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Guide to Responsible Sourcing

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ICC Commission on Business in Society

ICC guide to **responsible sourcing**

Integrating social and environmental considerations into the supply chain



International Chamber of Commerce

The world business organization

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Introducing responsible sourcing



What is responsible sourcing?

Responsible sourcing, also referred to as supply chain responsibility, is a voluntary commitment by companies to take into account social and environmental considerations when managing their relationships with suppliers.

This strategy is now an integral part of effective supply chain management. As production chains expand, companies of all sizes and sectors are devoting more efforts to managing supply chain risks and building long-term supplier relationships. Improving social and environmental performance in production chains is becoming a major element of this process.

As experience has shown, one bad incident with one supplier can lead to a disproportionate amount of adverse publicity, damaging a company's reputation and brand image. This has led a growing number of companies to develop and promote responsible sourcing practices.

Indeed, effective supply chain management is a way for businesses to build a competitive advantage, especially in sectors where production is largely outsourced, such as clothing, footwear, electronics, or food products.

For many companies, working towards improving social and environmental standards in the supply chain has become a natural extension of their commitment to corporate responsibility and, as such, forms part of their overall business model.

Getting involved

Many companies have literally thousands of suppliers across the globe. While a company cannot be held accountable for the actions of all its suppliers, its purchasing activities may create leverage to influence and monitor its suppliers' conduct in areas such as working conditions, respect for labour rights and environmental protection.

The ability of companies to influence their suppliers' business conduct will vary greatly depending on the commercial environment in which they operate and the nature of their supplier relationships. The great diversity that exists within business requires companies to consider a range of tools and approaches so that these can be tailored to their specific circumstances.

To help companies develop their own approaches to responsible sourcing, this guide prepared by the International Chamber of Commerce (ICC) provides a series of practical steps from a global and multi-sectoral perspective. These steps are based on real-life experiences collected from ICC member companies around the world, and can be used by companies of all sizes, sectors and regions.

Six steps to responsible sourcing



The following guidance presents basic steps that companies can take to influence and monitor social and environmental performance in their global supply chains.

Because not all suppliers pose risks, and many have good business practices already in place, a company should focus on high-risk areas, concentrating efforts where they are needed most and most likely to bring about change.

Step one: selecting a supplier

A careful selection of suppliers is one of the best ways to ensure continuity and long-term efficiency of the global supply chain as well as enduring brand support.

When choosing a supplier, in addition to making a final determination on cost, companies often need to evaluate a range of supply chain issues: product quality and safety, continuity of supply and speed of delivery, and intellectual property protection. Criteria such as working conditions, environmental practices, safety standards, and human rights policies should also be factored into the selection process.

When sourcing from low-income countries, a risk analysis should be conducted at the beginning, so that labour and environmental issues can be identified early on and integrated into a cost-benefit analysis.

As a first step, companies should check basic facts about the social and environmental legislation and the level of enforcement in the country of production, to assess potential production risks.

Step two: set clear expectations on compliance with the law

When contracting with a supplier, companies should make it known that they expect their business partners to comply with all national laws and regulations, including labour and environmental laws, and as appropriate, to take into account principles from relevant international instruments, which may sometimes go beyond local legislation.

These instruments include the International Labor Organization (ILO) *Declaration on Fundamental Principles and Rights at Work*, other ILO conventions, and the *Universal Declaration of Human Rights*. Another useful reference is the Global Compact and its "10 principles" covering human rights, labour standards, the environment, and anti-corruption.

A company can also adopt a supplier code of conduct. Before doing so, it should consider the possible difficulties for suppliers to comply with the proliferation of such codes and their requirements.

To ease the compliance burden on suppliers, which are often small and medium-sized enterprises, a company may consider partnering with a sectoral association that has developed an industry-wide supplier code of conduct.

Examples of such initiatives include the Business Social Compliance Initiative, the Electronics Industry Citizenship Coalition and the International Council of Toy Industries CARE Foundation.

Step three: integrate responsible sourcing into buying practices

By integrating responsible sourcing into its own buying practices, a company should avoid undermining the capacity of suppliers to respect social and environmental standards. Inefficient practices, such as rush orders, last-minute changes or placing orders that surpass suppliers' capabilities, which often lead to excessive overtime work and other compliance violations, should be avoided.

A company can initiate direct improvements in two ways: by raising awareness among its corporate buyers of the impact their decisions might have at factory level; and by encouraging more coordination among corporate buyers, a supplier's sales team, and production units when planning production schedules.

Step four: support suppliers in setting their own business standards

A company should encourage suppliers to develop their own responsible practices rather than imposing requirements on them. In doing so, it is essential to stress the commercial benefits of responsible business practices on quality, productivity, contract renewals, and lowering employee turnover.

To help them internalize change, suppliers should be directly involved in the shaping of performance objectives. This way, suppliers can integrate these objectives into their own business strategy, based on their individual capacity and needs.

If useful, a company can provide training to its suppliers to help them improve their management practices and performance. Such support is an integral element of the knowledge transfer that comes with sourcing. Training programmes for management and employees may cover supervisory skills, environmental management, and raising awareness of health and safety practices.

In sectors where labour or health and safety risks may be present further down the supply chain, a company can also work with its direct suppliers to ensure that social and environmental considerations in turn play a role in their relations with second and third tier suppliers.

Step five: track supplier compliance

Companies can ask their suppliers to provide comprehensive information about their social and environmental practices. On-site visits can also be organized to monitor suppliers' progress, or lack of progress, in meeting social and environmental performance objectives. Evaluating this information may become part of a company's regular assessments of business requirements, such as quality control.

To make performance checks truly effective, companies should involve their suppliers' factory management and workers in monitoring, and give them the training and tools to develop their own compliance system and to identify problems.

Taking a risk-based approach can help with a large base of suppliers when monitoring social and environmental compliance. Companies should focus on high-risk suppliers rather than monitoring across the board, as well as on suppliers in charge of the main steps in the production process.

A company can save monitoring costs by collaborating with other companies from the same sector and developing common approaches for auditing suppliers.

To harmonize monitoring practices and ease the compliance burden of suppliers, several sector associations have brought together manufacturers of branded goods, suppliers, retailers and customers with a view to develop common tools and rationalize supply chain requirements.

Initiatives which bring together non-governmental organizations, trade unions and companies can also help encourage dialogue and build overall confidence in the compliance process.

Step six: manage stakeholder expectations and reporting

To build customer trust, companies can collect information on supplier performance across markets, and publish it in an annual report or other publicly-available format. Reporting efforts should be used to measure performance and flag areas for improvement.

Some companies also choose to validate their first or second-party monitoring (audits conducted by the company or on behalf of a company by another organization) by third-party monitoring (conducted by independent bodies). A company's strategy in this area will often be shaped by the way it manages its broader stakeholder relationships, for example its relations with consumers and local communities.

Minding supply chain gaps



The various steps set forth in this guide are meant to help companies define their basic approach to responsible sourcing.

However it is important to bear in mind that integrating social and environmental considerations in global supply chains is a shared responsibility that embraces a wide range of actors.

The role of government

Responsible sourcing can go a long way towards improving social and environmental practices across industries and production chains. But no long-term progress is possible without greater government involvement in passing and enforcing laws.

The positive role of many governments in this area should be highlighted. In some parts of the world, however, the will or capacity of governments to enforce basic rules is lacking. In such cases, voluntary initiatives by companies can help fill the gap, but should not be considered as a substitute to government action.

Some governments should be reminded of the significant economic and social benefits that flow from effective regulation and enforcement. The drive for higher social and environmental standards can lead to increased productivity and greater competitiveness, which in turn attracts investment and helps local businesses move up the value chain.

Government action also captures entire economies, since national social and environmental regulations are not confined to export-oriented sectors, thereby contributing to broad economic development and the achievement of higher living standards.

How to deal with non-performance

Improving social and environmental performance in global supply chains can only be achieved with the effective participation of stakeholders at all levels, including suppliers which are directly in charge of integrating social and environmental standards into their business operations.

However, companies must be prepared to face the risk of non-compliance in their supply chain.

When suppliers do not meet expectations, or when a company discovers a serious compliance violation, the company should agree with the supplier on a realistic timetable of improvements.

If solutions cannot be found and performance does not improve, termination of relationship should be seriously considered, but only as a last resort. Deciding to terminate a supplier relationship should be carefully weighed as it may deprive a supplier of the resources necessary to improve business practices and lead to worsening worker conditions.

Moving forward with responsible sourcing



A checklist for companies engaged in supply chain relationships

The following checklist summarizes some of the important steps that companies can take when entering supply chain relationships:

- Check basic facts about the social and environmental legislation in the countries of production of prospective suppliers. Find out about the level of enforcement in these countries to assess production risks.

- Check whether prospective suppliers qualify for independent certification of conformity with recognized social and environmental standards.

- Clearly define your expectations to your suppliers. Make clear that compliance with all applicable laws is a minimum.

- Explore potential risk areas with suppliers and agree on the desired level of performance. If necessary, use a supplier code of conduct as a benchmark for compliance and incorporate supplier requirements into commercial contracts.

- Raise awareness among your purchasing officers of the impact that their purchasing practices might have on production at factory level.

- Carry out assessments of suppliers' facilities and practices, including through independent monitoring where appropriate, or by organizing on-site visits and worker interviews.

- Find out about sectoral initiatives which can help conduct assessments and provide information and training to suppliers on responsible business practices.

Some examples of responsible sourcing initiatives

A number of initiatives led by sectoral associations and multi-stakeholder bodies have emerged with a view to provide more specific guidance on basic requirements which can be expected from suppliers, as well as to develop operative frameworks for conducting supplier assessments and training programmes.

Participation in such initiatives can come with important benefits in terms of harmonizing approaches and fostering dialogue. Examples of well-known initiatives include the following:

- The Business Social Compliance Initiative (www.bsci-eu.org), a European business-driven platform for the improvement of social compliance in all supplier countries and for all consumer goods;

- The ICTI-CARE process (www.icti-care.org), the international toy industry's ethical manufacturing programme, aimed at ensuring safe and humane workplace environments for toy factory workers worldwide;

- The Electronic Industry Code of Conduct (www.eicc.info), a code of best practices adopted and implemented by some of the world's major electronics brands and their suppliers with a view to improve conditions in the electronics supply chain;

- The Fair Labour Association (www.fairlabor.org), a network of companies, civil society organizations, and universities protecting workers' rights and improving working conditions worldwide by promoting adherence to international labour standards;

- The Ethical Trading Initiative (www.ethicaltrade.org), an alliance of companies, non-governmental organizations and trade union organizations which promotes the implementation of corporate codes of practice covering supply chain working conditions;

- Worldwide Responsible Apparel Production (www.wrapapparel.org), an independent organization dedicated to the certification of lawful, humane and ethical manufacturing in apparel production;

- SA8000 (www.sa-intl.org), a comprehensive system for managing ethical workplace conditions throughout global supply chains.

Whatever mechanism is used, it is important to remember that the most effective way to achieve sustained improvement over time is by developing a long-term collaborative approach between companies and their suppliers, through the involvement of local management and employees in the shaping of social and environmental performance objectives.

Further reading and references

For further background on responsible sourcing, the following papers will provide useful reading:

- **ICC guidance on supply chain responsibility** – Policy statement by the International Chamber of Commerce, October 2007

- **Beyond monitoring: a new vision for sustainable supply chains** – Business for Social Responsibility, July 2007

- **Corporate social responsibility in China's information and communications technology sector** – Foreign Investment Advisory Service and Business for Social Responsibility, July 2007

- **Meaningful change: raising the bar in supply chain working standards** – Roseann Casey, prepared for John Ruggie, UN Secretary-General Special Representative on business and human rights, November 2006

- **Assurance for sustainable supply chains** – Fédération des Experts Comptables Européens, June 2005

- **Strengthening implementation of corporate social responsibility in global supply chains** – World Bank Group, October 2003

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world. ICC promotes an open international trade and investment system and the market economy, and helps business corporations meet the challenges and opportunities of globalization.

Business leaders and experts drawn from ICC's global membership establish the business stance on broad issues of trade and investment policy as well as on vital technical subjects.

ICC was founded in 1919 and today it groups member companies and associations in 130 countries.



ICC Commission on Business in Society

This guide to responsible sourcing has been developed by the ICC Commission on Business in Society. The commission is ICC's main working body on corporate responsibility issues, helping to define the role of business in the context of globalization and changing societal expectations. Members of the commission are senior corporate responsibility executives within global companies in a variety of sectors.

For further reading about responsible sourcing and other commission activities, please visit www.iccwbo.org/policy/society or email julian.kassum@iccwbo.org

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