US Department of Labour publishes an annual List of Goods produced by Child Labour or Forced Labour. The 2012 Report is here: www.dol.gov/ilab/programs/ocft/2012TVpra.pdf
- UN Guiding Principles on Business & Human Rights: www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf
- OECD Guidelines for Multinational Enterprises (2011 edition): www.oecd.org/daf/inv/mne/48004323.pdf
- Ikea sustainability report 2012: http://www.ikea.com/ms/en_GB/about_ikea/facts_and_figures/sustainability_report/sustainability_report_2012.html

Public procurement:

- EU (2008), 'Managing Green Public Procurement Implementation', www.ec.europa.eu/environment/gpp/toolkit_en.htm
- UK National Sustainable Commissioning and Procurement Programme Board (2007), 'Sustainable Procurement Cupboard – The Legal Shelf', www.procurementcupboard.org/Files/Legal%20Shelf%20uploaded.pdf



Worker awareness materials for buyers and suppliers to distribute

Resources for workers in employer–employee relationships:

- ILO Better Factories Cambodia produced 6 booklets: ‘At the Factory Gates’, www.betterfactories.org/resourcedet.aspx?z=7&iddoc=84&c=1
- Sri Lanka workers’ leaflet ‘ETI for your development’, www.ethicaltrade.org/resources/awareness-raising-tools/sri-lanka-workers-leaflet

Resources for smallholder farmers and their workers:

- ETI, ‘Working for a Better Life: What smallholders need to know’, available in English, Spanish and KiSwahili, www.ethicaltrade.org/resources/awareness-raising-tools/working-for-a-better-life
- Raasblaarstories, a photo-comic story for workers which explains South African’s Agricultural Ethical Trade Initiative code and audit process, www.wieta.org.za/news.html

Glossary

- For an explanation of procurement-specific terms see the CIPS Jargon Buster, www.cips.org/en-GB/Knowledge/dictionary-faqs



This report is co-authored by the Chartered Institute of Purchasing & Supply and Traidcraft Exchange with input from Walk Free.

The **Chartered Institute of Purchasing & Supply (CIPS)** is an international organisation serving the procurement and supply profession. Dedicated to promoting good practice, CIPS provides a wide range of services for the benefit of members and the wider business community. It is the worldwide centre of excellence on purchasing and supply management serving a global community of over 100,000, with members in 150 countries. Its role as a professional body is defined by its Royal Charter. The Charter provides clear objectives, which need to be achieved for the public benefit. www.cips.org



Traidcraft Exchange is the UK's only development charity specialising in making trade work for the poor. In collaboration with local partners we work to create opportunities for poor people to harness the benefits of trade, helping them to develop sustainable livelihoods and offering them hope for a better future. Traidcraft also uses the experience of its counterpart, Traidcraft plc, a fair trade company, to improve wider trade practices. www.traidcraft.org



The **Walk Free Foundation** is a global organisation with a mission to end modern slavery in our generation by mobilising a global activist movement, generating the highest quality research, enlisting business and raising unprecedented levels of capital to drive change in those countries and industries bearing the greatest responsibility for slavery today. www.walkfreefoundation.org

The information in this document may not be copied or reproduced without the permission of CIPS or Traidcraft. The specific local perspective of this guide complements previous publications 'Taking the Lead' a guide for senior managers and the 'Buying Game', an online, awareness raising, self-assessment tool for purchasers. These resources were produced jointly by Traidcraft and the Chartered Institute of Purchasing & Supply (CIPS) and complement Traidcraft's guide 'Material Concerns'. 'Fresh Perspective' and a 'Fair Cup' which provide sector specific purchasing guidance for garment, fresh produce and agriculture sectors respectively.

This document provides procurement professionals with practical guidance on: building relationships with suppliers in other countries, highlighting the need for honesty and sensitivity to cross-cultural issues, understanding and identifying risks in the Supply Chain, how to support both purchasers and suppliers to encourage and reward good practice ([Appendix 1, page 24](#)), selecting codes or standards which address priorities in a cross-border context ([Appendix 2, page 26](#)). As the field of ethical procurement evolves, this guide provides buyers with points to consider as they develop and implement their ethical procurement programme.

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