HOW TO: MANAGE YOUR SUPPLY CHAINS RESPONSIBLY
Managing your supply chain responsibly integrates management of economic, environmental and social issues arising in supply chains and utilising purchasing power to affect positive change. All the time retaining a respectful and fair approach to relations with suppliers – treating them as partners.

This How To guide outlines: why responsible supply chain management is vital to your business; the types of risks and issues commonly found within supply chains; and a practical step-by-step approach to meet these challenges. This guide is aimed at procurement and CR managers at any stage of their responsible supply chain journey.
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Responsible supply chain management isn’t simply a question of doing “the right thing” – it makes good business sense. Through ensuring responsible management of your supply chain you will be able to minimise risks and seize business opportunities. It will help build better and more sustainable long-term relationships with your suppliers, in turn ensuring quality and security of supply.

**Cadbury’s Cocoa Partnership** was set up in response to research carried out by the Institute of Development Studies, Sussex, and the University of Ghana, Legon, “Sustainable Cocoa Production in Ghana.” The research showed Cadbury that the average production for a cocoa farmer has dropped to 40% of the potential yield and that cocoa farming has become less attractive to the next generation of farmers. The Cadbury Cocoa Partnership aims to address farmer productivity to attract the next generation into cocoa farming securing the future supply of a vital ingredient.
REDUCING BUSINESS RISKS

REPUTATIONAL RISKS: The exposure of irresponsible practice in the supply chain – perhaps due to the use of child labour by a sub-contractor or contaminated products can result in severe damage to business reputation and customer trust, which can translate into tangible losses. Alternatively some companies have sought to realise reputational gains through becoming associated with positive supply chain initiatives such as Fair Trade.

LEGAL RISKS: Faulty or dangerous products due to poor practice in your supply chain can result in considerable legal and compensatory costs. If a product is not fit for purpose or safe a product recall is a likely possibility. Research carried out by Navigator CM uncovered that UK product recalls have more than doubled since 2004. Responsible management of supply chain risks as well as working with suppliers to increase their standards can minimise such business costs and foster customer trust.

Taking early action on issues within your supply chain such as environmental or safety standards may actually mean you are compliant with new legislation and regulation (e.g. WEEE & REACH) prior to its entry into force giving your business an advantage over competitors who scramble to take action reactively.

OPERATIONAL RISKS: Working collaboratively with suppliers can help secure continuity of supply. All businesses are currently looking for ways to cut costs but when suppliers cannot finance their operations through bank credit, imposing unfair extended payment terms on suppliers could have unintended consequences. Bacs Payment Schemes Limited found SMEs are now owed £25.9 billion after overdue payments rocketed by 40% in 2008, up from £18.6 billion in 2007. This is putting considerable stress on many suppliers and many businesses are finding the loss of strategic suppliers results in significant and costly knock-on consequences. PWC USA’s recent report: From vulnerable to valuable: how integrity can transform a supply chain found that the average stock return of companies suffering from supply chain disruptions was almost 19 percentage points lower than those who had not suffered a disruption. A fair approach to relations with suppliers can help secure the sustainability of your business.

In the past year 77% of 25-64 year olds around the world refused to buy a product or service from a distrusted company – Edelman Trust Barometer 2009

VT Group, recognising the risk to their business of supplier vulnerability, identified struggling suppliers, took steps to ensure prompt payment, and stepped in to help suppliers facing problems. Where necessary payment terms were reduced, long-term order plans were shared and support on business processes such as just in time ordering was given.

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INCREASING BUSINESS OPPORTUNITIES

INCREASE SUPPLIER LOYALTY: A supplier that comes to you first with their innovations will provide you with a significant competitive advantage. When suppliers develop new products or services they will be incentivised to come to you before anyone else if you have a history of positive relations. Treating suppliers as partners, helping them improve their performance and be “fit for the future” will foster this type of loyalty and also help to increase security of supply.

INCREASED MARKET SHARE/NEW MARKET: Ethical consumerism is growing. The 2008 Cooperative Consumerism report found that the ethical market in the UK was up 15 per cent on the previous 12 months and was now worth £35.5 billion. Developing more ethical and sustainable products to meet consumer demand can only be done through collaboration in your supply chain. Improving the standards of your products and services as well as the ethical reputation of the product can increase your market share.

ACCESS TO INVESTMENT: A responsible approach to managing the risks in supply chains demonstrates good quality management making your business more attractive to potential investors. Investors, and particularly institutional investors, are increasingly factoring performance on environmental, social and governance issues into mainstream investment decisions – rather than only specialist funds. At a time when bank finance is increasingly difficult to secure a business that displays good quality supply chain management could be viewed as more favourable by potential investors. Our members are increasingly citing this as a growing issue and over the longer term investment decisions will be increasingly affected by CR performance.

Sainsbury’s increased its market share of cod from 19% to 21% and haddock from 26% to 28% by improving its seafood quality through its sustainable sourcing programme.
WINNING NEW BUSINESS: When your business tenders for a project your supply chain may also be scrutinised. Increasingly businesses are facing the prospect of losing business due to poor supply chain or CR performance generally. The ability to demonstrate excellent management processes, supplier diversity, good labour standards and carbon reduction in the supply chain will help your business gain a competitive advantage and may even be a prerequisite for awarding contracts, particularly with the public sector.

COST SAVINGS: Cutting carbon also results in direct cost savings for businesses. One of the easiest ways to economise in difficult economic times is to look for ways to reduce use of energy, waste and transportation.

ATTRACT & RETAIN TALENT: Employees increasingly want to work for responsible businesses. Responsible supply chain management can bolster CR credentials and help businesses recruit and retain experienced staff and new talent in the procurement function and beyond.

Supreme Creations increased its turnover by 350% through developing a Fair Trade and environmental alternative to plastic bags.

In 2005 BT made a £410million saving from environmental productivity gains. A substantial proportion of this was as the result of procurement, transport and energy programmes – Cynic’s Guide to Sustainable Sourcing, Capgemini & CIPS

75% of MBA students surveyed at the Stanford Graduate School of Business feel a reputation for ethical conduct is as important as a job with intellectual challenge and good salary – Stanford Graduate School of Business Survey June 2008
The type of issues you face will differ depending on your industry, the type of products you are sourcing, the type of suppliers you are dealing with and the location of your supply chain. It is vital that you analyse your risks through the lens of your particular business, its priorities and drivers. Responsible supply chain management should not be approached as a tick box exercise but should seek to ascertain the root causes of the risks.

The types of supply chain issues can broadly be split into three categories: economic, environmental, and social. In approaching all of these issues a business should remember that treating suppliers fairly and maintaining a collaborative approach will foster greater cooperation and transparency making it easier to achieve your aims.
The Tata Group has built its business model around integrity by refusing to pay bribes even though it operates in countries where such practice is widespread. This has been a key component in its success over the last 160 years.

**ECONOMIC ISSUES**

Possible economic issues within your supply chain include:

- **Supplier vulnerability** - what is the financial health of your supply base?
- **Supplier dependence** - what percentage of your suppliers overall business does your contract account for?
- **Supplier reliability** - can you trust your supplier on quality and time?
- Unfair or unreasonable payment terms
- Supplier diversity and local sourcing
- Bribery and corruption
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<td>What are your standard terms and conditions?</td>
<td>If your payment terms are too long or are subject to “approval of works” which fails to happen in a reasonable time this can put considerable stress on the cash flow of your suppliers. Consider the impacts of paying your suppliers in 30, 60, 90 or 120 days. In particular do you have smaller suppliers that will struggle with liquidity if not paid sooner? For further information see the Government’s Prompt Payment Code.</td>
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<td>Do you know your track record in honouring the terms and conditions you agree with suppliers?</td>
<td>In the short term your cash flow may benefit from paying suppliers late, but in the long term your ability to build relationships of trust to help you manage business issues will be undermined. Some businesses have improved their systems enabling them to ensure payment is prompt after receipt of an invoice – are there any improvements you could make to reduce payment times?</td>
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<td>Have you considered the impact of the price you have negotiated?</td>
<td>Getting a competitive price is a legitimate business aim. However, squeezing suppliers too much on price can affect the viability of their business and also the wages and conditions that their workers operate in.</td>
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<td>Does your contract account for a large proportion of a suppliers business?</td>
<td>If a supplier has a high level of dependence on your business you should consider the impact you have when making purchasing decisions or withdrawing your business. To help suppliers it is a good idea to share purchasing projections. Some leading companies are even going as far to exchange business plans and inform suppliers of long term purchasing strategies.</td>
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<td>Are your strategic suppliers in robust economic health?</td>
<td>Supply chain vulnerability is a major emerging issue and security of supply is essential to your business operations. Conducting an analysis of the vulnerability of your supply chain will arm you with the necessary information to ensure security and enable you to work with suppliers to deal with problems in advance.</td>
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<td>Do you or could you source any goods or services locally?</td>
<td>Some companies are considering how to create smaller contracts within global strategies. Local sourcing is an opportunity to build community relations and foster strong support for your brand. Local sourcing may also have the benefit of reducing carbon emissions and lower transportation costs. Business is currently struggling to reconcile the benefits of using a higher number of local suppliers with the cost savings associated with aggregation of the supply base – consider what balance is appropriate for your business and how you want to contribute to the local economy.</td>
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<td>Is there sufficient diversity and opportunity for SMEs in your supply chain?</td>
<td>“Supplier diversity”, or “supplier opportunity” as it is sometimes referred to, is the creation of a level playing field for suppliers which are at least 51% owned by a minority group. This is not to be confused with positive discrimination but is concerned with removing barriers which prevent minority owned businesses from competing. Consider analysing your supply base. Would you like to raise the visibility of your contracts within minority groups and small businesses or increase opportunities for these groups to win your business? Some leading companies are running “how to win business with us” workshops for SMEs. People of different backgrounds not only reflect your consumer base but can bring new and innovative solutions and developments.</td>
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<td>Do you have a global policy on the non-payment of bribes or other corrupt practices that affect how suppliers get chosen?</td>
<td>Under UK law bribes and “facilitation payments” are illegal. Despite this, such payments may still be “expected” in some parts of the world. A business should remember that engaging in such activity could have costly legal consequences or may mean you get the wrong suppliers for the wrong reasons. Faith in the integrity of your business will be damaged if it is associated with corruption. To see if you are operating in a country with high levels of corruption consult the Corruption Perception Index compiled by Transparency International.</td>
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Think about where your impacts are and where the greatest efficiencies could be made within the supply chain. Every business should be looking at where extra savings are possible and mobilising those it deals with to do likewise. For more information on how you can mobilise your suppliers on climate change see the supplier pages of the May Day Journey.

**ENVIRONMENTAL ISSUES**

Possible environmental impacts within the supply chain include:

- Carbon and other greenhouse gas emissions
- Accidental pollution
- Damage to biodiversity
- Water and other resource usage
- Energy efficiency
- Scarcity
- Waste
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<td>Which categories have the greatest environmental impacts? e.g. fleets, IT, Stationery</td>
<td>The high impact areas often provide the greatest opportunities for savings and efficiencies as well as improving environmental performance. Often, but not always, this may be your highest area of spend.</td>
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<td>Which areas are the most carbon intensive?</td>
<td>Think about targeting your highest carbon impact areas first. For a list of major emission sources from selected industries access Carbon Management: A practical guide for suppliers Appendix 3, by University of Cambridge Programme for Sustainability Leadership &amp; BITC.</td>
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<td>Why should I be addressing this now?</td>
<td>As well as cost savings associated with carbon reduction, the Climate Change Act requires the UK to reduce carbon emissions by 80% by 2050. In addition, there is also an interim reduction target of 34% by 2020, which could rise to 42% if a global deal is reached. There is already regulation in place (e.g. the Carbon Reduction Commitment) to reduce carbon emissions, and further is likely for business. Acting proactively will give your business a leading edge against rivals.</td>
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<td>Are the products inherently likely to pollute or compromise biodiversity?</td>
<td>Some products by their nature have high adverse environmental impacts e.g. oil, plastic. Consider how impacts could be minimised or whether there are any suitable alternatives.</td>
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<td>Are raw materials coming from sustainable sources?</td>
<td>Relying on unsustainable sources may leave your business open to future supply chain disruption and deplete the world’s resources. Consider if there are alternative raw materials that also fit the specification.</td>
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<td>What are the life cycle impacts of products including disposal?</td>
<td>Consider whole life costing. Work with internal customers to identify the true business need and look for alternative solutions. You may be able to substitute more eco-friendly products or increase reuse or recycling. For example plastic drinking cups could be substituted for glasses, which have lower impacts due to their long-term durability and reusability.</td>
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<td>Look at the logistics of your supply chain. Are there opportunities to reduce energy usage?</td>
<td>Can you reduce the number of journeys suppliers make? Perhaps deliveries could be coordinated? Using your purchasing power to encourage suppliers to operate more efficiently can reduce costs for you both.</td>
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Key social issues in the supply chain include those rights protected under the International Labour Organisation Declaration on Fundamental Principles and Rights at Work:
- Freedom of association and collective bargaining
- Forced and compulsory labour
- Child labour
- Discrimination in the workplace

Core human and labour rights abuses associated with employment as well as adverse community impacts can often cause company reputational damage, these include:
- Living wage – are suppliers paying workers enough for an adequate standard of living?
- Working hours
- Working conditions including health and safety
- Personal security
- Adverse community impacts include:
  - displacement
  - damage to livelihood and interference with way of life
  - health impacts due to pollution

See the ILO and Office of the High Commissioner for Human Rights websites for further information on labour and human rights.
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<td>Do you source any products from countries which have prevalent human</td>
<td>Sourcing from countries with weak governance may carry an added risk of being associated with human rights abuses and this should be factored into your analysis of supply chain risks. If you identify supply chain operations in higher risk countries it may mean extra attention needs to be given to communicating and monitoring standards. See the Maple Croft Human Rights Risk Report 2009 for further guidance on country related risks. However, it should be remembered that sourcing exclusively from developed countries is no guarantee against association with human rights violations.</td>
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<td>Do you source any product categories that are likely to be associated</td>
<td>Consider if the product or service you are sourcing is labour intensive. This may increase the risk factor. Examples of such industries are: • Clothing &amp; textiles • Food &amp; drink • Agriculture • Low cost promotional materials • Extractive industries (high risk for abuses or health and safety problems).</td>
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<td>with human rights or labour abuses?</td>
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<td>Do you have a labour standards or human rights policy that you ask your</td>
<td>Putting your standards in a policy and communicating it helps suppliers understand what is expected. However, you need to make sure your values are lived by your suppliers. The method of communication will be essential to compliance. Suppliers need to be made aware of the importance you place on labour standards.</td>
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<td>Do you carry out social audits of your suppliers?</td>
<td>Carry out audits to gain visibility of supplier performance on social as well as quality performance. This will give you vital information about the risks you are exposed to and also help suppliers realise their performance on these issues is as important as the quality of goods and services they produce.</td>
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<td>Have you thought how your purchasing decisions affect suppliers?</td>
<td>Good practice aims towards paying a living wage. Squeezing suppliers on price could mean social standards are lowered. Further, clear communication on specification and deadlines will help suppliers manage their workforce responsibly. Late changes to specifications could lead to excessive overtime and consequently a higher probability of accidents and poor product quality.</td>
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<td>Does the sourcing of products negatively affect the surrounding local</td>
<td>The nature of sourcing may adversely affect the local environment having knock on consequences for the community. This could be common in mining and other extractive industries where land is polluted, damaging crops, or where pollution affects the health of a community.</td>
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<td>community?</td>
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<td>Have you carried out a human rights impact assessments across your</td>
<td>In order to effectively manage your risk you must know what the impacts are in your supply chain. For guidance see Business Leaders Initiative on Human Rights’ guide for integrating human rights into business management and the International Business Leaders Forum’s guide to human rights impact assessment and management.</td>
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Remember even if you source exclusively from the UK many of these risks may still apply to your business. Many high profile businesses have had serious incidents of labour abuses in their UK supply chains. This is particularly true in the agricultural or food and drink industries that are regulated by the Gangmasters Licensing Authority. See also BITC’s Voluntary Code of Practice on Employing Migrant Workers / Overseas Staff in Great Britain.

The environmental, economic and social issues inherent in supply chains constitute a key challenge for business and responsible management. If you have an international supply chain there will be significant geographical and cultural obstacles to overseeing standards. However, difficulties are unlikely to be regarded as an excuse for a child labour scandal. These difficulties mean more efforts not less should be focused on understanding the geopolitical challenges and raising standards.
A STEP-BY-STEP APPROACH
Now you have explored the issues that may be in your supply chain and why it is important for your business to address them, the next stage is to implement actions to deal with the risks and opportunities. The following steps set out a simple process for making a start. However it should be remembered that it is not a box ticking exercise. You must seek appropriate and durable solutions for the root causes of the issues.

### STEP PROCESS SUMMARY

1. Understand your business drivers
2. Carry out initial review and risk assessment
3. Prioritise areas for action
4. Gather information from suppliers on identified risks
5. Develop policy
6. Set targets for improvement
7. Build the capacity of your people
8. Integrate throughout the procurement process
9. Report externally and internally
STEP 1: UNDERSTAND THE BUSINESS DRIVERS

Identify why responsible supply chain management is important to your company and let this guide your approach e.g. cost savings, regulation, reputation or competitive advantage. Your supply chain programme must make sense for your business.

STEP 2: CARRY OUT INITIAL REVIEW AND RISK ASSESSMENT

REVIEW CURRENT PRACTICE: In order to know your baseline you need to have visibility of your supply chain and understand any CR related activity taking place already. First carry out a full analysis of your supply chain looking at what you are spending in each category of purchase and with each supplier; you may find analysing the flow of materials and information currently required to bring a product or service to a market a useful exercise. Speak to colleagues to discover any learnings from previous initiatives.

ASSESS: In order to ensure you take action on the most important or high risk issues you need to carry out a risk and opportunity assessment of your current supply chain. The risks and opportunities in your supply chain will depend on the economic, social and environmental impacts associated with items you purchase and the location from which you source products and services. Brainstorm the impacts that might be present in each category.

Some leading companies are also speaking to other stakeholders such as local communities and NGO’s, to understand the potential issues. This could be particularly important where your supply chain has an international dimension, as these stakeholders will have a better appreciation of the impacts on the ground.

You should map supply chain risks taking into account your business drivers. Many different mapping models exist; one example is the reputation led approach. If reputation has been identified as a key driver, you could map items of purchase identified as having high reputational risks, alongside the importance of the item to your business.
STEP 3: PRIORITISE AREAS FOR ACTION

You can't do everything at once so pick areas to concentrate on. For a strategic approach select areas your risk assessment has highlighted as high risk e.g. where basic human rights are not being met or where opportunities exist to gain competitive advantage. Prioritisation will depend on the nature of the product or service in question, your business's drivers, location of the supplier and level of influence you might have.

Below is an example of how Centrica map and prioritise its risks. Operating in a highly regulated industry, Centrica decided it would make business sense to analyse risk according to the likelihood of non-compliance with its business principles and the relative importance of the item of purchase. The risk factors Centrica considered when analysing the non-compliance risk included: brand association, product/service risk (i.e. those industries associated with labour or human rights abuses), levels of subcontracting, country risk and its level of influence with suppliers.

### Centrica's Compliance led approach

#### Likelihood of non-compliance with Centrica business principles

- **High**
  - Promotional Goods (Asia)
  - Stationery/Paper
  - FM/Cleaning Catering/Security
  - Controls
- **Low**
  - Office Furniture

#### Relative importance to Centrica

- **Manufactured**
  - IT Services
  - Fleet
  - Agency Labour/Contractors
  - Tools/Safety Equipment
- **Services**
  - Offshore Centres
  - Work-wear
  - Copper
  - Meters
  - Branded boilers
  - Smoke
  - High
As a result Centrica could prioritise high risk and important categories of purchase for further investigation and initiate work with suppliers to mitigate risks and realise opportunities.

Carrying out a similar exercise will help you gain visibility of where to concentrate your efforts. How you prioritise must reflect your key business drivers and should tackle your biggest risks and impacts first. Typically, those items of purchase that have high associative risks and are important to your business will be the areas you choose to concentrate your strategic supply chain efforts.

There may also be some quick wins that will help you build the business case to convince colleagues of the importance of responsibility in the supply chain and help you integrate it into the long term strategic objectives of your procurement strategy.

**When prioritising areas for action it is worth considering:**

**THE LEVEL OF RISK** Prioritise high-risk suppliers or sectors, i.e., those suppliers / sectors who have high carbon emissions and/or present a particular reputational risk to your company.

**YOUR ABILITY TO INFLUENCE THEIR ACTIONS** Prioritise key suppliers (i.e., suppliers you do business with directly rather than through an agent or distributor) and those where you may have influence because of the size of contract.

**THE LEVEL OF IMPACT** Consider targeting the top 10 suppliers by turnover. This often is the easiest way to make large cuts in total supply chain emissions. However, companies should remember to look at it from an environmental, economic and social perspective as well - the products/services with the highest impacts may not be in the top spend, yet are where the biggest difference can be made.

**POTENTIAL OPPORTUNITIES** Prioritise suppliers or parts of the supply chain where innovation could occur or business opportunities realised; these may be suppliers where a long-term strategic approach is needed. It may also be useful for companies to identify some quick wins to prove early results and help build the business.
STEP 4: GATHER INFORMATION FROM SUPPLIERS ON IDENTIFIED RISKS

In order to understand how your suppliers are performing on the potential risks and opportunities identified you need to gather information directly from your suppliers on their positions, processes and performance. Your aim is to see where improvements need to be made and also to learn of good practice. It is important that you always tailor your approach to reflect your business drivers and identified risks but as a starting point you could consider researching the items identified in the box below.

Suppliers may initially be reluctant to share this information so make sure you communicate clearly why you are seeking the information. This will help you get the cooperation you need. You can carry out this research by conducting face to face interviews, audit visits, questionnaires or desk research. For tips on how to create questionnaires see step 8.

To establish the current baseline companies often ask questions on:

- **Positions** e.g.: policies on equality and diversity, environment, health and safety
- **Processes** e.g.: environmental management systems, recruitment, whether they carry out due diligence or impact assessments
- **Performance** e.g.: carbon footprint, record of accidents, diversity of workforce, % of income generated under contract, wage levels

Be careful only to ask about performance if it will influence your decision making process and if you are in a position to make an informed judgement. You should also remember that suppliers may be more sophisticated than you are, know their business better than anyone, and may actually be able to tell you how to make improvements.
In addition to the work you are doing with suppliers it is also important to consult other external stakeholders. This will help you verify and expand on the information you are receiving from suppliers. Depending on where you are operating, local NGOs and government could be important sources that can provide specific context on identified risks and also on wider geo-political issues. The more channels of information you have, the more you reduce your chances of missing an important risk or issue.

**STEP 5: DEVELOP POLICY**

Once you have decided what issues are important to your business and what standards you want to achieve set them out clearly in your company policy. This will provide clear guidance to your procurement team and suppliers on what is expected of them.

### Quick hints for a good supply chain policy:

- Have a clear purpose or statement of intent
- Set out clearly the minimum expected standards
- Reference internationally recognised human rights instruments such as the Universal Declaration on Human Rights and core ILO conventions
- Have accompanying guidance notes so that those responsible for communicating it can give meaningful guidance to suppliers
- Detail how the supply chain will be managed and monitored and how performance on issues such as labour rights or economic standards will feed into appraisals and renewal of contracts

**Ensure that the policy is communicated.** When you launch the policy you could run workshops both with suppliers and internal staff to raise its profile and explain clearly what it means in practice. In particular, you need to make it clear that the policies will inform procurement decisions and what consequences or protocol will follow in the event of non-compliance. It is important to ensure the communication strategy uses media familiar to the audience and takes into account any language, cultural or geographical differences.

Depending on the size of your business it may be a good idea to have an overarching supply chain policy together with supporting policies on major risk areas identified such as human rights, labour and environmental standards.
STEP 6: SET TARGETS FOR IMPROVEMENT

The risk analysis exercise together with the information you have from your dialogue with suppliers will enable you to identify where suppliers are not complying with your stated standards and where targets need to be set. Even where minimum standards are being met you may wish to set further targets to achieve continuous improvement.

Companies should agree targets and assess performance, perhaps as part of supplier relationship management meetings. Think about how to support suppliers to make the improvements you are asking for, as some may lack the know-how. Collaborating on joint projects can reduce the burden. Targets should be reviewed regularly as continual improvement in performance is aimed for.

Ensure that you support your suppliers. Setting targets without building their capacity may lead to poor supplier relations and little or no improvement. Consider providing training and sharing know-how in order to help them make improvements.

Kingfisher – putting it into practice: In order to help suppliers understand what was expected of them and improve standards, Kingfisher produced an information pack for factory managers. It had a handbook for factories that provided practical tips, case studies and a number of fact sheets for specific issues identified as high risk, such as chemical usage and storage and fire fighting. Each information pack was translated into local languages.
**STEP 7: BUILD THE CAPACITY OF YOUR PEOPLE**

Policies and targets need to be lived to be effective. Those responsible for procurement in your business need to have knowledge on the issues and be motivated to include these considerations in their assessment and selection of suppliers. This can be done through:

**KNOWLEDGE & CAPABILITIES:** Procurement staff can be given training on the various economic, environmental and social issues inherent in supply chains. Emphasis should be placed on the business implications if the issues are not tackled and the need to consider them in procurement decisions. Specific training could cover how to use supplier questionnaires and the audit process to improve supplier performance and selection.

**INCENTIVES:** Procurement objectives should be aligned and staff should be incentivised to consider supplier performance on economic, social and environmental issues by working it into the bonus and appraisal structures.

**STEP 8: INTEGRATION OF RESPONSIBLE SUPPLY CHAIN MANAGEMENT THROUGHOUT THE PROCUREMENT PROCESS**

As well as managing the current risks and opportunities in your supply chain it can be easier and more effective to integrate responsibility into the tendering process and the selection of suppliers. This can be done by:

**DEFINING YOUR BUSINESS NEEDS:** Before opening a tendering process identify the social and environmental impact of your product or service. Establish if there are alternative methods of realising the business need that will have less negative impacts. Where you have them, work with your internal customers to consider the whole life costing of items in your procurement decisions. It may be that what you are asked to buy is not the most efficient way to fulfil the business need in the long term.
**PRE-TENDER:** The selection of new suppliers gives businesses the opportunity to improve standards in your supply chain from the start. You can establish supplier performance on relevant issues by asking questions on labour and environmental standards in the pre-contract supplier questionnaires (Pre Qualification Questionnaires & Requests For Information).

Think about how you will use the information you receive. You should assess questionnaire responses and provide feedback, highlighting areas of good performance, areas requiring improvement and how they compare to other suppliers in the same sector and country. You should then assess and weight social, economic and environmental performance along with other criteria, such as quality, in the selection of tenders. Your standards can be given greater influence by including targets for performance on identified risk issues in the supplier contract.

You should always consider the burden on suppliers of asking these questions. Try and make any questions as simple as possible. You could also consider any industry initiatives that may make the pre-tender process more uniform for suppliers and therefore more accessible to smaller suppliers. For example, is there any way a group of companies could agree the form of the PQQs for all suppliers?

**Hints for Questionnaires:**
- Ask questions relevant to the risks or opportunities associated with the product
- Don’t expect suppliers to be doing things you are not
- Ensure you have uniform systems of measurement to allow comparison
- Don’t ask questions which are not aligned with your corporate values
- Think about what you do with the answers – do you want to use a system that allows you to share answers with other companies? For more information on this see the SEDEX website
- Consider how much you trust the answers. What kind of supporting evidence do you need?

**POST-TENDER:** It is important to follow-up on supplier performance after selection to maintain the momentum and ensure that supplier improvements are sustained over time. Companies should monitor and assess supplier performance and where performance is not in line with targets or minimum standards, enter into a dialogue with suppliers to try to identify the reasons for this and what support may be required to improve. Where there are incidents of non compliance with minimum standards as outlined in your policy, your response will depend on the seriousness of the breach.
Generally it is advisable to work collaboratively with suppliers to rectify bad practice, as terminating a contract could have unintended consequences. For example, dropping a supplier because it has not been paying a minimum wage could simply exacerbate poverty within the local community. It may be better to collaborate with your supplier and local civil society to seek to improve standards. However, where a breach has caused a breakdown in the business relationship going forward due to a lack of trust, you need to consider what is best for your business.

Companies should work with suppliers to help them comply with minimum standards through shared learning and training. For areas of non-compliance, companies should negotiate and agree improvement plans with each supplier. Such plans should take account of the financial and other constraints faced by each supplier, make sure it sets appropriate time-scales for achieving improvements and allows for flexibility. As targets are reached consider revising them to ensure continuous improvement, particularly in relation to environmental standards where cost savings can be realised.

Collaborative projects with local government, other businesses and NGOs can help companies develop sustainable long-term solutions to key issues. Engaging with local stakeholders on projects will help your business pursue supplier improvement programmes that take account of the wider social issues that nevertheless impact on the supplier workforce and ultimately your business.

Monitoring considerations:

- Open dialogue with all stakeholders including employee unions, local NGOs and communities to gain a clear and accurate picture of your suppliers’ operations
- Agree the methods of monitoring in advance and keep the supplier in open dialogue at all times
- Audits – making onsite visits gives vital insight into the operations of your suppliers
- Ensure the monitoring process is transparent and fair
- What is your response to bad practice? In some cases you may need to terminate the contract. However, where possible you should look for solutions to problems
Step 9: Report Internally and Externally

Reporting internally will help to share good practice across your business and reporting externally will improve your relations with all stakeholders as you include them in your responsible supply chain journey. It will improve understanding of what actions you are taking and progress you are making.

Make your supply chain policy publicly available on your company website. Detail your approach, targets and KPIs together with the results of your monitoring, the steps you have taken to overcome problems encountered, and your targets for the future. Make sure the information covers more than generalities, but provides specific data and places the detail in context. Also include information where targets have not been met. Explain why and what action is being taken in response. Reporting the problems as well as the successes will enhance the trust stakeholders have in your reporting as well as increasing transparency and accountability.
Throughout all the steps – communication is key!

Always tell suppliers:
- Why you are asking them about their CR performance
- About the business case for CR
- Which suppliers you have selected to engage with, and why
- What you will do with the information they provide
- What you do and don't expect from them, including timescales for compliance
- What are the implications of good/poor performance

How to communicate:
It is important to consider who should communicate. Who has the most credibility with your suppliers? Does this person have sufficient understanding of the economic, social and environmental issues?

You can communicate with suppliers by a range of means including:
- Face-to-face interviews or workshops
- Your intranet or on-line supplier portal
- Questionnaires
- Newsletters

WHO IS DOING RESPONSIBLE SUPPLY CHAIN MANAGEMENT WELL? Many businesses have embraced the challenges within supply chains and turned meeting them into fantastic business opportunities. Please visit: [http://www.bitc.org.uk/marketplace/case_studies.html](http://www.bitc.org.uk/marketplace/case_studies.html) to access case studies setting out processes undertaken and business benefits realised.
USEFUL WEBSITES

**BITC RESOURCES**
Marketplace Campaign
www.bitc.org.uk/marketplace/

May Day Journey
www.bitc.org.uk/environment/

Voluntary Code of Practice on Employing Migrant Workers/
Overseas Staff in Great Britain
www.bitc.org.uk/princes_programmes/rural_action/sustainable_rural_communities/migrant_workers.html

**GENERAL SUPPLY CHAIN**
Chartered Institute of Purchasing and Supply
www.cips.org

Portal for Responsible Supply Chain Management
www.csr-supplychain.org

**ENVIRONMENT ISSUES**
Environment Agency
www.environment-agency.gov.uk

Envirowise
www.envirowise.gov.uk

Institute for Environment Management and Assessment (IEMA)
www.iema.net

Waste & Resources Action Programme (WRAP)
www.wrap.org.uk

Carbon Trust
www.carbontrust.co.uk

Department for Environment Food and Rural Affairs
www.defra.gov.uk

Cambridge University Programme for Sustainability
Leadership's Carbon management: a practical guide for suppliers
www.cpsl.cam.ac.uk/our_work/research_and_publications-1/ reports/sustainable_consumption_and_pr/carbon_management_guide.aspx

**SOCIAL ISSUES**
Business and Human Rights Resource Centre
www.business-humanrights.org

Ethical Trading Initiative
www.ethicaltrade.org

International Labour Organization
www.iolo.org

United Nations Office of the High Commissioner for Human Rights
Treaties
www.ohchr.org/EN/ProfessionalInterest/Pages/InternationalLaw.aspx

International Business Leaders Forum
www.iblf.org

International Business Leaders Forum's guide to human rights impact assessment and management
www.iblf.org/resources/general.jsp?id=123946

Business Leaders Initiative on Human Rights
www.blihr.org

Business Leaders Initiative's Human Rights' guide for integrating human rights into business management
http://blihr.zingstudios.com/home

Maple Croft Human Rights Risk Report 2009
www.global-risks.com/human_rights/more_information/

Gangmasters Licensing Authority
www.gla.gov.uk

**ECONOMIC ISSUES**
Prompt Payment Code
www.promptpaymentcode.org.uk

Better Payment Campaign
www.payontime.co.uk

Institute of Credit Management
www.icm.org.uk

Transparency International Corruptions Perceptions Index
www.transparency.org/policy_research/surveys_indices/cpi

Minority Suppliers Development UK – MSD
www.msduk.org.uk

Supplier Diversity Europe
www.supplierdiversityeurope.eu

**SUPPLIER INFORMATION DATABASES**
Supplier Ethical Data Exchange (SEDEX)
www.sedex.org.uk

Achilles
www.achilles.com
Business in the Community - mobilising business for good. We inspire, engage, support and challenge companies on responsible business, working through four areas: Marketplace, Workplace, Environment and Community. With more than 850 companies in membership, we represent 1 in 5 of the UK private sector workforce and convene a network of global partners.

www.bitc.org.uk
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