



## Win/Win: Achieving Sustainable Procurement with the Developing World



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# Introduction

**Sustainable procurement** considers the environmental, social and economic consequences of design, materials used (renewable/non-renewable), manufacturing methods, logistics and disposal.

Suppliers need to address these issues throughout the supply chain. To achieve this, suppliers in developing countries may need knowledge, guidance and incentives to improve from their customer – the buyer and purchasing organisation.

**Responsible purchasing**, in the context of buying from developing countries, refers, in this guide, to purchasing processes which result in improvements to the lives of workers and farmers in developing countries who contribute to supply chains, achieving at least minimum working conditions as defined by the International Labour Organisation. It focuses on sourcing from developing countries and forms a component of sustainable procurement.

Working with suppliers from developing countries based on economic, social and environmental performance is good for brand reputation as well as quality and security of supply. In addition, sourcing from developing countries is frequently beneficial to the supplier country. However, purchasers can sometimes make decisions that unwittingly cause harm to suppliers and workers.

Organisations need to avoid negative impacts of this kind. Their reputation is damaged if they are found to be sourcing from suppliers which use child labour or bonded labour, both of which are disturbingly common in many supply chains. 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. On the other hand, a track record of sustainable procurement activity can encourage investment and improve employee morale as well as exceed legal requirements.

This publication provides guidance to purchasers in companies, organisations, importers, distributors or wholesalers on how to avoid negative outcomes and encourage positive ones. It is intended primarily for procurement professionals in developed countries who are purchasing from developing countries with potentially unfamiliar work cultures. It introduces the key concepts behind responsible purchasing and provides practical advice for getting started. It not only addresses purchasing specifications but recognises the importance of how a purchaser conducts their relationship with suppliers, including contract negotiation.

Alongside general discussion of the buyer/supplier relationship, the main body of guidance will present considerations when sourcing from a developing country within a seven-step purchasing cycle. Appendices are included, together with a section containing resources to explore further.

The specific developing-country perspective of this guide complements previous publications by the Chartered Institute of Purchasing & Supply (CIPS), including those produced within the Responsible Purchasing Initiative. It fits between the 'Taking the Lead' guide for senior management and the 'Buying Game', an online, awareness-raising, self-assessment tool for purchasers, both of which were jointly produced by CIPS and Traidcraft as part of the Responsible Purchasing Initiative.



# Considerations when sourcing from developing countries

The table below lists some potential social differences between developing countries and the country in which the purchasing organisation operates, and suggests actions for the purchasing organisation to take to ensure good communication with their supplier.

Social issue in developing country	Action for purchaser
Suppliers in developing countries 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 to avoid problems at product delivery stage and to save time in the long run.
Building trust may take longer. In some cultures it is difficult for a supplier to say no or indicate they don't understand because they can't be seen to lose face. This can lead to misunderstandings. Inconsiderate communications will undermine respect for the purchaser and delay the foundation of a strong relationship.	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Purchasers need to check understanding sensitively and be able to pick up on small clues which indicate uncertainty.</li> </ul>
The knowledge and implementation of labour laws in developing countries by suppliers may be weak or absent. There may not be sufficient national budget to enforce labour laws, or this area may not be a government priority. Owners, managers and workers may not be aware of their own laws. In some countries the law on minimum wage has not been recently updated, which leaves workers potentially exposed.	<ul style="list-style-type: none"> <li>• Assess whether minimum labour standards (based on the higher of national or international standards) are in place in the supplier's country and work with suppliers and workers' organisations to realise better workplace conditions.</li> <li>• Consider using a code of conduct.</li> </ul>
In many developing countries large numbers of workers lack social security and may not be covered by employment laws if they are informally employed, e.g. smallholders, home workers, temporary and contract workers. 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. Where government provision is lacking, it falls to individuals to cover these costs for their families out of their earnings, in addition to the usual outgoings on accommodation, food, transport, clothing, etc. Therefore, benefits such as day care, free transport or medical checkups are key parts of an overall employment package. The more a supplier provides, the more it demonstrates commitment to its workforce and should be evaluated positively and rewarded by a buyer.	Develop an understanding of social security provision in different suppliers' countries and consider this when checking the breakdown of a supplier's price and comparing prices across countries.
The unequal treatment of men and women can be more acute in developing countries. For example, in worksites with a high proportion of women workers purchasers need to be alert to circumstances that could have a disproportionate impact on women, such as late product changes causing forced overtime at short notice or all-male supervisors. (This can respectively put women at risk when returning home late at night or enable sexual exploitation at work in return for ordinary work considerations e.g. request for shift or job role changes.)	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 cultures, 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 business ethics).
Health and safety legislation may not have been updated. There may be insufficient fire exits, unsafe buildings, or hazardous materials may inadvertently be used, e.g. lead paint on children's toys. <sup>1</sup>	Encourage suppliers to have an effective health and safety committee, <sup>2</sup> and become knowledgeable on issues associated with production processes.

## FOOTNOTES

1. [www.guardian.co.uk/business/2007/aug/02/uknews](http://www.guardian.co.uk/business/2007/aug/02/uknews)
2. Workers at Spectrum factory warned supervisors of cracks in the wall before the building collapsed, killing and injuring workers ([www.cleanclothes.org](http://www.cleanclothes.org)).



# Organisational considerations leading to effective responsible purchasing

## External drivers

The following external drivers influence an organisation's choice to purchase from developing countries:

- 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 and political behaviour. Increased worker satisfaction can improve productivity.
- Environmental – use of energy, re-useable materials, reduction of waste and processes to improve profit margins, reduction of carbon in supply chains, etc.

## How an organisation chooses to respond

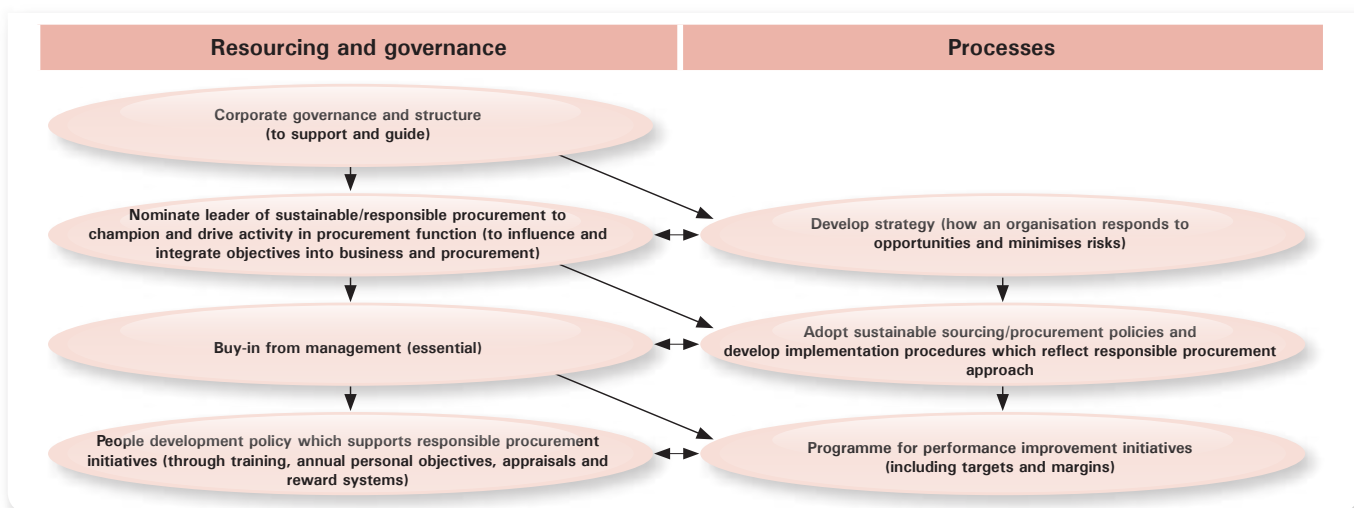
Purchasing professionals need to play a role not only in implementing the above policies and initiatives, but also in shaping their organisation's approach. The complementary publication for senior procurement management, 'Taking the Lead', provides guidance on issues to be considered when organising internal policies, structures and processes, and outlines the business case for responsible purchasing.

Purchasing organisations need to support individual purchasers to improve conditions in the supply chains in line with their organisation's ethos, policy and business strategy. They need to develop systems and ways of working which:<sup>3</sup>

- collect and provide purchasers with the information they need to plan more effectively,

- lead to efficient communications and formalised, streamlined buying processes,
- enable purchasers to select and reward good practice and leadership suppliers,
- encourage purchasers to collaborate with organisations who have expertise in addressing systematic problems within the supply chain,
- enable the purchaser to collaborate with others who are purchasing from the same supplier (where appropriate).

Organisations should focus on performance and reward structures, which significantly influence behaviour. An integrated balanced scorecard for performance appraisals of both individual buyers and suppliers can be used (see Appendix 1). This approach recognises the shared responsibility for suppliers to implement good workplace practices and for buyers to select, enable and encourage good performance by suppliers.



3. Responsible Purchasing Initiative (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.

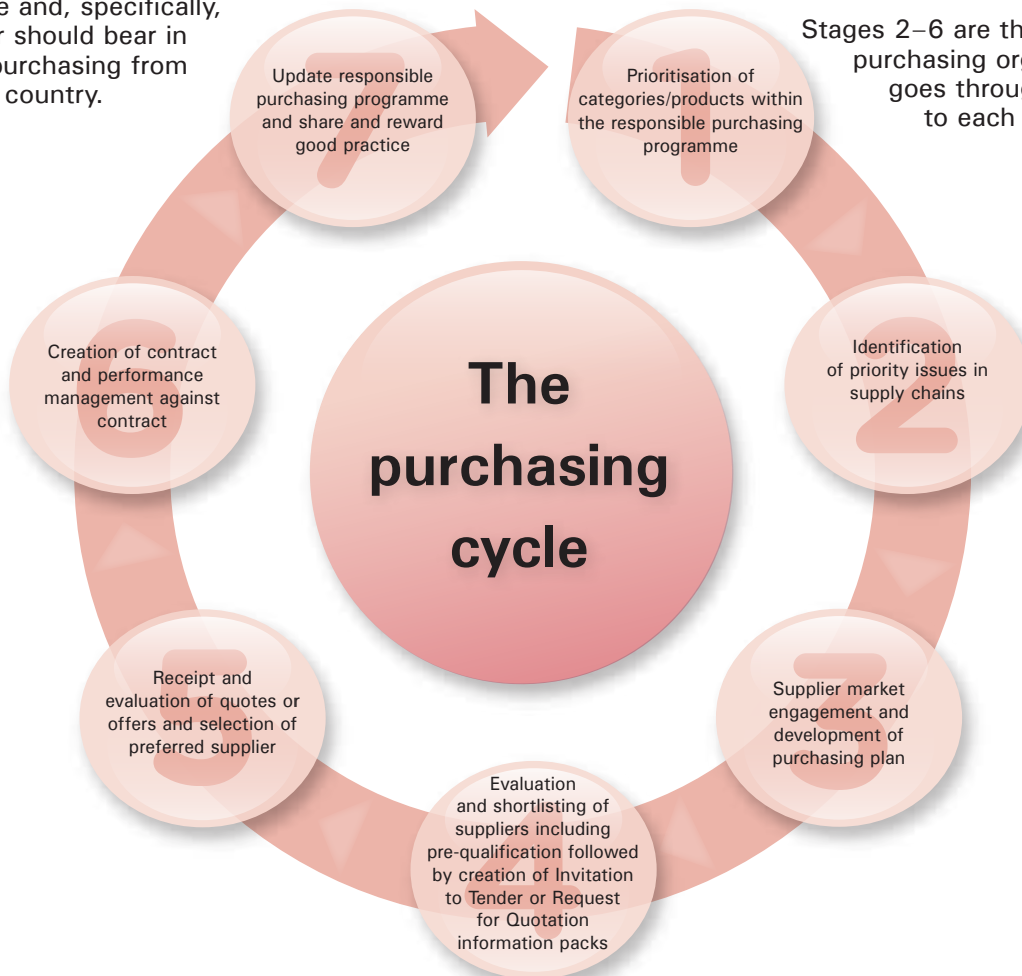


# The purchasing cycle

A detailed purchasing 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 when purchasing from a developing country.

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

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

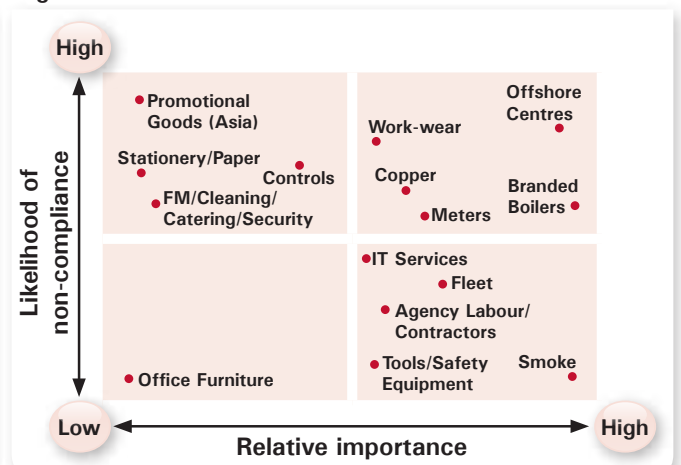


## Oxfam's supplier risk assessment

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).

## Centrica Example: 'Sustainability risk' vs. 'Importance to organisation' matrix<sup>4</sup>



**FOOTNOTES**

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



# 1) Prioritisation of categories/products within the responsible purchasing programme

A purchasing organisation needs to decide which purchases/categories to prioritise to improve social and environmental impacts.

## Assess 'sustainability risk' vs. 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 business principles or sustainable development objectives. (Look at charities' or trade union websites to understand potential issues for specific supply chains or countries.)
- Likelihood of non-compliance with international or national law. (The International Labour Organisation's country reports provide an indication of the level of enforcement of labour laws.)

Traditional Kraljic (spend vs. operational risk) matrix assessments fail to highlight areas of sustainability risk and may suggest inappropriate 'win/lose' purchasing 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 quadrants.

## Assess 'sustainability risk' vs. scope for improvement

To examine further those categories or purchases judged to have a high sustainability risk, purchasers should assess the potential for improving social or environmental performance. (Better models, alternatives and innovation opportunities may exist, or the product may be inherently unsustainable or harmful.) In developing countries with poor working conditions there is frequently considerable scope for improvement.

Some practical considerations:

- Are any key contracts coming up for renewal?
- Do staff members have specific expertise in particular categories or have knowledge of social and environmental issues?

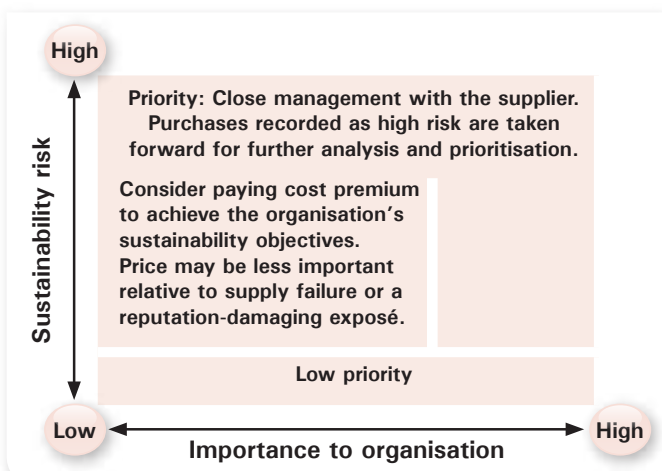
## Set targets for responsible purchasing programme

Two types of targets are needed:

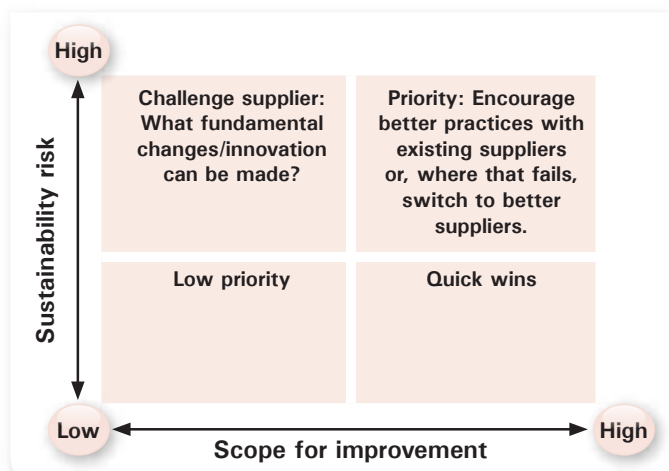
- Operational targets may support a responsible purchasing programme, e.g. policy development, training.
- Purchasing activity targets may focus on categories or the number of purchases/tenders achieving a particular level of social or environmental performance.

**At the end of this stage the purchaser has prioritised which products and categories to focus on, as well as the type of relationship they may wish to have with suppliers in that category.**

'Sustainability risk' vs. 'Importance to organisation'



'Sustainability risk' vs. 'Scope for improvement'





## 2) Identification of priority issues in supply chains

Purchasers work with internal colleagues who requisition products, as well as other colleagues, to shape the technical, social and/or environmental criteria of the specification.

### Understanding the supply chain behind the purchase

It is recommended that purchasers develop a map of the supply chains for the product(s) to be purchased. In this way, labour-intensive stages of production can be identified to ensure good human resource management occurs rather than exploitation of workers. 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.

The development of supply chain maps, and better understanding of production processes and their associated labour intensity and environmental impacts, will enable purchaser 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 purchasers to highlight certain social and environmental issues in the specification.

### Drafting social and environmental criteria for the specification

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

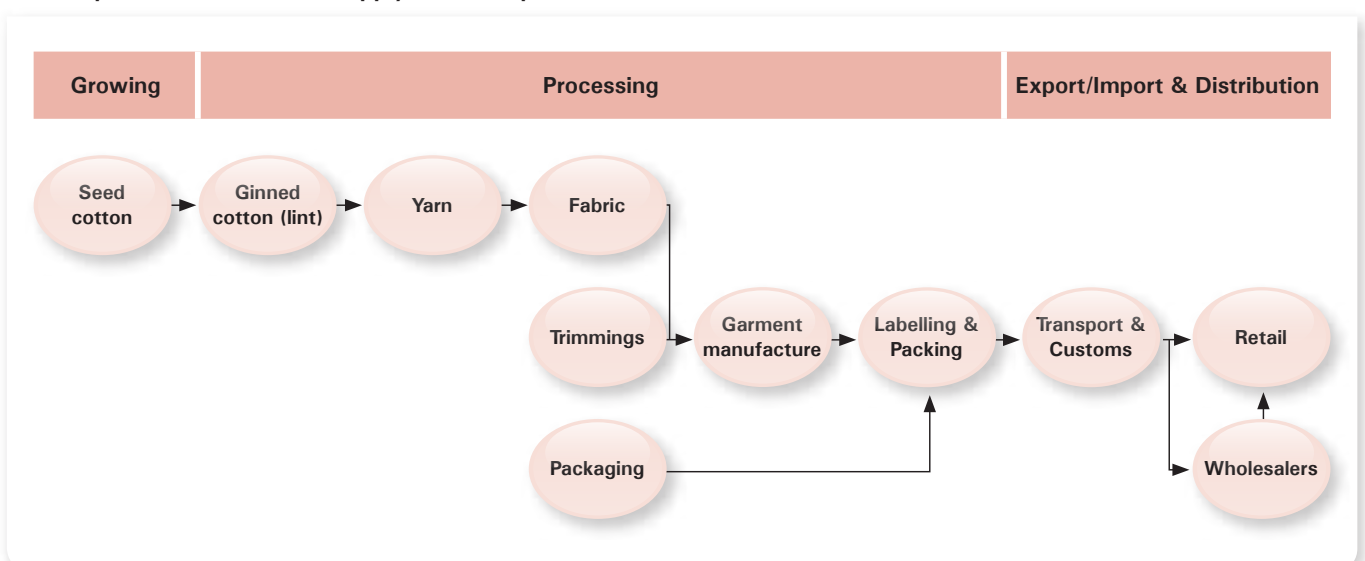
- purchasing organisation objectives (as set by their corporate governance, business principles, corporate social responsibility or sustainable development programme), and
- the areas identified by the supply chain map as needing specific attention.

For example, the purchaser may have a corporate policy of purchasing only from

production sites which meet minimum International Labour Organisation's core conventions, or use fair trade criteria. The use of these standards or codes of conduct can progress responsible purchasing 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 purchaser 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.**

Example: Cotton Garment Supply Chain Map





### 3) Supplier market engagement and development of purchasing plan

#### Engage suppliers

Purchasers need to understand the perspective of their suppliers on economic, social and environmental issues.

- Are there suppliers which meet the organisation’s desired standards, or should the purchasing organisation ask suppliers to progress towards these standards?
- What are examples of good practice amongst current or potential suppliers? (Suppliers may have identified other issues, or have expertise in bringing about environmental and social improvements.)
- Which suppliers have the awareness and skills needed to improve?

- Are laws updated and enforced?
- Are there relevant national or sectoral initiatives to improve worksites?
- Have multi-stakeholder initiatives (involving organisations with relevant expertise) been established to address problematic practices within a supplier country or a sector?
- Which suppliers are working with internationally respected independent trade unions or NGOs?
- 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.

The buyer develops a plan for the purchasing process along with timeframes (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 purchasing organisation 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?

**At the end of this stage the purchaser 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. This additional time and resource should be included in the purchasing plan.**

#### Supplier market assessment

Purchasers may wish to assess the following:

- Livelihoods 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?

#### Develop purchasing plan

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

#### Multi-stakeholder initiative:<sup>5</sup> 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.

#### ‘Influence’ vs. ‘Scope for improvement’ matrix



5. AETI’s executive committee is composed of agricultural producers, unions, NGOs and the South African government’s Department for Labour.  
 6. 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’.



## 4) Evaluation and shortlisting of suppliers including pre-qualification followed by creation of Invitation to Tender (ITT) or Request for Quotation (RFQ) information packs

During this stage purchasers highlight to suppliers the importance of environmental and social performance.

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

- incorporate responsible/sustainability concerns into procurement decisions,
- communicate the organisation’s sustainability policies to suppliers,
- measure suppliers’ practices in relation to the purchasing organisation’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 ITT is a perfect opportunity to communicate the purchasing organisation’s commitment to sustainability alongside gathering relevant information.

### Shortlisting suppliers

The pre-qualification questionnaire may ask about policies, processes and performance.<sup>7</sup>

From the information which the supplier submits, purchasers 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.

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

### Developing 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.

### 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.<sup>8</sup>

**At the end of this stage the purchaser 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.**

### 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	

### FOOTNOTES

7. See BITC (2009), ‘How to Manage Your Supply Chains Responsibly’, and as an example, Oxfam’s supplier questionnaire, [www.oxfam.org.uk/resources/suppliers](http://www.oxfam.org.uk/resources/suppliers)
8. ICLEI Respiro Guide ([www.iclei-europe.org/index.php?id=4919](http://www.iclei-europe.org/index.php?id=4919)) and [www.mairie-lille.fr](http://www.mairie-lille.fr)



## 5) Receipt and evaluation of quotes or offers and selection of preferred supplier

When purchasers assess pre-qualification questionnaires, tenders or audit reports from suppliers in developing countries, it is important to look for inter-related elements (see Stage 4, Examples of assessment criteria). If more detailed assessment is undertaken, for example through face-to-face meetings, it is recommended that the following questions are asked:

- What is the ethos/attitude of the supplier? Is there evidence of leadership by the supplier to improve workplace conditions, the local environment or address community needs?
- If a union is present, the workers' representatives should not be appointed by management. (The workers, not the supplier, should determine whether or not they join the union.)
- If unions are not present, suppliers must demonstrate both an open attitude to trade unions and the existence of an ongoing management process that negotiates with their workers, through, for example, works committees.<sup>9</sup>
- 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.

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 will assist 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 purchasing organisation 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, purchasers can:

- select suppliers who have collective bargaining agreements with 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 unions. In situations where suppliers are hostile to representative structures for workers, the establishment of a health and safety committee can demonstrate the benefits of discussing production processes with workers, often achieving rapid results.<sup>10</sup>
- 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' Federation.<sup>11</sup>

**At the end of this stage the purchaser has selected a supplier on the basis of their performance and evidence of willingness to improve.**

### Trade union agreements

At the heart of a good workplace lies a good relationship between management and workers. It is good practice for companies and independent unions 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, upgrade skills or improve health and safety, is likely to be more effective than imposing overtime on a tired workforce.

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

10. Impactt 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](http://www.impacttlimited.com/resources/getting-smarter-ethical-trading-in-the-downturn)).

11. International 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](http://www.itglwf.org)



## 6) Creation of contract and performance management against contract

### Creation of contract

Contracts state all the important aspects of the business transaction, such as price, deadlines, quality and terms of payment, as well as sustainable development criteria. 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.

Social, ethical and environmental 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 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 purchasing organisation can support and facilitate improvements.<sup>12</sup>
- 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 purchaser has little leverage or it is a short-term relationship, collaborate with other buyers.

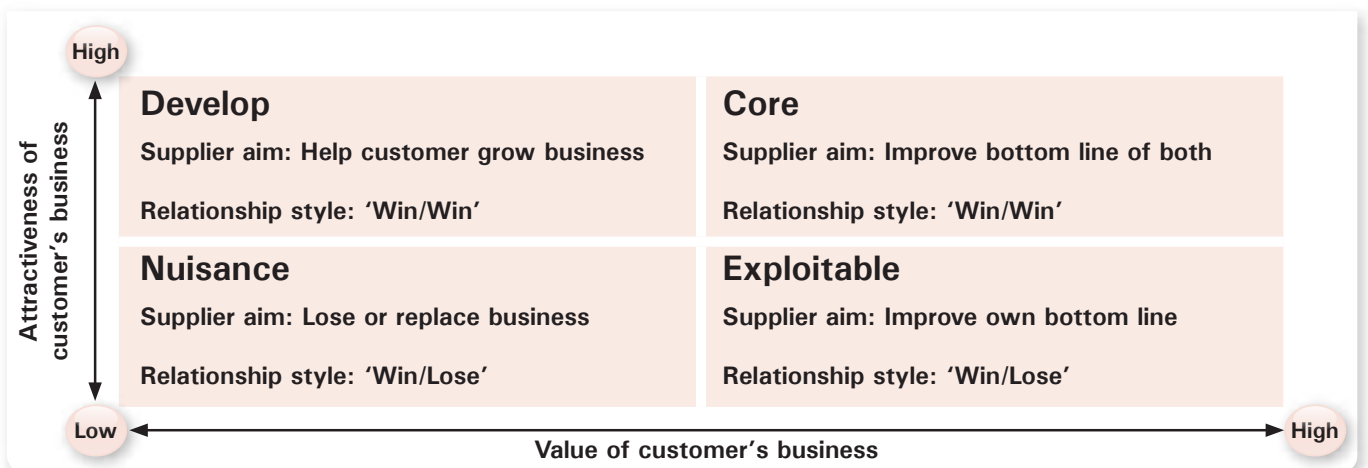
- Provide appropriate incentives. Reward suppliers for performance related to sustainability (e.g. higher volume orders, contract extensions, additional opportunities to tender for contracts, higher price for higher social and quality performance).

### Performance management against contract

Purchasers 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 purchaser needs to consider how the supplier regards them as a customer. A buyer should avoid making such high ethical demands (compared with the value of the business) that the supplier puts them into the Nuisance box (see matrix below). Ideally, the supplier will view their business with the purchaser as being in the Develop or Core box.

### Managing risk through relationships: suppliers' view of customer



#### FOOTNOTES

12. For example, Traidcraft Plc supplier feedback, [www.traidcraft.co.uk/about\\_traidcraft/social\\_accounts/trading/working\\_with\\_producers/comments.htm](http://www.traidcraft.co.uk/about_traidcraft/social_accounts/trading/working_with_producers/comments.htm)



*'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.'*<sup>13</sup> Factory manager

### The importance of progressive standards

Where suppliers which meet the desired standards are not available, purchasers 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 supplier and buyer's united 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.

### Purchasers 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.'*<sup>14</sup>

BBC Worldwide, C&A Europe, CWF, Hallmark Cards UK, Kingfisher and New Look are integrating Child Labour Operational Procedures (CLOP)<sup>15</sup> 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.

### 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 purchasing organisation 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 purchasing organisation is not serious about working to a required standard. Other considerations may be appropriate at this stage, such as payments of severance. When terminating a relationship, purchasers 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.

**At the end of this stage the purchaser has signed a contract with a supplier which includes social and environmental KPIs, and has put in place a structured relationship review process which aims to harness the supplier's interest in continuous improvement. Where a supplier fails to improve despite support from the purchasing organisation, purchasers should exit the relationship after having put in place safeguards for workers.**

13. Pentland (Summer 2009) Corporate Responsibility Review

14. ILO (2006), 'Facts on Child Labour', [www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_067558.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_067558.pdf)

15. Impactt Limited (2008), [www.impacttlimited.com/resources/impactt-child-labour-remediation-guidelines-in-the-industrial-context/](http://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 indicate which parts of the standard were met. Some purchasers provide their suppliers with self-assessment workbooks or explanatory guides.<sup>16</sup> This is particularly helpful when national laws or international standards are not well known by both communities. **Prior to an audit, purchasers 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 purchasing organisation. A combination of approaches may elicit more reliable information. **Purchasers 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 **purchasers could ask to see recent results.** Initiatives like Sedex<sup>17</sup> 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 purchasers 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 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 purchasing organisation'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 undermine the social or environmental objectives. A supplier's good-will can be lost if the purchaser requires them to pay for audits and improvements but fails to enable and support improvements. **Purchasers 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.<sup>18</sup>

Instances of double books and coached workers found during 2007/08 inspections

Region	Prevalence of double books	Prevalence of coached workers
South East Asia	83%	40%
China & Hong Kong	64%	67%
Eastern Europe	50%	13%
South Asia	27%	33%
UK & Republic of Ireland	10%	5%

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 purchaser. 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. There has been an over-emphasis on audits in the past. A more cost-effective allocation of resources would be to build up worker awareness of their rights, and establish an effective worker-management dialogue mechanism.

### FOOTNOTES

16. Kingfisher (2006), 'Kingfisher Guide to Indian Workplace Laws and Regulations', [www.kingfisher.co.uk/managed\\_content/files/sr\\_pdf/KF\\_IndiaLaw.pdf](http://www.kingfisher.co.uk/managed_content/files/sr_pdf/KF_IndiaLaw.pdf)
17. 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](http://www.sedex.org.uk/sedex/go.asp?u=/WebSite/Home&pm=6&location=Smeta)
18. Impactt Limited (2009), 'Getting Smarter: Ethical trading in the downturn', [www.impacttlimited.com/resources/getting-smarter-ethical-trading-in-the-downturn](http://www.impacttlimited.com/resources/getting-smarter-ethical-trading-in-the-downturn)



## 7) Update responsible purchasing programme and share and reward good practice

Building on reviews of suppliers' performance against individual contracts, the purchasing organisation needs to review and update its responsible purchasing programme, assessing it against the following:

- Were planned 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 cascade 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 poor performance? Within the purchasing organisation? Within the supplier? Elsewhere?
- What were the barriers for purchasers 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.<sup>19</sup>

### Increase the capacity of workers and suppliers to improve

The purchaser 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 purchasers collaborate with organisations experienced in bringing about workplace improvements in that country. Multi-stakeholder

organisations have helped purchasing organisations to collaborate, discuss how to bring about improvements, and produce guidance. (See Resources on page 23.)

### Share good practice

A review of the responsible purchasing 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.

#### Actions taken by purchasing organisations to address root causes of poor working conditions<sup>19</sup>

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

19. F 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](http://www.fundnets.net/fn_filelibrary//file/co_gsi_Factory_Labour_Standards_in_Emerging_Markets.pdf)



### Improve purchasing practices

Feedback from supplier and workers' organisations indicates that, on some occasions, it is the purchasing practices of the buying organisation which limit the improvement of working conditions. Purchasing organisations need to find ways of harnessing supplier feedback to improve their own ability to support positive social and environmental outcomes.

#### Gap's purchasing practices

Gap Inc. is working towards better human rights compliance by improving supply chain operations and embedding labour standards directly into business practices. Gap believes garment manufacturers must take responsibility for conditions in the factories they own and operate, and is developing a formal tool that will enable them to consider the KPIs of a garment manufacturer's compliance record – along with criteria such as cost, speed, quality, and innovation – when deciding where to place orders. At the same time, Gap recognises that its own business practices can have an impact on compliance, and is working to reduce inefficient purchasing practices such as rush orders and last-minute changes.<sup>20</sup>

### Benchmarking

The purchasing organisation can benchmark the performance of their responsible purchasing programme against others. Both performance and processes, such as the actions listed in the table on page 15, can be used in the benchmarking exercise.

Purchasing organisations are reluctant to be at a competitive disadvantage on responsible procurement issues. Investors, customers and other stakeholders may also exert pressure to improve.

#### Update responsible purchasing programme and set new targets

Building on their assessment of the current responsible purchasing programme and benchmarking, the purchaser 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 responsible purchasing programme.

#### Recognise and reward good performance and leaders in responsible procurement

Responsible procurement is a process of continuous improvement involving both the purchasing organisation and the entire supply network. The purchasing organisation 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 purchaser 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 purchasing organisation 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 purchasing.

**At the end of this stage the purchaser has updated their purchasing 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 purchasing organisation can facilitate learning across suppliers, and where reward structures both for suppliers and buyers should be adjusted.**



# Summary

Responsible purchasing from developing countries 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.

Due to cheaper labour costs, sourcing from developing countries is increasingly popular, and can be a win-win solution. Early adopters of codes of conduct have learnt that a sustainable solution to better conditions exists where there is an effective system for workers and managers to discuss issues which lead to improvement actions.

Site owners and managers are instrumental to how products are made and delivered, how workers are employed and the environmental impact of the site. A purchaser's involvement with these issues can raise standards and bring about positive change.

This guide provides purchasers with considerations

- on building relationships with suppliers in developing countries, highlighting the need for honesty and sensitivity to cross-cultural issues,
- on how to bonus both purchasers and suppliers to encourage and reward good practice (Appendix 1),
- on selecting codes or standards which address priorities in a developing country context (Appendix 2).

The business drivers for responsible purchasing are

summarised in this guide and in 'Taking the Lead'.<sup>21</sup>

As the field of responsible sourcing evolves, this guide provides purchasers with points to consider step by step as they develop and implement their responsible purchasing programme.

Actions to implement responsible purchasing	Coverage in this report and in other RPI resources <sup>21</sup>
Establish senior management champion to set business case.	'Taking the Lead' 'Buying Game'
Develop responsible purchasing strategy, policy, and programme supported by training, and resources needed to implement (e.g. data gathering, production site visits).	Page 5, Organisational considerations Page 7, Stage 1, Prioritisation within responsible purchasing programme
Set minimum standards which the supply base is desired to achieve. Assess risks in products to be purchased and the supplier market. Assess if performance management during contract can lead to standards being improved.	Pages 8–14, Stages 2–6 of purchasing cycle
Assess if working with organisations expert in labour, community or environmental issues can support positive improvements in worksites.	
Assess and reward good social and environmental performance by buyers and suppliers. Review effectiveness of responsible purchasing programme.	Pages 15–16, Stage 7, Update responsible purchasing programme Appendix A, Components of buyer and supplier scorecards for rewarding performance

## 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.<sup>22</sup>

21. 'Taking the Lead' and 'Buying Game' are part of the Responsible Purchasing Initiative's resources, [www.responsible-purchasing.org](http://www.responsible-purchasing.org)  
 22. Interview with managing director



# Appendix 1: Complementary buyer and supplier scorecards for rewarding good workplace performance

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.<sup>23</sup> 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.

'Sustainable' component of buyer balanced scorecard		'Sustainable' component of supplier balanced scorecard	
Desired behaviour	Indicators	Desired behaviour	Indicators
<ul style="list-style-type: none"> <li>Choice of and loyalty to suppliers who demonstrate commitment and actions to improve working conditions</li> </ul>	<ul style="list-style-type: none"> <li>% of business through suppliers scoring well on this indicator (through n/o sites with active trade union, steps towards paying a living wage, provision of social benefits (healthcare, schooling, nutrition, etc.), lower staff turnover)</li> </ul>	<ul style="list-style-type: none"> <li>Championing better jobs for workers, good labour standards and having a positive impact in the community</li> <li>Actively working to a plan to improve standards</li> </ul>	<ul style="list-style-type: none"> <li>Staff turnover at production sites</li> <li>Good human resource management systems</li> <li>Good labour standards audit results</li> <li>Sharing good practice with other suppliers</li> </ul>
<ul style="list-style-type: none"> <li>Retaining suppliers who are willing to work through labour standards problems</li> <li>Exiting from suppliers who have demonstrated no commitment to improving working conditions</li> </ul>	<ul style="list-style-type: none"> <li>% of suppliers who have acknowledged issues and made improvements</li> <li>% of suppliers making no progress who have been delisted</li> </ul>	<ul style="list-style-type: none"> <li>Taking pride in steps taken to demonstrate improved working conditions at all times, including when issues arise</li> </ul>	<ul style="list-style-type: none"> <li>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.)</li> <li>Existing recognition agreement and Collective Bargaining Agreement</li> <li>N/o workers with long-term contracts</li> <li>Ratio of insecure to contracted workers (differentiated by gender)</li> <li>Analysis of working hours</li> </ul>
<ul style="list-style-type: none"> <li>Loyalty to suppliers with long relationship with production sites</li> </ul>	<ul style="list-style-type: none"> <li>Average length of relationship with individual production sites</li> </ul>	<ul style="list-style-type: none"> <li>Stable relationships with own suppliers/subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>Average length of relationship with individual production sites</li> <li>Open dialogue on labour standards in subcontracting sites</li> </ul>
		<ul style="list-style-type: none"> <li>Transparent about supply chain and production</li> </ul>	<ul style="list-style-type: none"> <li>Shared list of all sources of supply, including subcontractors and home workers</li> </ul>
		<ul style="list-style-type: none"> <li>Open dialogue on labour conditions</li> </ul>	<ul style="list-style-type: none"> <li>Level of willingness to discuss issues such as pressures on working hours and pay</li> <li>Retrospective comparison of planned vs. actual timings and volume outputs, measured against overtime worked at site</li> </ul>
<ul style="list-style-type: none"> <li>Commitment to a critical path which allows sufficient planning and production time</li> </ul>	<ul style="list-style-type: none"> <li>N/o of deviations from critical path</li> <li>Sampling hit/conversion rate</li> <li>N/o late changes in orders</li> </ul>	<ul style="list-style-type: none"> <li>Constructive feedback on how purchasing and manufacturing process can be adapted to meet business as well as minimum social objectives</li> </ul>	<ul style="list-style-type: none"> <li>Quality of business relationship between brand/retailer and supplier, gauged by 360-degree feedback</li> </ul>
<ul style="list-style-type: none"> <li>Contributing to an enabling environment for improved labour standards within the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>N/o active collaborative projects with NGOs, trade unions, government, etc. to improve labour or environmental standards</li> </ul>	<ul style="list-style-type: none"> <li>Contributing to an enabling environment for improved labour standards on site</li> </ul>	<ul style="list-style-type: none"> <li>Level of willingness to work collaboratively to bring about sustainable labour standards improvements on site</li> </ul>
<ul style="list-style-type: none"> <li>Demonstrating ongoing commitment to learning about sustainable/responsible procurement</li> </ul>	<ul style="list-style-type: none"> <li>Relevant personal development objective, hours of training attended, n/o external contacts with whom tools and learning are shared</li> </ul>		
<ul style="list-style-type: none"> <li>Ethics integrated into core business process</li> </ul>	<ul style="list-style-type: none"> <li>N/o contracts with ethical criteria for supplier selection</li> </ul>	<ul style="list-style-type: none"> <li>Evidence that supplier uses this 'buyer ethical scorecard' for their procurement from the next tier</li> </ul>	<ul style="list-style-type: none"> <li>Selection of suppliers with good social performance</li> </ul>

## FOOTNOTES

23. 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](http://www.ism.ws/files/SR/SSRwGuideBook08.pdf)



## Appendix 2: Supply chain codes/standards and their context

Purchasing organisations 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.

The application of codes through supply chain relationships alone to date has had variable success. This Appendix highlights complementary actions to be taken by the purchasing organisation.

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 purchasing organisations. 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'.

### 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 purchasers.

- Businesses have collaborated to develop the Global Social Compliance Programme (GSCP)<sup>24</sup> 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.

#### JoIn code provisions (building on ETI and SA8000)

(linked to ILO fundamental conventions)<sup>25</sup>

- 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

#### FOOTNOTES

24. [www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background](http://www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background)

25. 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](http://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

Learning from organisations and sectors which have been implementing supply chain codes suggests that complementary enabling activities need to be undertaken by purchasers (see table in Stage 7, page 15).

### Involving workers and supplier management

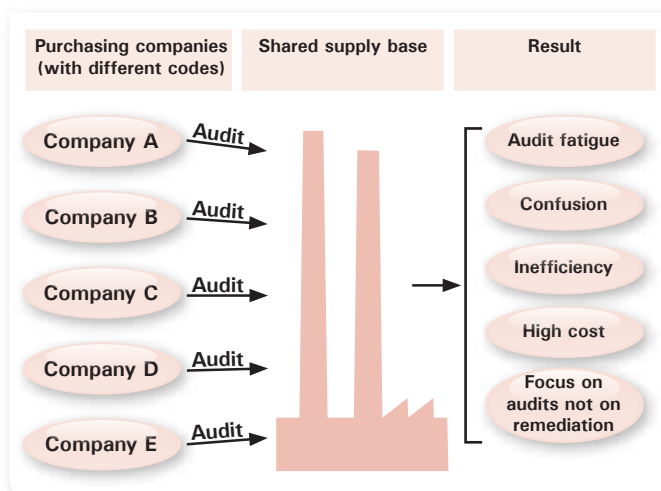
Ultimately, the sustainability of code implementation rests with workers and suppliers. Purchasers are increasingly seeking to work with local organisations to raise awareness of labour standards (see Resources, page 23).

### Responsibility on purchasers

- The Ethical Trading Initiative asks its member purchasing organisations 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 Responsible Purchasing Initiative resources also provide guidance.
- Purchasers 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.<sup>26</sup>

### Rationale to collaborate<sup>27</sup>



26. The 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](http://www.sedex.org.uk)

27. Adapted from Global Social Compliance Programme, [www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background.asp](http://www.ciesnet.com/2-wwedo/2.2-programmes/2.2.gscp.background.asp)



# Appendix 3: Chartered Institute of Purchasing & Supply (CIPS) Code of Professional Ethics<sup>28</sup>

All members sign up to the Code of Professional Ethics when they join CIPS.

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

- maintain the highest standard of integrity in all my business relationships
- reject any business practice which might reasonably be deemed improper
- never use my authority or position for my own personal gain
- enhance the proficiency and stature of the profession by acquiring and applying knowledge in the most appropriate way
- foster the highest standards of professional competence amongst those for whom I am responsible
- optimise the use of resources which I have influence over for the benefit of my organisation
- comply with both the letter and the intent of:
  - the law of countries in which I practise
  - agreed contractual obligations
  - CIPS guidance on professional practice
- declare any personal interest that might affect, or be seen by others to affect, my impartiality or decision making
- ensure that the information I give in the course of my work is accurate
- respect the confidentiality of information I receive and never use it for personal gain
- strive for genuine, fair and transparent competition
- not accept inducements or gifts, other than items of small value such as business diaries or calendars
- always declare the offer or acceptance of hospitality and never allow hospitality to influence a business decision
- remain impartial in all business dealing and not be influenced by those with vested interests

## Use of the Code

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

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

The Institute's Royal Charter sets out a disciplinary procedure which enables the CIPS Council to investigate complaints against any of our members and, if it is found that they have breached the Code of Ethics, to take appropriate action. Advice on any aspect of the Code of Ethics is available from CIPS.

This Code was approved by the CIPS Council on 11 March 2009.

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# Resources

## For organisational use (both purchasing 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', <http://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.unhcr.ch/huridocda/huridoca.nsf/\(Symbol\)/E.CN.4.Sub.2.2003.12.Rev.2.En](http://www.unhcr.ch/huridocda/huridoca.nsf/(Symbol)/E.CN.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](http://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](http://www.iisd.org/pdf/2007/csr_guide.pdf)

## For purchasers

### 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](http://www.ism.ws/files/SR/SSRwGuideBook08.pdf)
- CIPS Knowledge Summaries, 'Ethical Business Practices in Purchasing and Supply Management', [www.ekobai.com/links/link/7](http://www.ekobai.com/links/link/7) and Sustainable Procurement [www.cips.org/documents/KS\\_Sustain\\_procure\\_v3.pdf](http://www.cips.org/documents/KS_Sustain_procure_v3.pdf)
- RESPIRO Guides on Socially Responsible Procurement (SRP), [www.iclei-europe.org/index.php?id=3896](http://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](http://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](http://www.iema.net/iemanews?aid=3672)

- International Labour Organisation (1998), 'ILO Declaration on Fundamental Principles and Rights at Work' and country status reports on labour rights, [www.ilo.org/declaration/lang--en/index.htm](http://www.ilo.org/declaration/lang--en/index.htm)
- Responsible Purchasing Initiative, [www.responsible-purchasing.org](http://www.responsible-purchasing.org)
- Supplier Ethical Data Exchange, [www.sedex.org.uk](http://www.sedex.org.uk)
- Ethical Trading Initiative, [www.ethicaltrade.org](http://www.ethicaltrade.org)
- Big Room label list, [www.ecolabelling.org](http://www.ecolabelling.org)
- International Social and Environmental Accreditation and Labelling Alliance (ISEAL), [www.isealliance.org](http://www.isealliance.org)

### Public procurement

- EU (2008), 'Managing Green Public Procurement Implementation', [http://ec.europa.eu/environment/gpp/toolkit\\_en.htm](http://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](http://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&idoc=84&c=1](http://www.betterfactories.org/resourcedet.aspx?z=7&idoc=84&c=1)

Sri Lanka workers' leaflet 'ETI for your development', [www.ethicaltrade.org/resources/awareness-raising-tools/sri-lanka-workers-leaflet](http://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](http://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](http://www.wieta.org.za/news.html)

## Glossary

For an explanation of purchasing-specific terms see the CIPS Jargon Buster, [www.cips.org/documents/Jargon%20Buster%20Jun07.pdf](http://www.cips.org/documents/Jargon%20Buster%20Jun07.pdf)



This report is co-authored by The Chartered Institute of Purchasing & Supply and Traidcraft Exchange, as part of the Responsible Purchasing Initiative.

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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.

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