



Redefining an Effective Responsible Sourcing Program

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ELEVATE
Business Driven Sustainability

THE TOP 10 NEW DEVELOPMENTS IN SOCIAL RESPONSIBILITY

Ian Spaulding
CEO
ELEVATE

Key Developments

In Social and Labor Management today

Modern companies are managing compliance issues in evolving ways and the environment around them has never been more complex. In this context, important trends are emerging :

1. **Alliance and Accord** - first major remediation initiatives organized, funded and managed by industry (and not lead by civil society organizations/NGOs). The Industry will probably take the lead in new geographic development initiatives in Africa, Pakistan and Myanmar, amongst others.
2. **IFC and USAID Credit Facilities** - \$50 million credit facility + \$18 million risk guarantee were negotiated by the Alliance to support factories in Bangladesh and finance their remediation. Estimated costs were added to each violation in CAPs to show the real cost for issue solving. The implications for buyer-supplier dialogue are significant.
3. **Segmentation** – an increasing number of retailers/ brands recognize that investment in CSR needs to be reset: segmentation is a tool being used to establish clear investment and development strategies. It is estimated that this will lead to reduce the roll-out of classic audit programs in favor of a more textured, forward-leaning programs to drive greater ROI.

Key Developments

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4. **Specialty Assessments** – while standard audit templates are widely used, segmentation efforts and customised programs are creating demand for new non-standard types of audits. This trend is likely to increase along with the offer of topic-specific audits and altogether new types of audit. For example:
 - **KPI source data verification**: where companies have put in place programmes to collect and analyse monthly key performance indicators, annual audits changed from a code of conduct assessment to a verification of the source data for the KPI submissions and validation of its accuracy.
 - **Migrant worker assessments**: new specific tools to identify issues and respond to supply chains and legislative requirements.
 - **Grievance mechanisms assessment**: Companies are introducing grievance management system audits to develop a comprehensive understanding of the factory reality
5. **CAP Plus** – a hot topic in the industry is **Audit +**. Typically the goal of an audit is to flag out issues, not to be a solution. However, CAPs that have grown out of a “tick the box” exercise can be much more. If different types of information (costs, business performance data, supply chain performance data) are captured in the audit, CAP’s can become prescriptive and more solution/action-oriented.

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6. **Mutual Recognition** – a number of companies continue to consider accepting audit reports / certifications from collaborative initiatives such as BSCI, EICC, ICTI, SMETA in lieu of their own audits. Good and bad news with this trend. Good news: better, fewer audits. Bad news: factory selected programs based on ease of passing / costs leading to bad / faulty data (encouraging bribery and false records).
7. **Bribery Exposure Increases** – Recent critiques by Guangdong Toy Association, anonymous whistle-blower and others have exposed the degree to which bribery is much more pervasive in the Audit industry. ELEVATE data of bribery attempts have increased substantially in the last year. Underscores the need to develop APSCA.
8. **New models to drive program effectiveness** –
 - Self-Assessment / Management System Assessments / Frameworks are growing (e.g. SAC, Audit tool changes).
 - Supplier Ownership: vendors, suppliers, licensees, importers are beginning to see the need to address the performance of their factories by developing their own Ethical Sourcing program to better manage things.
 - Outsourcing of Ethical Sourcing Programs / Auditing: Companies are seeing the limited impact of their program, looking for other ways to drive impact, or believe that there are greater opportunities to allocated limited internal resources to capacity building.

Key Developments

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9. **Evolving Legislation** – the French “Draft law on the Duty of Vigilance of Mother Companies”, the UK “Modern Slavery Act”, the California “Transparency in Supply Chain Act”, US Govt Executive Orders/FAR relating to forced labor are examples of how public authorities are pushing companies to know more about their suppliers, further down in the supply chain. This trend is encouraging companies to start or improve the gathering of the right information, engaging the suppliers and monitoring the state of their supply chain.
10. **Reporting** – GRI, SASB, RAFL, IIRC and several other frameworks were developed to provide stakeholders with information on companies’ social responsibility. In spite of different objective, their overarching idea is that only what is measured is manageable. The trend is double: more relevant elements are being measured but there is a risk that these initiatives may also define the lowest common denominator and limit access to important information.

Implications

1. Pressure to achieve better value for money which will lead to rigorous prioritization and allocation of resources.
2. Better prioritization will require embracing the use of ROI and customized, segmented, impact-oriented programs
3. Pressure to go deeper into the supply chain / focus on critical risks
4. Deeper visibility to proactively address issues
5. More data will need to be sourced and collected, which in turn will lead to new processes and solutions

The shift from reactive to proactive

Today/Reactive

Number of factories audited

Transparency is desired

Annual

Text driven

Lagging indicators

Performance measured
against code of conduct:
compliance oriented

CAP item closure

Coverage

Do it yourself



Future/Proactive

Number of factories engaged / prioritized

Transparency on mgt systems & performance

Monthly

Data driven

Leading indicators

Performance measures
causal elements:
business & worker oriented

Variance management

Segmentation, prioritization

Partnering



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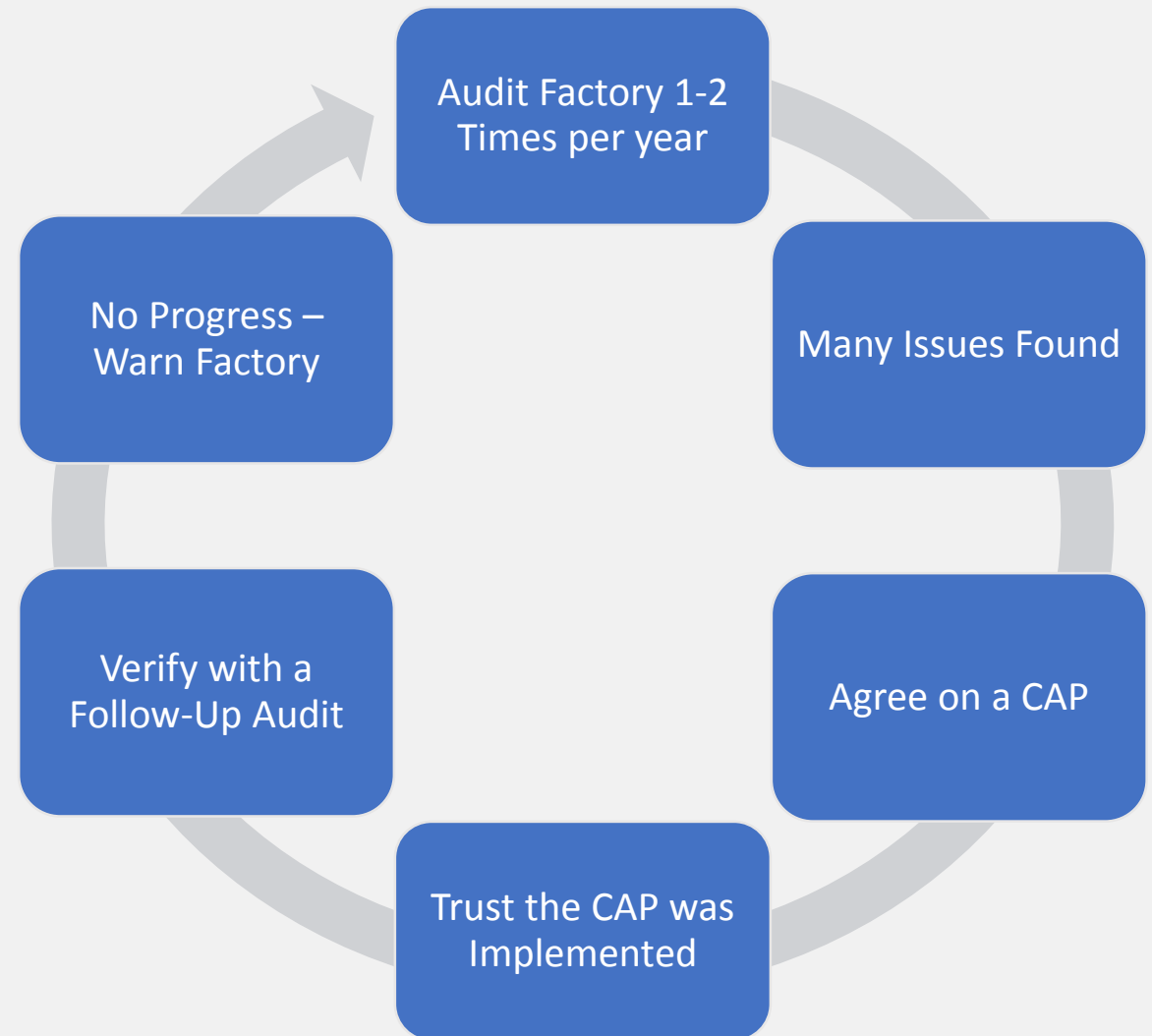
WORKER SURVEYS VERSUS WORKER INTERVIEWS THE NEXT STEP

Mark Temme
Director, Business Development
ELEVATE

Current risk management compliance model

For years, this model was thought to be effective. The auditing industry is now very large, with tens of thousands of audits per year.

However, in well over 95% of factories, the **same major problems still exist.**



What conversation are we having?



How many violations during the audit?

How many hours do they work?

Are you being transparent?

Why can you not fix this sooner?

Two Constants in Manufacturing

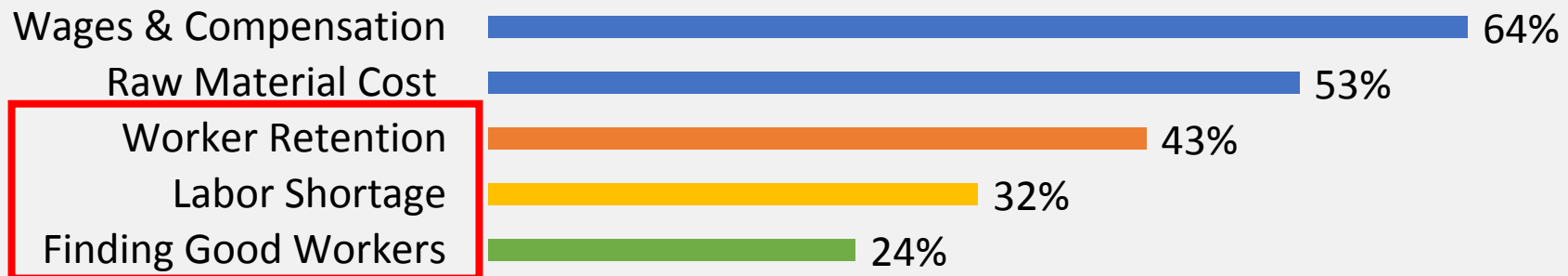
Workers

Many factories struggle with this...

Outputs

We assume the factory is capable of managing this...

Top 5 Business Challenges



What conversation are we changing?



How many violations during the audit?

How many hours do they work?

Are you being transparent?

Why can you not fix this sooner?



Do you plan to leave shortly?

Do you feel safe?

Do you understand how your wages are calculated?

How many hours do you want to work?

A grayscale photograph of a group of women sitting on a patterned floor in a room. There are several posters on the wall behind them, including one with a large cross and another with a grid of small images. One woman in the foreground is writing on a piece of paper. Three other women in the background have their hands raised. The text is overlaid in red on the center of the image.

Having a better understanding of workers' feelings and their perception of their life and work in your factories is the first step to retain them.

How to start this conversation?

Representative Worker Survey

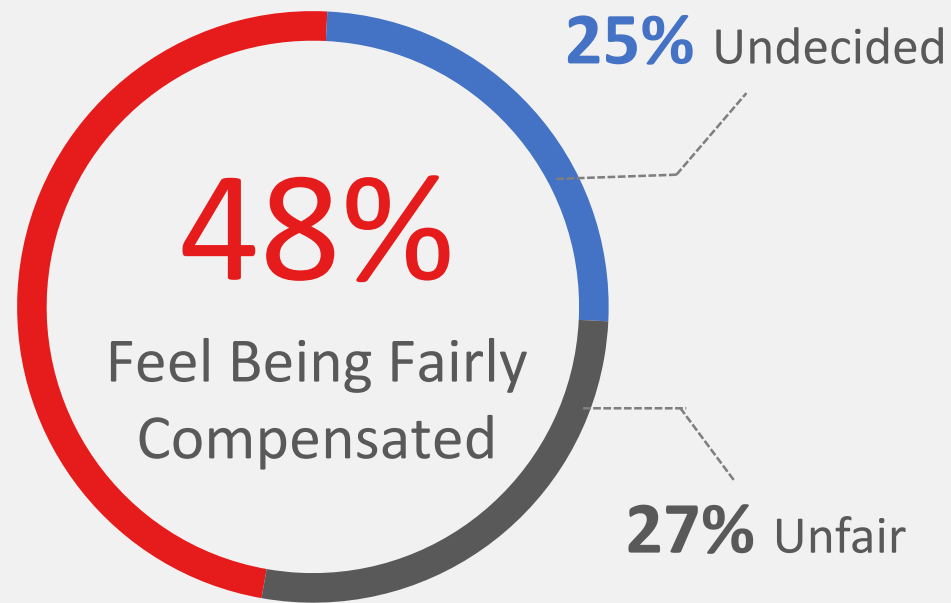
Representative sample mimicking real demographic characteristics that allows accurate assessment of the workforce

100% anonymous survey that helps obtain candid and honest feedback and requires few survey skills

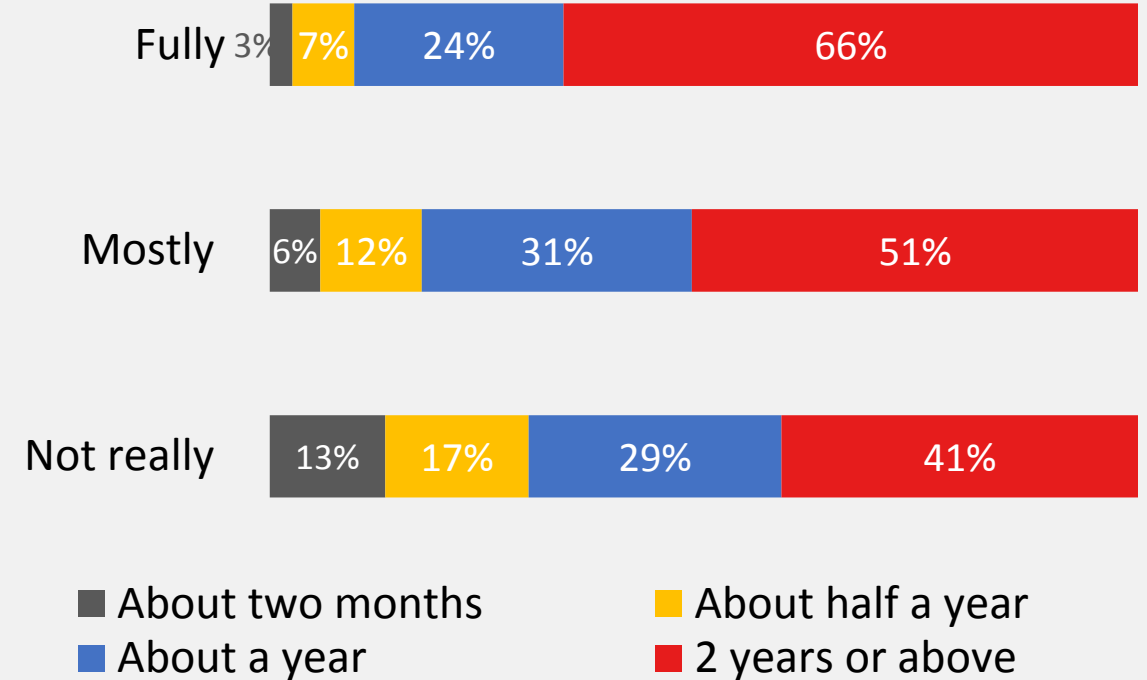
Standardized questionnaire that enables instant results, efficient analysis and relevant follow up

What did we learn from this conversation?

Do You Think You are Fairly
Compensated?

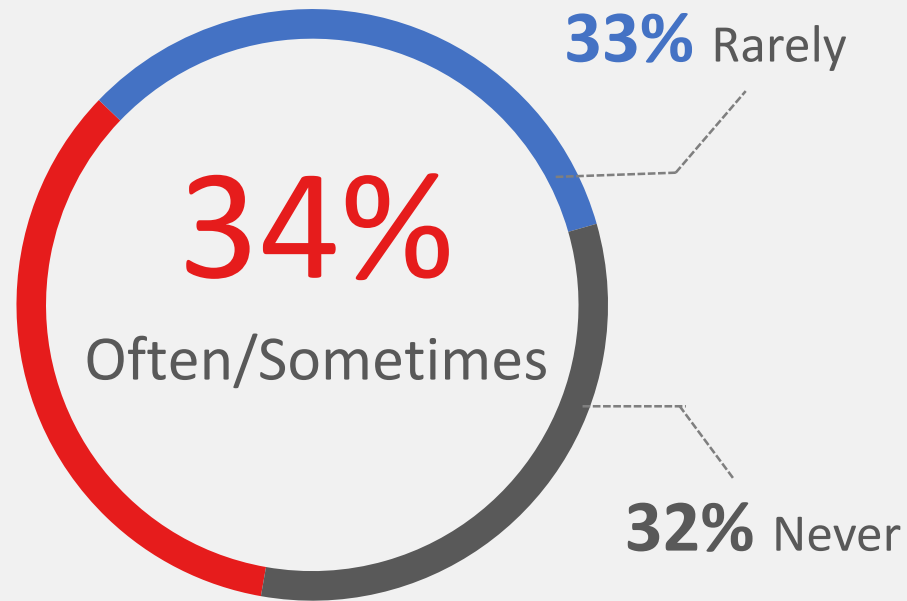


How Long Do You Plan to Stay
(by Understanding of Wage Calculation)?

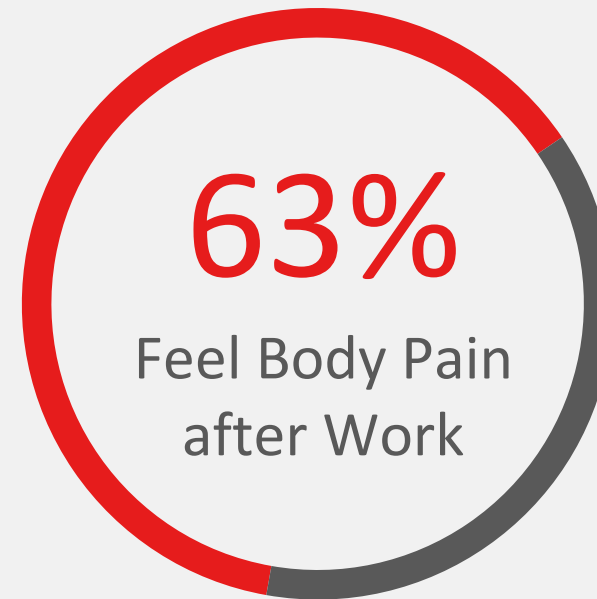


What did we learn from this conversation?

How Often Do You Need to Redo Your Work?

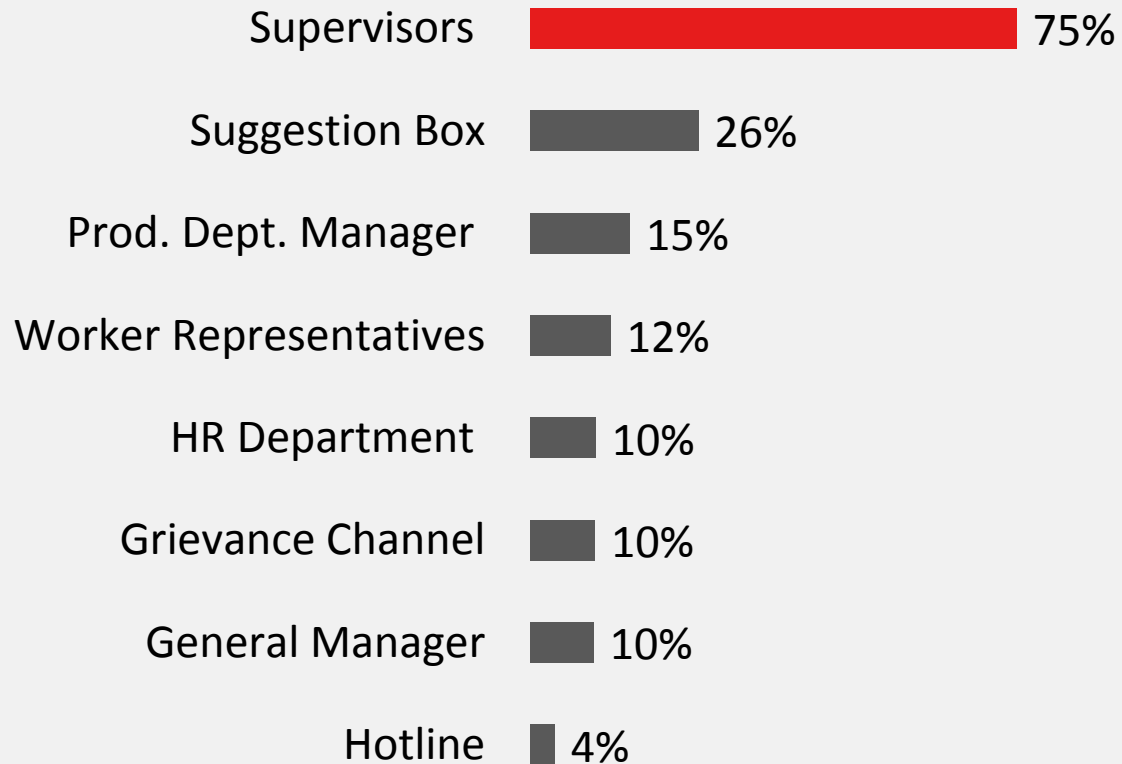


Do You Feel Pain in Body Parts after Work?

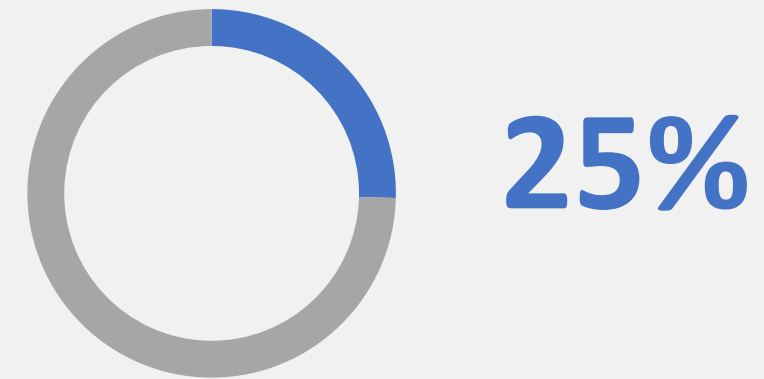


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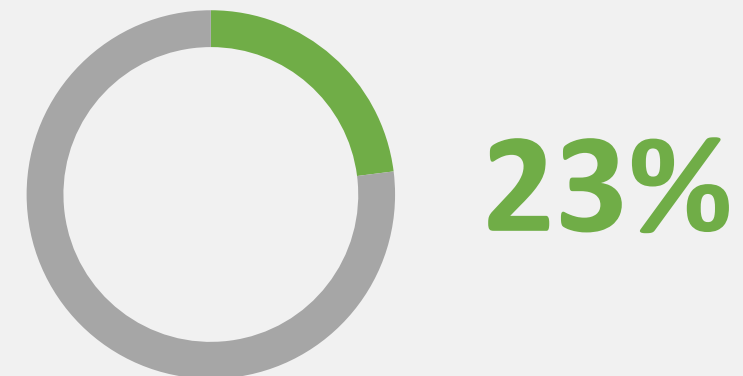
Which Communication Channels do Workers Prefer to Use?



% of Workers Have Brought Forward Their Issues in the Past 12 Months

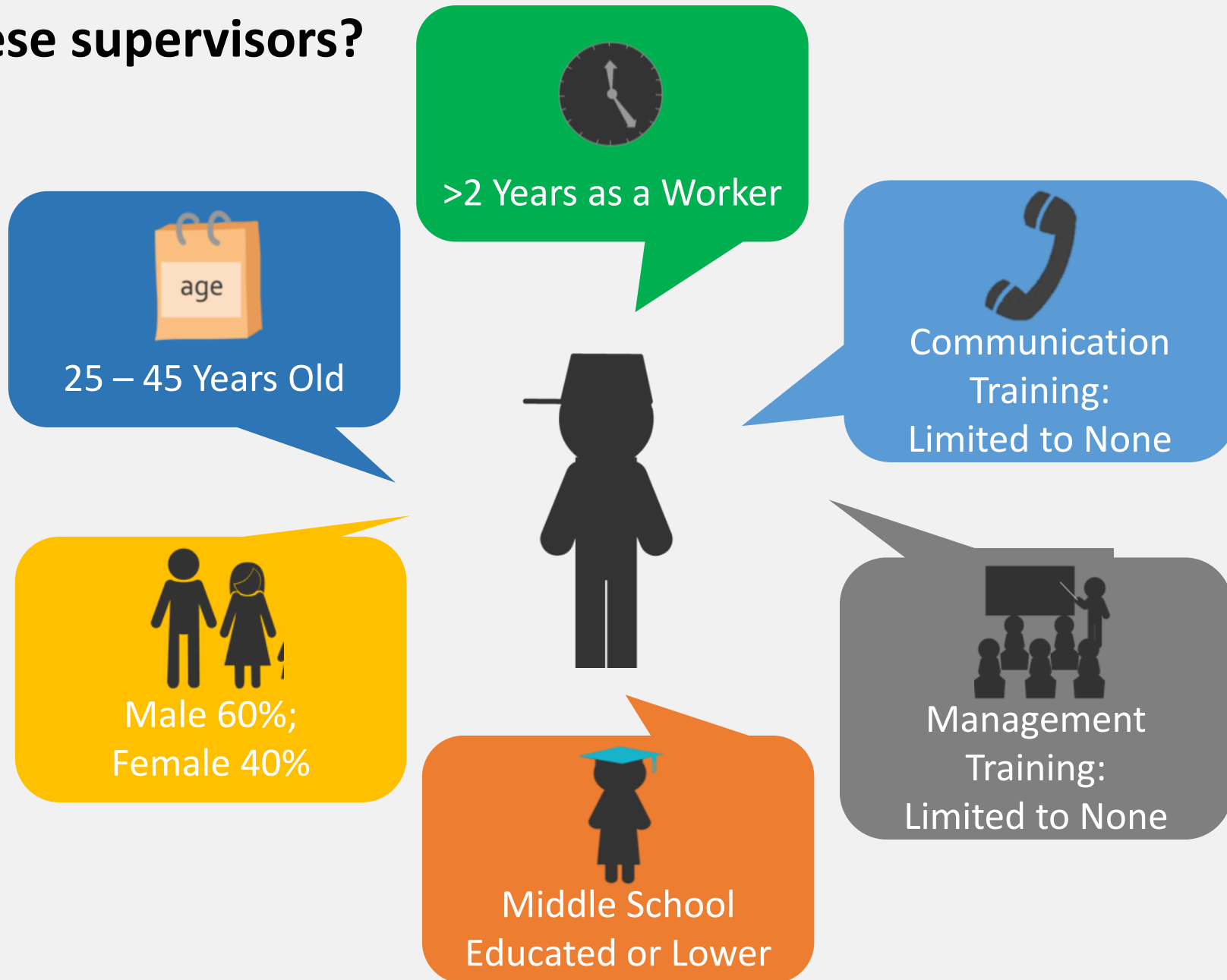


Among them, only 23% feel their issues have been well addressed.



Source: ELEVATE Database of 2014-2015 Worker Surveys

Who are these supervisors?



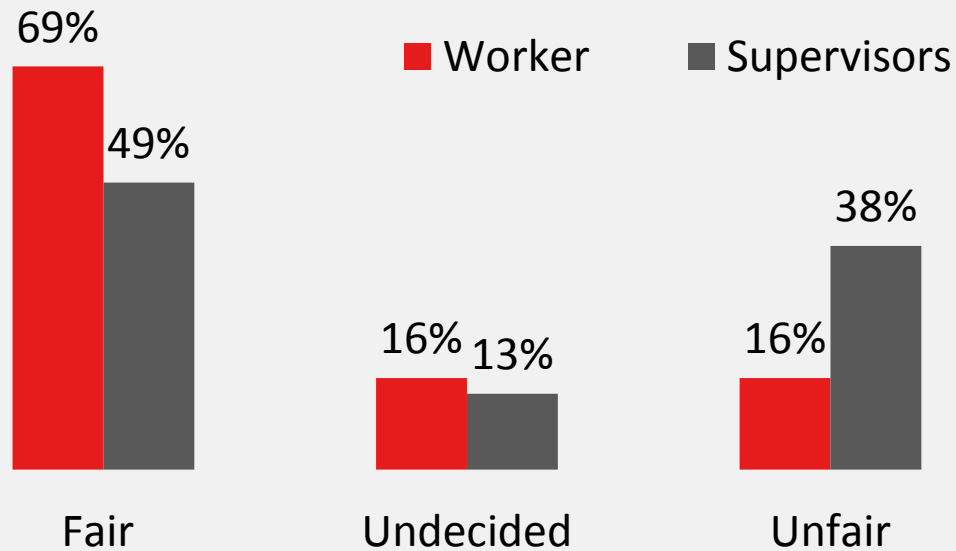
Supervisors

What is their responsibility?

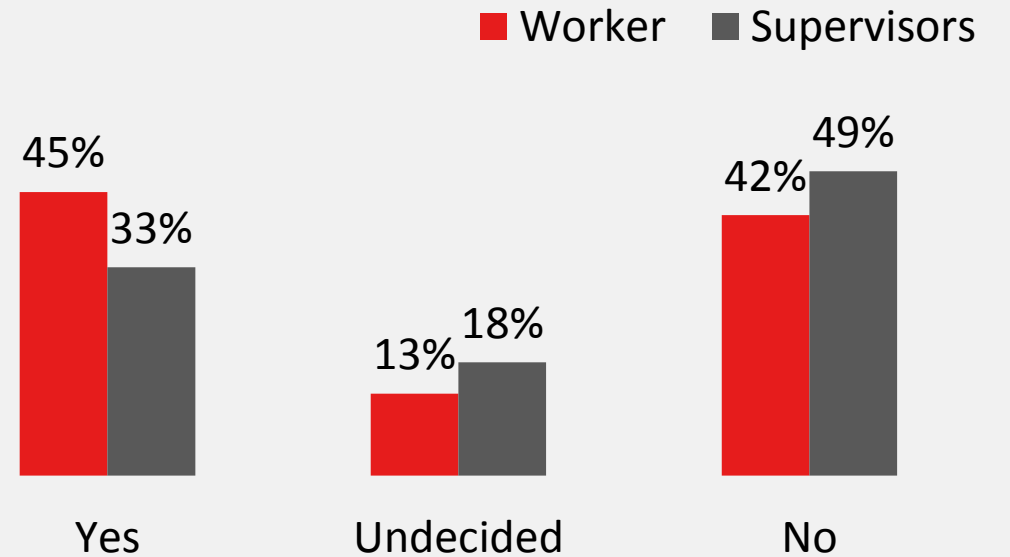


What did we learn about supervisors?

Do You Feel You Have Been Fairly Compensated?



Do You Think Good Performance Will be Rewarded?



Supervisors survey results

31%

Supervisors Do Not Feel
Comfortable Receiving &
Handling Worker
Feedback

35%

Supervisors Do Not Feel
Confident in Receiving &
Handling Worker
Feedback

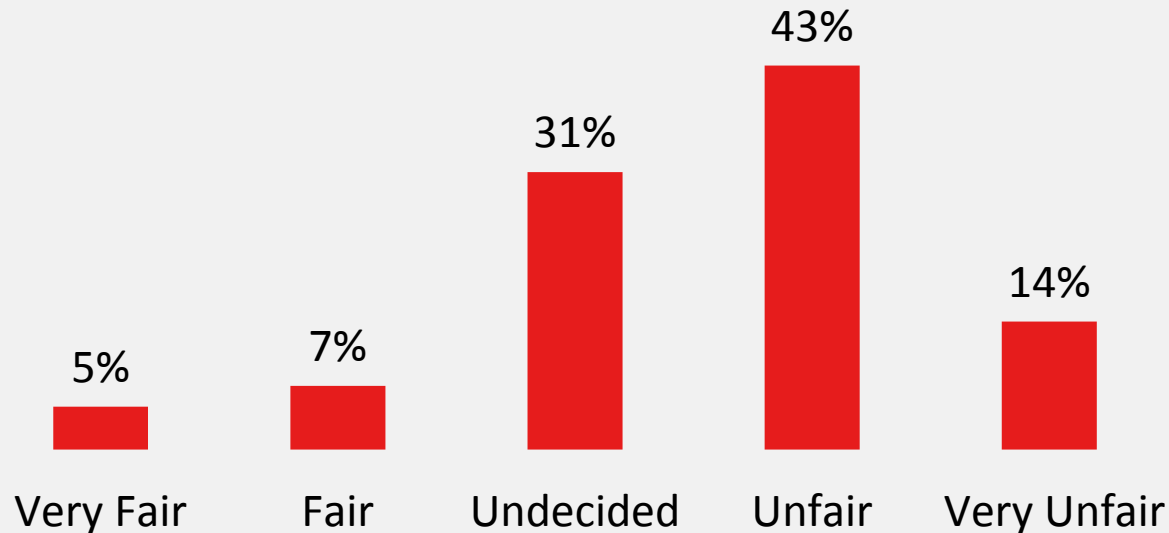
45%

Supervisors Often or
Sometimes **Shout** at
Workers

Scenario 1: Accessory Factory in Northern China

What did the factory management learn from these conversations?

Do You Think You are Fairly Compensated?



- **12%**
find their wages fair.
- **49%**
are not clear on how their wages are calculated.
- **43%**
report that their supervisors sometimes or often shout at them or use rude language.
- **61%**
are not sure whether they want to stay in the factory for another year.

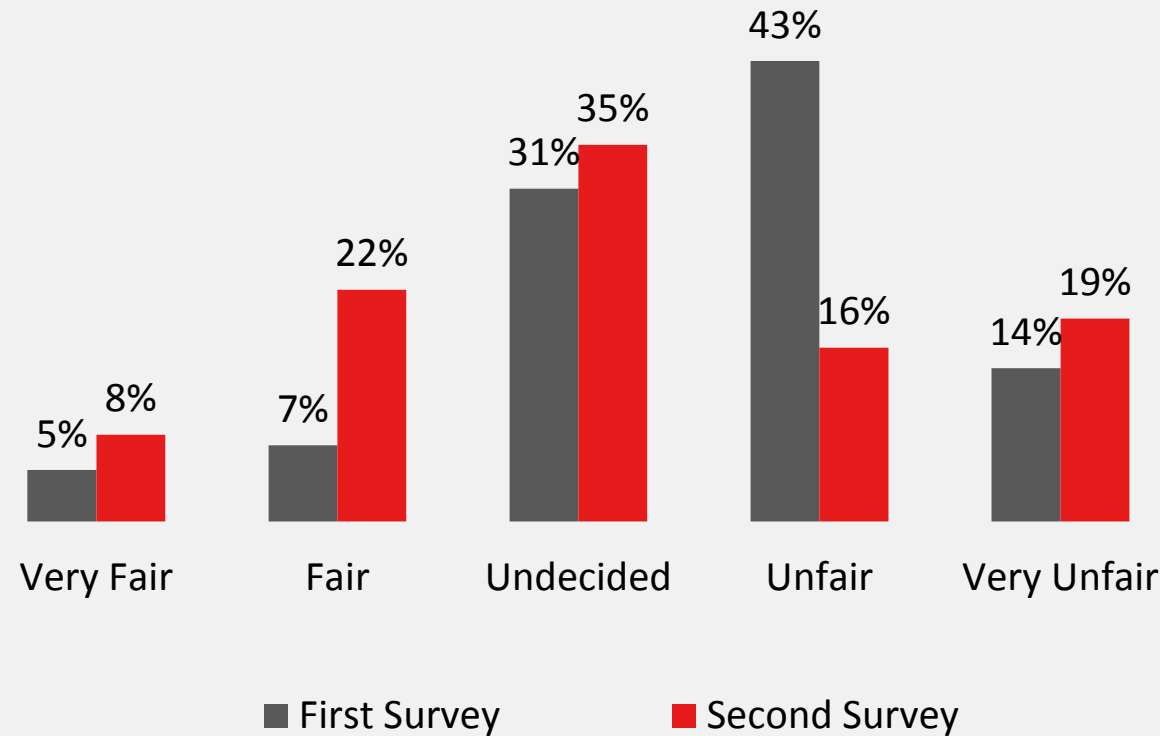
What Did They Do?

- Clarified wage policy, bonus policy and wage calculation method
- Improved pay slip system
- Trained supervisors on worker management and how to better handle worker feedback
- Published information on communication channels on the notice board (hotline number and responsible personnel's contact information)

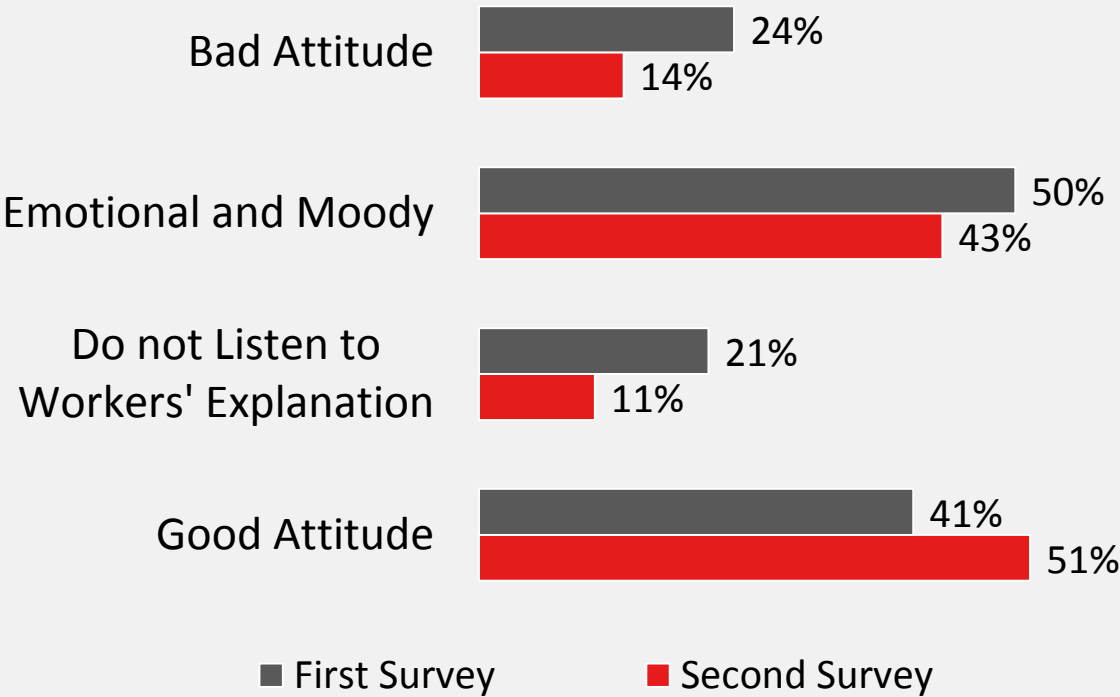


What can be achieved?

Do You Think You Are Fairly Compensated?



How Would You Describe Your Supervisors' Management Style?

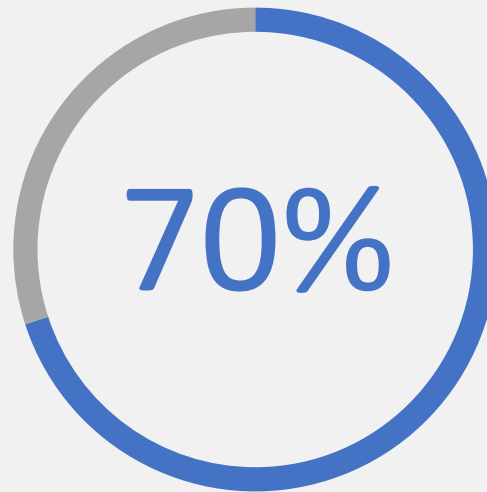


Scenario 2: Shoe Factory in Southern China

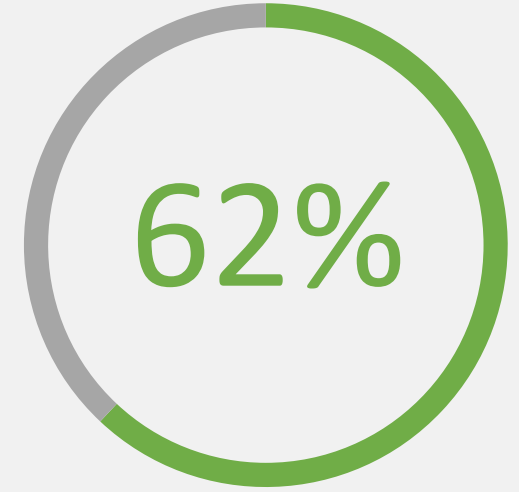
What did the factory management learn from these conversations?



% Workers feel that their immediate supervisor is always available when needed.



% Workers feel that their immediate supervisor responds quickly when workers ask for help to solve a problem on the line.



% Respondents feel that their immediate supervisor has the skills to help workers at work.

What Did They Do?

Understand

- Conduct follow-up interviews and focus group discussion to understand the nuances and challenges supervisors face.
- Invite supervisors to select role modules and share experiences and best practices.

Train

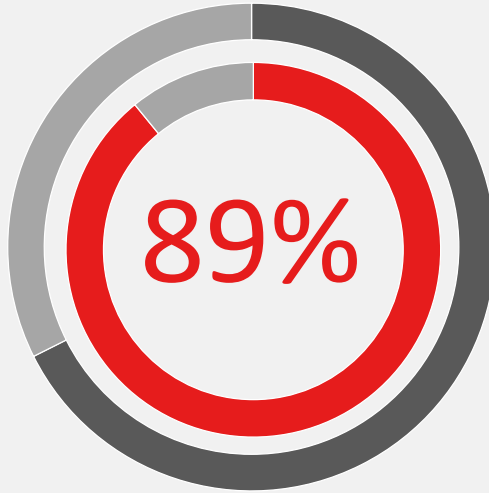
- Invest in developing training material for supervisors based on internal sharing and discussion
- Training include skill, communication and management training

Standardize

- Standardize the way supervisors organize and conduct daily meetings (w/ detailed guidance on how to inform workers on product targets, quality requirements and policies)
- Evaluate supervisors' performance

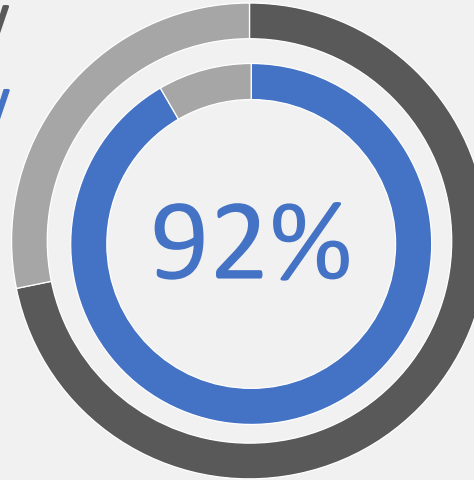
What can be achieved?

1st Survey
2nd Survey



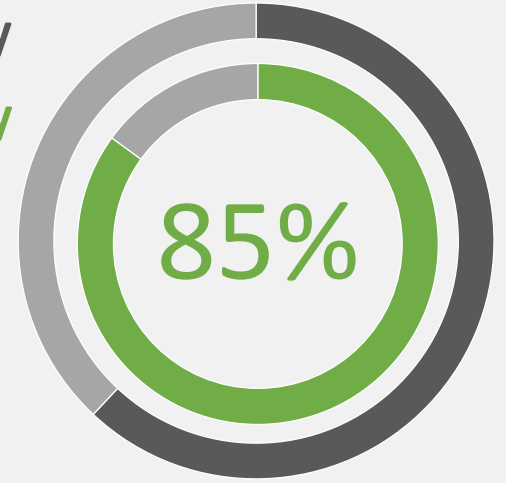
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What Was Our Conversation Today?

- Changing the conversation: New ways to look at old and new problems
- How to use information in an impactful and measurable way
- Many small improvements in workers' lives can be made with simple and effective communication



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