



Taking the temperature

ibe

Ethical supply chain management

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Of Impactt Limited

fair
labour standards
human rights
dignity
responsibility

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Executive Summary

Summary

Companies are under increasing pressure to tackle issues of working conditions in the organisations that make up their supply chains.

This pressure is coming from various sources. These include the general public as people's awareness of these issues and expectations of companies' responsibilities rise. It is also coming from investors as socially responsible investment becomes more mainstream. Managing supply chain issues is seen as one indicator of how well a company is run. The media are also becoming more interested in stories about malpractice, as are campaigning groups as they target new sectors and become more skilled at harnessing public opinion.

The pressure on companies is also becoming more sophisticated. Not only are protagonists highlighting poor working conditions, but they are also turning the spotlight on other corporate purchasing practices.

Public exposure of poor labour standards in factories or other establishments, often located in developing countries, can inadvertently undermine progress on establishing ethical trade and good labour practices.

Those companies that are taking these issues seriously are at various stages of the process. Some are getting to know their supply chain, developing and communicating their code of conduct or implementing their policy through monitoring suppliers and encouraging progress. Others are building capacity for suppliers, factory managers and local organisations or undertaking collaborative projects with other companies, non-governmental organisations (NGOs) and multi-stakeholder groups. This publication outlines the actions and decisions required at each of the above stages.

Codes and compliance

There has been a proliferation of purchasing codes in recent years, but there has also been a convergence of content. Many companies have based their codes on the principles set out in the International Labour Organisation (ILO) Conventions and United Nations (UN) Universal Declaration of Human Rights. Codes are useful in clarifying a company's commitment and expectations, as well as raising the awareness of suppliers. However, there is still a tension between setting standards that are high enough to be credible without becoming unrealistic. Having a code is not enough to make change happen; the effectiveness of a code depends on how well it is implemented and communicated.

Companies tend to use a combination of a strict compliance approach for some issues or some suppliers and a continuous improvement approach in other areas. The continuous improvement approach encourages open discussion of issues and requires step by step progress over time. Individual companies put different emphasis on strict and continuous compliance.

Limits of audits

Audits are still the main tool used by companies to monitor supplier performance. However, there is a growing consensus that auditing alone does not improve labour standards. In some situations, it may even have a negative effect on the life of workers. Audits can stimulate dishonesty if suppliers are forced to provide the ‘right’ answer or face termination of contracts. This trend towards concealment is a serious barrier to improving labour standards. Another limitation is the recognition that audits may not find all of the problems, especially hidden problems of discrimination and harassment. In addition, audits are largely inappropriate for informal or flexible workers and often do not reach beyond the first tier of suppliers. If companies fail to follow up on audits, then few sustained improvements will be made on the ground.

Other approaches

A number of new methods have emerged that can lead to greater and more sustained progress. Some purchasers are working with their suppliers to build capacity and commitment by providing training and encouraging ownership of improvements at the factory level. Examining corporate purchasing practices – to reduce the potential tension between commercial interests and ethical commitments – is one area that has recently become prominent but still requires investigation and development.

The case studies included in this publication illustrate the benefits of collaborative projects. Working with local organisations enables a company to build their understanding of the local situation and find appropriate solutions. Joining forces with other companies can help to achieve more ambitious projects and can provide the benefits of shared cost, risk, expertise and learning.

Challenges

The future challenges for companies engaged in ethical supply chain management include:

- Aligning commercial and ethical agendas by examining purchasing practices
- Building suppliers’ capacity to manage the issues for themselves
- Engaging with local governments and organisations to widen the impact of activities

In the light of growing awareness of the limitations of audits, companies are faced with the additional challenges of:

- Improving the impact of audits by focusing on continuous improvement
- Providing effective follow up
- Finding appropriate approaches for informal and ‘flexible’ workers
- Boosting the quality of audits through staff training and increasing the use of confidential worker interviews

The underlying challenge is for companies to regain the trust of their suppliers and the general public. To do this, they must develop credible ethical supply chain management programmes that work towards making genuine improvements to the life of workers in their supply chain.