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Redefining an Effective Responsible Sourcing Program

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THE TOP 10 NEW DEVELOPMENTS IN SOCIAL RESPONSIBILITY

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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 believed that this will lead to a reduction of roll-outs of classic audit programs in favor of more textured, forward-leaning programs to drive greater ROI.

Key Developments In Social and Labor Management today

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.

Key Developments In Social and Labor Management today

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 whistleblower 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.

Key Developments In Social and Labor Management today

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 In Social and Labor Management today

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

Pressure to achieve better value for money which will lead to rigorous prioritization and allocation of resources.

1. Better prioritization will require embracing the use of ROI and customized, segmented, impact-oriented programs
2. Pressure to go deeper into the supply chain / focus on critical risks
3. Deeper visibility to proactively address issues
4. 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

Future/Proactive

Number of factories audited



Number of factories engaged / prioritized

Transparency is desired



Transparency on mgt systems & performance

Annual



Monthly

Text driven



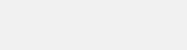
Data driven

Lagging indicators



Leading indicators

Performance measured
against code of conduct:
compliance oriented



Performance measures
causal elements:
business & worker oriented

CAP item closure



Variance management

Coverage



Segmentation, prioritization

Do it yourself



Partnering



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THANK YOU!