

# ETHICAL SOURCING REPORT ■ 2011

DOUBLE ISSUE



**Intertek Sustainability Solutions**

254 West 54th Street

New York, NY 10019

+1.212.803.5300

[www.ethicalsourcingforum.com](http://www.ethicalsourcingforum.com)

## ETHICAL SOURCING REPORT

**Christopher Foss** | *Editor*

LB Graph-X - Luis Llanos | *Designer* • Ian Welsh | *Contributing Writer*

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**Christopher Foss** | ISS Communications

**Anabela Fonseca** | ISS Events

**Cover Image** | A factory near the railway station in Coonoor, Nilgiris district, Tamil Nadu, India. Credit: Sanjukta

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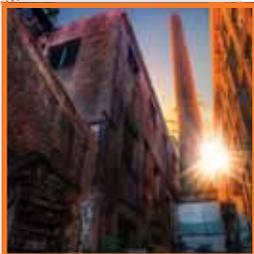
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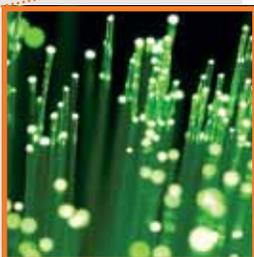
The latest double issue of Intertek Sustainability Solutions' **Ethical Sourcing Report** follows up on a number of the sustainable supply chain initiatives and challenges discussed at Intertek's Ethical Sourcing Forum in the last two years.



First, on **page 8** our report focuses on the often intense **pressure in lean economic times to not only maintain the efficacy of sustainability programs currently in place, but to find ways to deliver even more value** from them. An important trend designed to address this pressure involves a shift to greater supply chain ownership of such programs. For greater factory “ownership” of sustainability to take root, however, it is essential to demonstrate its value -- and this can best be done, according to **Doug Cahn, corporate responsibility consultant**, by integrating social and environmental performance metrics with other key metrics of factory performance – i.e., greater efficiency (time-to-market), lowered cost, improved quality, etc.). Cahn suggests that the economically-induced trend toward factory ownership of the sustainability imperative illustrates how lean times, coupled with an emphasis on improving value, can lead to major innovation.



Then on **page 16** *Ethical Sourcing Report* shines some light on **supply chain transparency** with the help of **HP's Supply Chain Social and Environmental Compliance Manager, Zoe McMahon**. Ms. McMahon describes benchmarks HP set some time ago, which has resulted in a leadership stance that gives the company competitive edge. The rigorous program of supply chain transparency has served to strengthen supplier relationships through increased accountability and disclosure. As a result of appearing in HP's supply chain list, **suppliers have been induced to demonstrate improved sustainability performance not just to HP but to the world.**



On **page 24** **Kevin Moss, Head of Corporate Social Responsibility for the Americas at BT**, explains to *Ethical Sourcing Report* how analyzing the sustainability of your supply chain in terms of specific impacts can focus attention on the vital relationships between brands and suppliers, and how good corporate responsibility performance benefits both. Moss believes a long-term approach with regard to building in extended product life has many advantages -- not least of which is that it means supplier relationships have a longer life cycle as well. Moss took this into account as he developed **BT's supply chain sustainability strategy, involving four dimensions: (1) a company's direct impact (2) products-in-life impact (3) enabled impact** (essentially the indirect impact of products and services), and **(4) ability of a company to inform and influence customers and other stakeholders.**

On [page 32](#) the discussion relates to the ‘holy grail’ of sustainability – namely, scaling it to the point where it becomes mainstream. **Ana Paula Tavares, Senior Vice-President, Rainforest Alliance**, explains that if more companies can be persuaded to source 100% certified products, sustainability is likely to be adopted by the mass market that much sooner. However, moving companies and their suppliers towards this goal is no small feat. For Rainforest Alliance, one strategic shift has been to move away from working with niche products and instead engaging companies that are commercializing a large percentage of a commodity or crop. In another important strategic initiative, Rainforest Alliance’s **“Smart Source” program** brings certified suppliers for a given company together with those who have yet to make the leap, so that concerns can be allayed by a similar entity with direct experience of making the journey. Ms. Tavares tells us that Rainforest Alliance is in pursuit of the **“certification tipping point.”** She cites RA’s efforts with coffee industry, for instance, in which currently about 3% of the global coffee market is Rainforest Alliance-certified. RA expects to get to a 10-15% coffee market share in the next five years. However, Rainforest Alliance is actually seeking a far greater jump in share; it believes that its five-year gain, while significant, will push the coffee-growing industry to a ‘tipping point’ where sustainability achieves critical mass and goes mainstream.



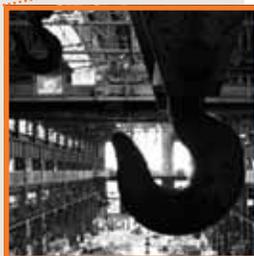
**As the challenges facing supply chain managers have evolved, so too have the requirements for data collection and analysis.** On [page 40](#) **Christina Siun O’Connell, President – Americas at Credit360**, provides a checklist of considerations regarding sustainable supply chain knowledge management. Ms. O’Connell explains that while a **new willingness to embrace data sharing and cooperation** represents a paradigm shift, much progress must still be made before supply chain sustainability data management comes into its own. Ms. O’Connell points out that supply chain managers, increasingly pressed for time, are being asked more questions and the issues are becoming more complex. “They have to examine cost, plus human rights, plus environment,” she notes. **The challenge for companies is to collect a wide array of data and to be able to analyze it effectively. And so what is required is a much more sophisticated set of data management tools** in order to truly meet and/or exceed compliance standards. Yet it is crucial, notes Ms. O’Connell, that these tools be easy to use and efficient. Also, **the system deployed must be flexible so it can fit in with the unique demands of a given corporate strategy.** It needs to be able to change over time as corporate requirements change. Finally, supply chain managers need tools that provide flexibility in how data is aggregated so that it is meaningful for them and their company. One approach or single reporting format is likely to be a blind alley and to prove ultimately unworkable.



## EXECUTIVE BRIEFING



China's factories have evolved considerably over the years, and are now in fact the suppliers of choice for many international brands and companies. On [page 48](#) **David Abrahamson, project manager, at the China Center for Labor and Environment**, highlights some pointers for doing business in China successfully and ethically. Supplier sustainability performance varies widely in China. Abrahamson believes that suppliers of mass production, retail products are the safer bet. "Simple products" (for instance, inexpensive consumer products such as plastic goods, and toys – which involve relatively few pieces made from plastic moulds and involving few moving parts), are more likely to meet compliance standards – if only because it's easier to do. Abrahamson states that, increasingly, the Chinese factories understand that **"working ethically is working smarter"** – that cutting costs does not necessarily mean backsliding on progress in meeting social and environmental goals. On the contrary, **these factories "get it." They have "gone to school" on the free advice provided by big companies that integrate sustainability methods, thereby favorably impacting their bottom line.** However, Abrahamson acknowledges that for factories achieving this level of insight "the process can be gradual, taking a lot of education." **He highlights a generational shift in China: "Younger people care more about corporate responsibility and ethical issues...With a growing economy and increased wealth, people now have more opportunity to be involved in non-profit enterprises and have more time to devote to these causes."**



On [page 56](#) **Kathrin Bohr, Director of Advisory Services at Intertek Sustainability Solutions**, discusses the latest guidelines offered by **The Global Reporting Initiative**, which from her point of view, reinforce the GRI's standing as the premiere reporting framework. Along with the GRI's new guidelines promoting greater supply chain disclosure, there are other positive trends in the reporting domain, according to Ms. Bohr. One is the shift toward integrated reporting whereby comprehensive environmental, social and governance data is provided alongside standard financial information in annual reports. The major development, however, is the increased focus on supply chain reporting. Stakeholders have for some time lamented that supply chain sustainability reporting has been limited (at best) and inconsistent. To address this issue, the GRI established the Supply Chain Disclosure Working Group, tasked with enhancing the quality of disclosure. Ms. Bohr believes GRI reporting has come a long way in assuring stakeholders that **extensive disclosure and the opportunity for feedback are now "baked" into the reporting scheme.** Ms. Bohr states that "while it is important to remember that even the best reporting framework isn't a guarantee of progressive social and environmental performance, GRI reporting at least offers the assurance that a company has undergone a truly rigorous process enabling management to more fully understand their firm's sustainability impact."

On [page 62](#) we investigate social compliance as managed by Canada’s largest retailer, Hudson’s Bay Company. **Julie Yan, Senior Manager for Social Compliance at HBC**, discusses the evolution of social compliance at her firm – that it began with a basic monitoring program in 1998 and soon included systems for managing continuous improvement. HBC’s social compliance mission involves two objectives – assuring that workers throughout the supply chain are treated humanely and that the integrity of HBC’s private brands is fully protected. One of the key challenges for HBC is managing social compliance centered on “sustaining clear and concise communications with our suppliers, our buyers, and our customers.” According to Ms. Yan, **senior leaders at the company have been actively involved** in communicating the importance of social compliance – and they have been proactive in assuring that the necessary tools and resources are in place for continuously improving performance. Ms. Yan believes that the future will usher in a far more regulated social compliance environment. She notes China’s recent advances in strengthening labor legislation and improved legal rights for workers in Bangladesh. She is also convinced there is still **a long journey ahead for businesses interested in integrating corporate social responsibility with measurable business performance results**. Ms. Yan adds that an increasingly crucial aspect of her and other social compliance managers’ jobs will be to ensure that customers and other stakeholders fully understand the metrics and indicators that go into evaluating sustainability performance.



“Think Green.” It sounds positive, but often **the desire to implement environmentally progressive production methods is met with the reality of daunting logistical challenges** – high costs, aligning green and business imperatives, the difficulty of installing programs with impact deep within the supply chain. On [page 68](#) **Intertek’s Ethical Sourcing Report editor, Christopher Foss**, discusses the fact that market players including retailers, brands, government bodies and other stakeholders increasingly look to the manufacturing sector to demonstrate environmental compliance and continuous improvement. He provides an overview of **The Think Green Initiative (TGI)**, Intertek’s response to industry’s mandate for effective environmental stewardship. He notes that TGI is solution that was specifically designed to make supplier environmental performance assessment more efficient and robust – as well as highly cost-effective. Mr. Foss describes TTI’s (Techtronic Industries’) experience with TGI. **Using the TGI toolkit, TTI, a leading manufacturer of consumer and professional power tools, achieved impressive results in one year for energy and carbon management**. In leveraging TGI, TTI managed a CO2 reduction of 4,030 tons for the year – and in the process it actually reduced operational costs significantly. Mr. Foss describes how many companies find themselves confused about how to go about not only “thinking green,” but “acting green”— that is, **how to pragmatically, powerfully and cost-effectively reduce the negative environmental impacts of manufacturing processes**. Mr. Foss concludes by suggesting that TGI may offer a breakthrough for companies eager to manage the opportunities deriving from effective integration of environmental and business performance.





**ETHICAL SOURCING REPORT ■ 2011**



Worker's union meeting  
Photo: Matt Heiman

■  
MAINTAINING  
(EVEN ENHANCING!)  
ETHICAL PROGRAMS  
IN CHALLENGING  
TIMES



Plunging stock prices  
Photo: Thibault Camus, Associated Press

In tough times, supply chain managers must focus on best practice and demonstrate the value of their programs. Reflecting this, corporate responsibility consultant **Doug Cahn** shares with *Ethical Sourcing Report* some thoughts on trends in ethical sourcing, and highlights initiatives that have come to the fore in recent months.

Times when resources are tight can also be times of innovation and great ideas. In supply chain management terms this means the pressure is on for programs to demonstrate good value. An important trend that has been developing for a number of years – and accelerating recently due the economic problems -- is that of supply chain ownership.

Corporate responsibility consultant, and regular speaker at Intertek's Ethical Sourcing Forum, **Doug Cahn** says: "It has long been understood that manufacturers and licensees needed to play a greater role in ensuring that better social and environmental standards are met." And in an era when resources are stretched and there is less money to go around, "there is a growing number of global companies that are pressing those who are further down the supply chain to step up and take more ownership for these initiatives," according to Cahn.

The idea is not new. In Business for Social Responsibility's "Beyond Monitoring" (a conceptualization of the future of social compliance), supplier ownership of programs was one of the pillars. When there are "constraints on global brands to do it all, their efforts are being augmented by a move to unleash the opportunity from suppliers themselves."

This in turn means that corporate responsibility budgets for brands and buying companies can go further. And while the costs of programs are perhaps moved down the supply chain a little more, "the effectiveness of these programs is always great when being controlled at the at the factory

level, as that is where many of the significant environmental and social impacts are," says Cahn.

### THE MOTIVATION GAP

While supply chain ownership of ethical programs is a worthy aim, one of the big challenges is jump-starting motivation. Cahn says: "You need to establish answers to a number of questions. What's in it for the factories? Why should they do it? What do they need in order to be able to deliver on expectations?"

Of course, there are no easy answers to these questions. But building capacity at factories and ensuring the requisite skills and tools for measuring progress are in place, is key Cahn maintains.

And for factory-level management to be able to do anything more than just fix problems in the short term requires real investment in human resources. Any long-term solution to the challenges of compliance will require strong management systems. Cahn says:

"Of course, good management covers all factory systems, not just compliance. But it is vital to have the ability to demonstrate to interested parties that compliance has been achieved and that there is a low probability of identified problems recurring."

To achieve this, factories (and buyers) need specific tools that demonstrate a compliance management system is working as it was designed to work, and above all shows



*Worker's union meeting  
Photo: Matt Heiman*

that “the factory has got its house in order and is effectively working to deal with any compliance-related problems”.

## DEMONSTRATING VALUE

Measuring progress and tying corporate responsibility performance to business performance remains a central aim of sustainability planners. But achieving this synergy is “still in the very early stages”, Cahn states.

Clearly there are two ways in which sustainability programs, including ethical supply chain systems, can favorably impact financial performance. First is the inherent risk mitigation, and second, the boost delivered from implementing cost-saving efficiencies.

Cahn says: “For those who have been targeted by global advocacy groups or who have had corporate responsibility-related problems such as product safety issues, then risk mitigation continues to be a high priority. And calculating how those risks can be reduced is one set of challenges.”

In terms of efficiencies and their measurement, Cahn highlights the importance of developing metrics that attempt to correlate social compliance with productivity – “the key metric for profitability.” He suggests that “integrating social compliance into other key metrics like factory performance, time-to-market and so on, is a sensible way forward.”

There are, indeed, potentially two routes to establishing supply chain efficiencies. One is to consolidate social and environmental compliance with other metrics. The other route is to attempt to identify what it is about “good-performing” factories that leads to efficiencies across the business.

Developing processes to measure or demonstrate value continues to be the central challenge for the next stage in the development of corporate responsibility. Cahn says: “At

the moment there is no silver bullet, but there is a great deal of experimentation and thinking going into that experimentation. It’s not a case of just throwing something up against the wall and seeing if it will stick – the corporate responsibility community is developing thoughtful and well engineered methods to measure efficiency and effectiveness.”

In terms of further big challenges for supply chain managers and factories, Cahn points to something that has always been there: price pressure. As a fundamental rule, factories are continually trying to achieve ever-more cost-effective production and it is important that there is a place for the ethical supply chain programs that have been so painstakingly put together.

## INITIATIVES, INITIATIVES

An integral part of the development of the ethical supply chain has been the growth of sector initiatives – whether multi-stakeholder, NGO-led, intergovernmental, or those developed by individual companies.

Cahn says he is impressed by the Better Work program, established jointly by the International Labor Organization



Photo: Richard Drew, Associated Press



Mock Google grave site – flowers left in response to official Chinese efforts to press Google into restricting search access. Photo: Doug Keillor, “The Human Rights Brief,” Center for Human Rights and Humanitarian Law

and the International Finance Corporation. “Better Work stands out because it takes a cross-sectoral and country-wide approach, looking at an entire market,” Cahn says. This means that there are no winners or losers, nor is there market distortion related to compliance. According to Cahn, “If there are costs related to implementing a program, then a cross-sector country-wide approach eliminates differentiation -- as everyone has to pay.”

Better Work was established first in Cambodia but the model is now taking hold in other markets, including Jordan and Vietnam. From Cahn’s perspective, “it is an initiative on the move.”

A relatively new initiative, that’s become rapidly established since its inception in 2008 is the **Global Network Initiative**. This multi-stakeholder organization works for freedom of expression and privacy in information and communication technologies. “These are cutting edge issues – it’s not just Google in China,” Cahn says.

“GNI’s set of operating guidelines, including accountability, make it a very interesting initiative. It holds a great deal of promise because Google, Yahoo and Microsoft were among the first companies to sign up, and they are working together with human rights activists, academics and the socially responsible investment community,” he argues.

Cahn is also a big fan of the work of the United Nations Secretary-General’s Special Representative on business human rights, John Ruggie. “Ruggie has undertaken compelling work establishing and developing a human rights framework for business. Companies should watch the second phase of his work very carefully,” he says.

Ruggie’s proposed grievance mechanisms have been piloted by four companies – a Colombian mining company, the Sakhalin II Russian oil and gas project, a Hong Kong textiles

company and UK retailer, Tesco. And while Ruggie has been effective in stakeholder engagement, the work of his team “has yet to receive the attention it deserves; – it will affect all business.”



*Conflict minerals’ used in electronics sold in the west are frequently sourced from mines in eastern Democratic Republic of Congo (DRC); the minerals finance armed groups waging civil war in the region. Photo from the German Documentary Film, Blood in the Mobile, directed by Frank Poulsen*

## CLOSING THE GAP

As highlighted in a previous issue of Ethical Sourcing Report, the Global Social Compliance Programme is a business-led



*Child harvesting cotton in Uzbekistan, the world's second largest cotton exporter. Photo: Transitions Online*

effort – supported by some of the world's largest retailers – that is trying to identify the overlap in other schemes and initiatives. Cahn argues: "Extending credit for work in one initiative towards work in another is a very interesting way of reducing and promoting better leverage in supply chains."

With the chief executives of companies such as Walmart, Tesco and Carrefour fully signed-up and committed to GSCP, there is certainly a degree of critical mass behind the initiative that perhaps some others lack. "In some respects there has been an element of initiative fatigue, and if GSCP can get around this then so much the better," Cahn says.

Something else that has caught the attention of major international brands – and the big retailers involved in GSCP – has been the focus on child labor in the Uzbekistan cotton industry, and the traceability issues that it has highlighted.

Cahn says: "Raw resource traceability wasn't looked on as a high priority until a BBC report blew this open. A lot of people got blind-sided by this issue because programs had been focusing on factories." That said, once child labor had been identified and made public, the corporate responsibility community organized itself very quickly to address it.

As Cahn notes: "No one had to be dragged into efforts to address this issue. For a decade and a half, ethical supply chain programs have been about influencing those with whom you have direct business relationships – tier one suppliers. So the big lesson from Uzbek cotton is that sometimes going beyond those with whom you have a primary business relationship is essential."

### WHAT'S NEXT?

Looking forward, Cahn states that undoubtedly the trend of increased greening of the supply chain will continue. Central to this will be identifying where the areas of greatest

energy use are in the supply chain – no easy task. "A great deal of activity can go into producing very little benefit," Cahn warns.

A focus on effectively directing effort will therefore be viewed as vital for supply chain managers in all sectors. There is sometimes a tendency to call attention to the specific supply chain issues of different sectors – when in fact many of the challenges they face are common. Cahn cautions: "In agriculture, footwear, electronics, and so on, there will always be distinctive characteristics, but supply chains have more in common than not – at least where applying social and environmental standards is concerned. Yes, the specific problems will be different, but the nature of the essential relationships between buyers and suppliers is for the most part constant."

## GLOBAL NETWORK FOR PRIVACY

The Global Network Initiative is a multi-stakeholder coalition of top ICT companies, human rights organizations, academics, investors and technology leaders. GNI is based on principles for freedom of expression and privacy that provide a systematic approach in resisting attempts by governments that seek to enlist companies in acts of censorship and surveillance that violate international standards.

GNI's principles include specific commitments relating to freedom of expression and privacy (among others):

### FREEDOM OF EXPRESSION

- Participating companies will respect and protect the freedom of expression of their users by seeking to avoid or minimize the impact of government restrictions on freedom of expression, including restrictions on the information available to users and the opportunities for users to create and communicate ideas and information, regardless of frontiers or media of communication.
- Participating companies will respect and protect the freedom of expression rights of their users when confronted with government demands, laws and regulations to suppress freedom of expression, remove content or otherwise limit access to information and ideas in a manner inconsistent with internationally recognized laws and standards.
- 

## PRIVACY

- Participating companies will employ protections with respect to personal information in all countries where they operate in order to protect the privacy rights of users.
- Participating companies will respect and protect the privacy rights of users when confronted with government demands, laws or regulations that compromise privacy in a manner inconsistent with internationally recognized laws and standards.

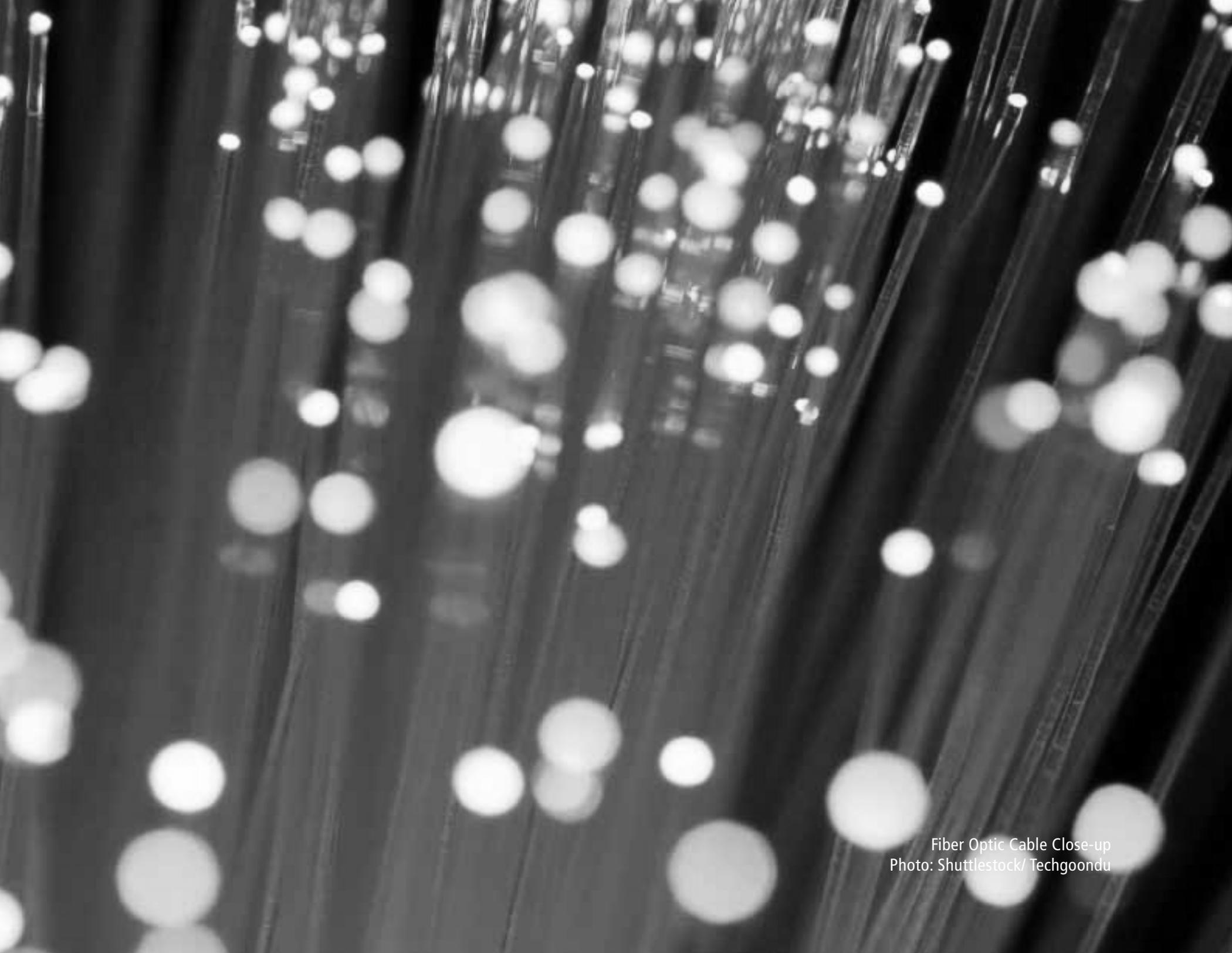
Source: [www.globalnetworkinitiative.org](http://www.globalnetworkinitiative.org)



*Photo: Trevor Mallard, "Me 2.0"  
Blog post on Labour.org*



**ETHICAL SOURCING REPORT ■ 2011**

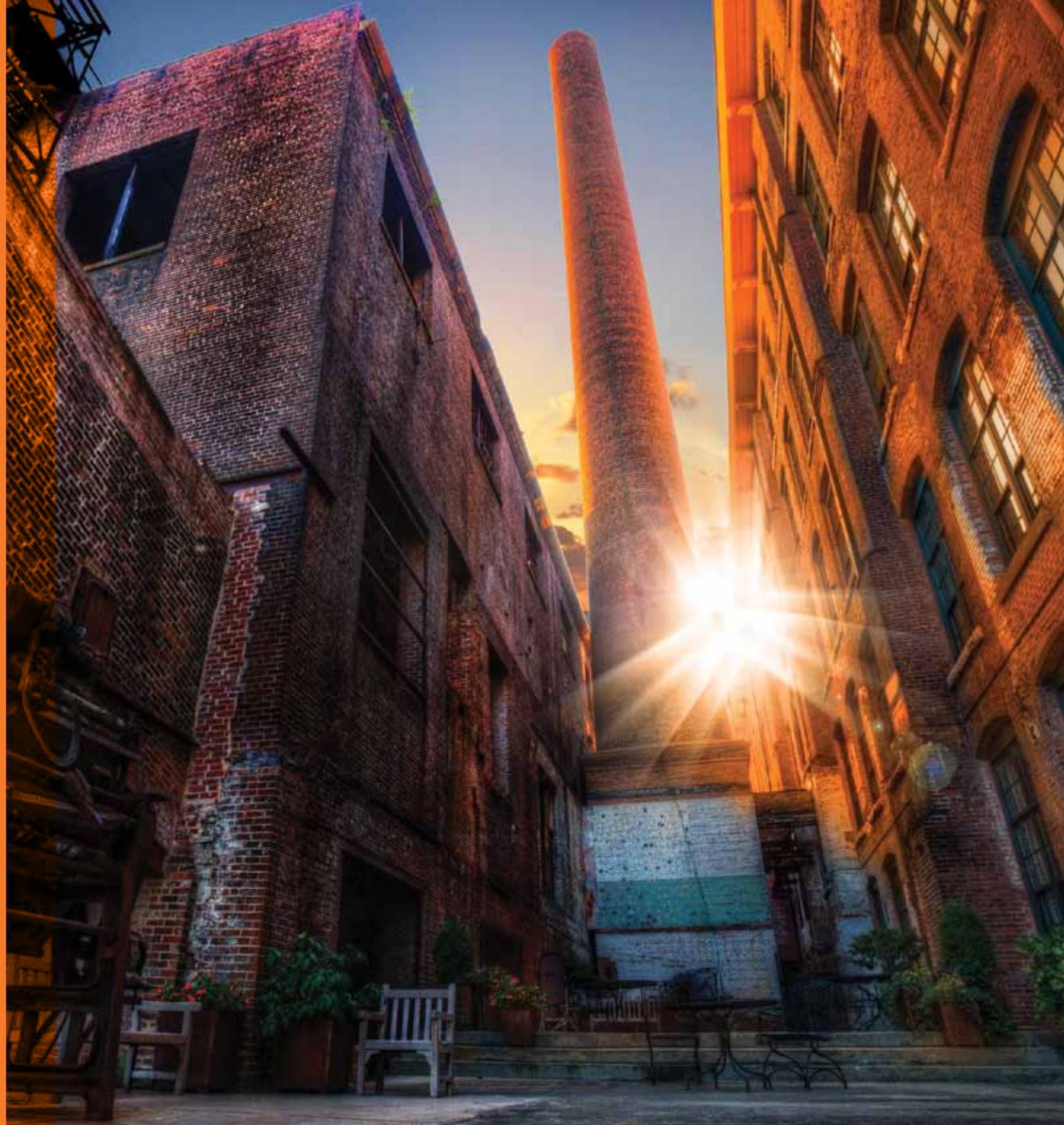


Fiber Optic Cable Close-up  
Photo: Shuttlestock/ Techgoondu

■  
SHINING  
LIGHT  
ON THE  
SUPPLY CHAIN

HP Strengthens  
Supplier Relationships  
through Greater  
Transparency and  
Disclosure

Factory in Atlanta, Georgia  
Photo: Tucker Bair



With a deserved reputation for being progressive in its supply chain programs, HP has set and established benchmarks for its suppliers and competitors alike. HP's Zoe McMahon explains the thinking behind some of the sustainability initiatives and why leadership in this arena gives HP a competitive edge.

HP made a bold move when it released its list of top suppliers a few years ago. Not many other companies in the electronics sector have followed suit, and **Zoe McMahon, HP's Supply Chain Social and Environmental Responsibility Global Program Manager**, says: "We are proud of being a leader in this regard. Certainly we feel that the disclosure was beneficial for us and we have received widespread positive feedback."

The transparency that came from announcing its list appears to give HP's suppliers the sense that they had to demonstrate their accountability for social and environmental responsibility, and not just to HP, but to the wider world. "If they are alleged to have breached any performance issues – by an NGO for example – then everyone will know that they are a supplier to HP," McMahon says.

This means that the company has been able to encourage suppliers to take more remedial action when it has been required. "They sense a greater level of accountability to the extent that they are visible."

HP's biggest lever with which to affect its suppliers' behavior is their desire to continue working with the company. McMahon says: "They recognize that we *are* a leader – and of course they want to retain the business so acting appropriately is what they know they have to do."

And, naturally, it is a positive thing for companies if they are publicly acknowledged as suppliers to HP. There are the straightforward business benefits of working for a major

international brand, along with the additional advantages of being associated with a business ethics leader. "Some of our suppliers are becoming known in their own right as sustainability leaders, which is great," McMahon says.

Inevitably there were some internal concerns about releasing supplier information. Stakeholders might expect transparency, but releasing the supplier list "wasn't an obvious thing for management to support, and it had to be encouraged," McMahon says. Chief concerns initially centered on the disclosure information about business relationships that would perhaps affect the company's competitive position.

However, McMahon says: "The downsides that people were concerned about have not materialized. There have only been upsides, especially where our reputation with stakeholders."

### COOPERATION NOT COMPETITION

Transparency in its supply chain is part of HP's wider ethical sourcing program that includes cooperating with other IT companies as and when appropriate.

HP was a founding member of the Electronic Industry Citizenship Coalition (EICC). "Working with other companies has always been part of our operating procedure. In fact, the electronics industry has traditionally worked together," McMahon says. And this has included developing common standards and tools. "Working with the same baseline codes and reducing duplication of auditing are where cooperation is very useful," McMahon says.



*Factory View  
(untitled blogpost, photographer unknown)*

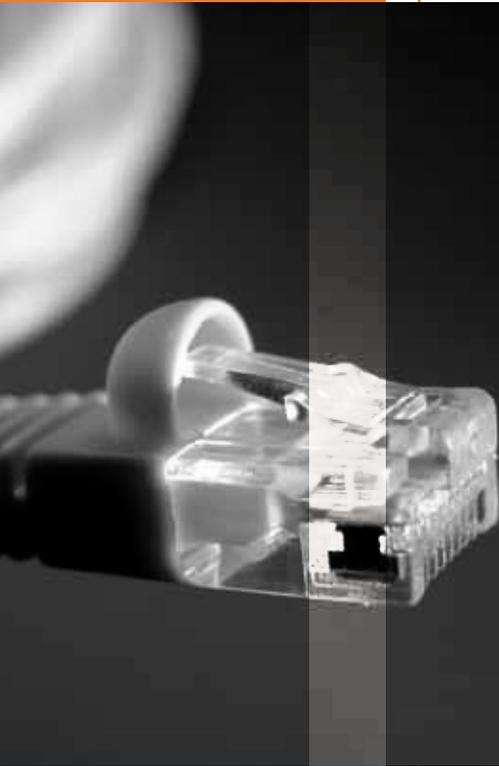


Photo: Darren Hester for OpenPhoto.net

The EICC is now rolling out certified shared audits. Previously there was a shared methodology, but now members of the initiative will be able to share supplier audit results. This means that a supplier can have one certified audit, which will then hold for all EICC members. “This has to benefit suppliers and us – we don’t want have to repeat the work that others have already done,” McMahon says.

Working with other companies in the electronics sector within the EICC has brought about efficiencies with bottom-line benefits for HP. McMahon points out: “Savings are not just for us but also for our suppliers.” For example, rather than spending time and resources preparing for and implementing a number of different audits, suppliers can concentrate on any remediation measures required, including, for example, workplace training programs.

### KNOWLEDGE IS POWER

Last autumn HP completed a two-year project piloting what they believe is the first worker-level training program to be implemented in the electronics sector. McMahon says: “We worked with a labor rights NGO and a number of local organizations to deliver training directly to workers in Chinese factories. This was in response to a sense that while awareness of the EICC’s code of conduct was reaching factory management, it wasn’t necessarily getting to the workers who possibly weren’t aware of their rights.”

The training took place at two factories in Dongguan, southern China, and included a basic labor rights program for workers, as well as consultations on corporate responsibility for middle and lower management. As part of the initiative, every worker was provided with a basic guide to the EICC’s code of conduct and Chinese labor laws. Since the program’s close, HP has been adapting and taking the worker-level training to other factories in China and is considering doing the same in southeast Asian countries.

Another supplier project that HP has backed is **HERproject** ([www.herproject.org](http://www.herproject.org)) in Mexico, in cooperation with Business for Social Responsibility (BSR). The aim of HERproject is to increase awareness of female-specific health matters. “We are the only electronics company involved, introducing the program to two suppliers in Mexico. The program provides training to a small number of female workers, training them about women’s health issues, reproductive health and so on,” McMahon says.

This small number of women takes their knowledge and shares it with their colleagues – a process known as peer-to-peer training. In this way, the 50 or 60 women that were initially involved in the formal training process can end up in turn teaching hundreds more.

McMahon cites early research from HERproject – in this case from the garment sector – which shows that a \$1 investment in health awareness resulted in a \$3 benefit to the factory in terms of increased productivity. McMahon says: “As 50% or more of the workforce in the electronics sector are women, this is an especially beneficial program. And the worker-level capacity-building model of the project makes it very interesting.”

### PROGRAM DEVELOPMENT

A theme that runs through many aspects of HP’s supply chain programs is the objective of extending reach. “We want to encourage our suppliers to develop similar programs with their own suppliers,” McMahon says.

As HP’s own business structures change and develop, so have its supplier programs had to adapt. “In the last year we have increased our focus on indirect suppliers – on services rather than hardware. We have been working with labor agencies and other service providers – janitorial or real estate services, for example,” McMahon says.

When HP wins a contract to provide outsourced IT services, then the company effectively inherits an entire supply base. “The issues here tend towards labor and ethics rather than the environmental or health and safety concerns,” McMahon says. But it means that HP has to adjust the questions on its supplier questionnaires, and keep refocusing its programs so they remain as relevant as possible across its supply base.

### ETHICAL MATERIALS

As for all manufacturers of electronics equipment, HP has to be very sensitive regarding the use of certain materials in its products – both in terms of where it sources these from and in terms of restricting substances of concern.

Recently, the concept of “conflict minerals” is one that HP has been addressing with particular vigor. The term refers to metals used in electronics components that are alleged to come from the Democratic Republic of the Congo (DRC) and possibly linked to controversial sources, such as the funding violent militia groups. “HP has stated that this is not acceptable. We have been working with a number of groups to develop a scheme to certify that metals used in our products are not associated with minerals from known conflict areas,” McMahon says.

This is a matter that needs to be treated very sensitively. “We are not saying that metals can’t come from such areas as the DRC, as we recognize that mining is an essential part of the local economy and not all mining is problematic. So when it comes to sourcing from the DRC, we focus on looking to find sectors of the mineral trade in the region that are not funding violence,” McMahon says.

Cooperating with a range of stakeholders, McMahon and her colleagues are keen to see the development of a program for metals that borrows from similar schemes (such as the Kimberly Process, focused on conflict diamonds).

### EMPOWERING MARKETS

Their leadership in focusing on conflict minerals reflects how HP has approached many supply chain and wider corporate responsibility matters. Certainly, this is a



*Militia fighter in the Democratic Republic of Congo with “conflict minerals” of the kind used in mobile phones and laptops. Photo: Warner Crocker at [www.gottabemobile.com](http://www.gottabemobile.com)*

positive policy the company has adopted, and it is representative of the general effort on HP’s part to evolve its environmental, social and ethics programs to the point where they become a competitive advantage.

There is still much to do to get the importance of these issues across to customers, however. “Consumers are still largely in the dark about life cycle impacts and social performance. They can understand energy, for example, but social issues tend to be more opaque for them,” McMahon suggests. “At HP, we want to be able to get across to consumers what we are doing so that there is due recognition in the marketplace.”



Photo Source: [www.linfield.edu](http://www.linfield.edu)

## MEASURE CARBON TO INCREASE EFFICIENCY

*One area of focus for HP is carbon emissions in its supply chain. **Jay Celorie, HP's Global Program Manager for Supply Chain Energy**, speaks to **Ethical Sourcing Report** and outlines why this is something the company is targeting and how its suppliers can benefit.*

### *Why is HP focusing on its supply chain carbon emissions?*

We view energy efficiency and carbon emissions management as essential parts of good supply chain management. One of the clear benefits of lower energy use is that it is more efficient and good for business. It really is a win-win for us and our suppliers.

We want to create accountability and transparency with suppliers and to encourage them to actively promote and reduce energy use and carbon emissions. Basing an economy on expensive non-renewable resources is not going to be sustainable in the long-term. Inevitably, carbon-based energy is going to become more expensive, so we want our suppliers to be better placed to cope with this in the future.

### *How aware are HP's suppliers about their energy use and carbon footprint?*

When we first asked suppliers about energy use in 2008, around 50% had never calculated corporate carbon emissions, and so it has been a steep learning curve for many. This is why we believe it is important to have industry cooperation on these

issues, to remove the mystery for some suppliers, so that the problems are tackled in a consistent way.

We have found that suppliers, once made aware of the issues, have quickly realized the benefits. This is especially the case as our competitors – our suppliers' other customers – are asking the same questions. Cooperation can move the industry forward in terms of better serving its own best interests.

#### *How much can suppliers expect to save?*

We are developing case studies that will clearly demonstrate some of the cost benefits of addressing energy use. It is inevitable from the supplier perspective, that when focused on production and quality within tight deadlines, it's easy to take the focus *off* energy use. When show that they can save 5-10% in energy costs – then they'll be more motivated to focus on developing sustainability in this area.

#### *How will this benefit HP?*

Anything that creates stronger suppliers that are more efficient and competitive – through cost-efficient energy use and developing sustainable energy supplies, for example – is good for HP.

If a supplier factory has a more sustainable energy sourcing program, including generating its own power, this will mean fewer factory shut-downs during grid blackouts, for instance -- and this in turn means less disruption of our own supply chain.

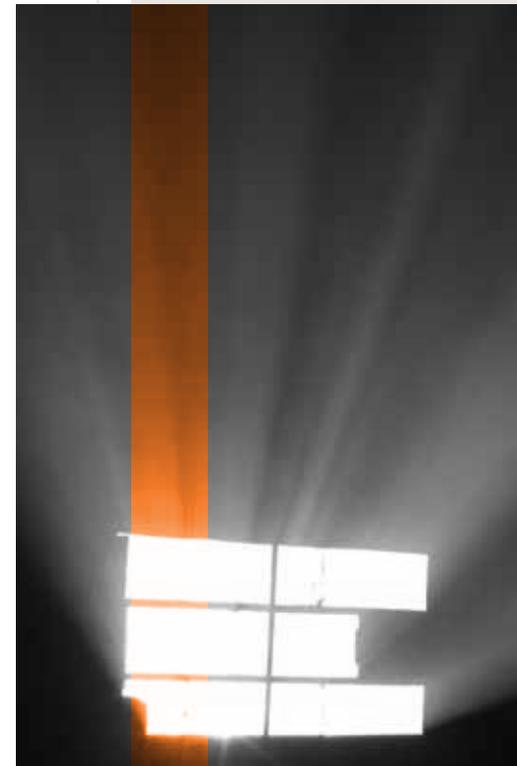
#### *What tools can HP's suppliers use?*

We want our suppliers to be able to measure, track, record and report on energy use. Working with other members of the EICC, we're developing tools that will enable factories to track emissions depending on the type of energy used, where electricity is sourced, and how it is generated. Our goal is to enable suppliers to take responsibility for the choices they make, and put them in a position to reduce energy use.

We want to develop a consistent method of reporting carbon footprint so that our products can be compared with those of our competitors.

There is an Electronic Product Environmental Assessment Tool – developed by the US Environmental Protection Agency – that enables the rating of computers in a uniform way, so that institutional buyers -- particularly governments -- can determine top-rated appliances. It's a self-declared rating mechanism with some third party auditing.

What's most striking is that when this tool was introduced a few years ago there were no products reaching the top – gold – standard. Now there are hundreds. It's a great example of the benefits of providing a standard that gives companies something to aim for.



*Factory skylight  
Photo: Russ Cribb, 2008*

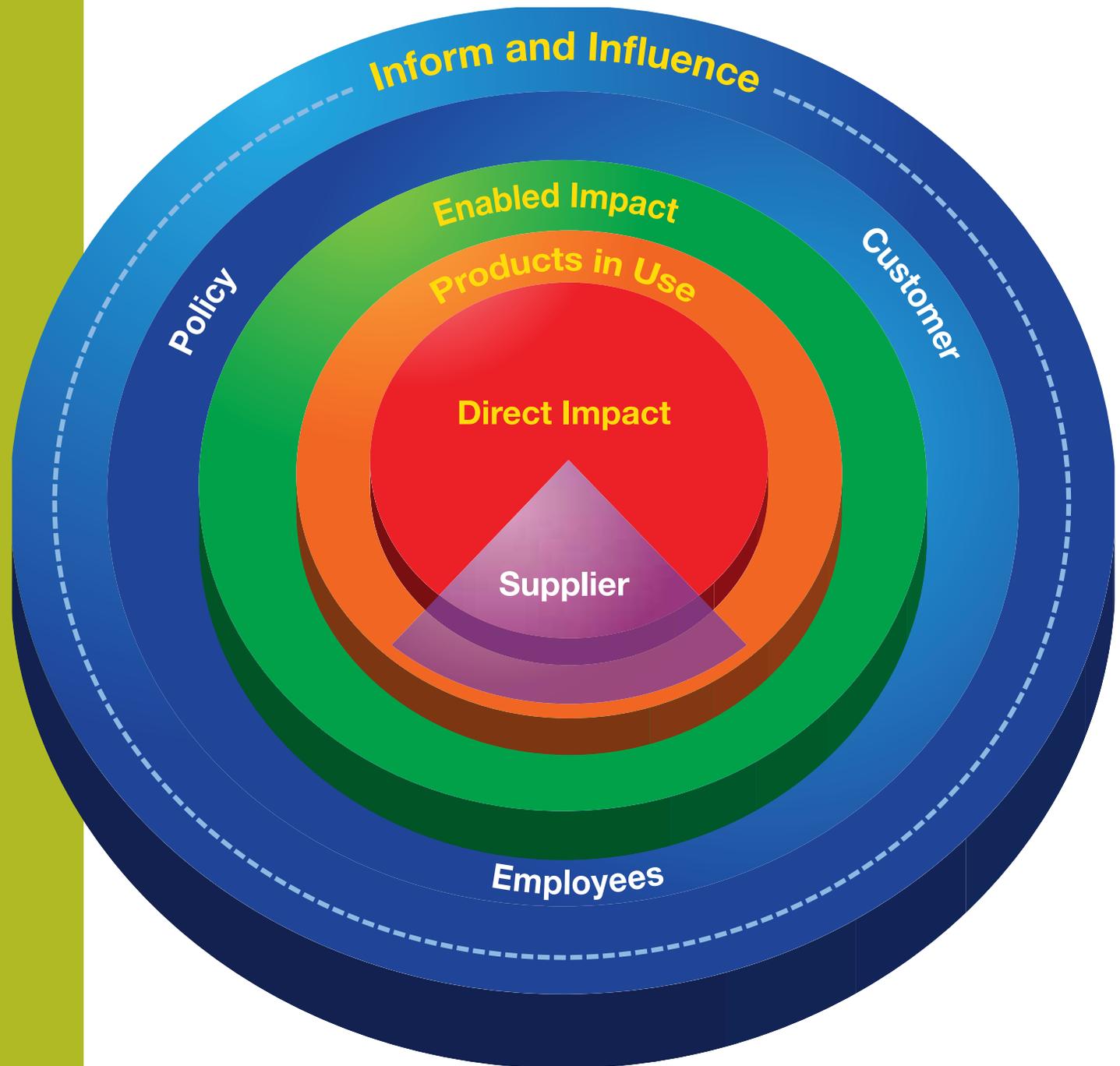
The background of the cover is a black and white photograph of a person's hands. The hands are positioned as if they are carefully examining or working with a piece of fabric. The lighting is dramatic, highlighting the texture of the skin and the fabric. In the top left corner, there is a bright yellow-green rectangular area with a textured, crinkled appearance, resembling a piece of paper or fabric. A thin yellow horizontal bar is located just below this textured area.

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Photo Source: [www.linfield.edu](http://www.linfield.edu)

■  
SUPPLY CHAIN  
SUSTAINABILITY  
IN FOUR  
DIMENSIONS



© Copyright, Kevin Moss, BT

**BT's Kevin Moss explains to *Ethical Sourcing Report* how analyzing the sustainability of your supply chain in terms of specific impacts can bring a new level of attention to the vital relationship between brands and suppliers, and how good corporate responsibility performance benefits both.**

A long-term approach is essential to the development of positive, ethical supply chain relationships. And **Kevin Moss, Head of Corporate Social Responsibility for the Americas at BT** argues that this is something the information and communications technology sector is well placed to enact.

Moss says: "We need to take a long-term approach to network product life. When BT rolled out the first analog switch network in the UK, that was there for a good portion of the last century." While more recent networks have a shorter lifespan, "they have still been in place for 10-20 years. Adding the planning and rollout stage means that decisions we make now are having an impact well into the future and we need our suppliers to be with us on that journey."

As part of his role leading BT's corporate responsibility programs in North America, Moss has developed a theory regarding four different dimensions of a company's sustainability strategy – across the economic, social and environmental strands – and how these can have an impact on other companies and individuals. He argues that this theory can usefully be applied to a supply chain, where a company can work with its suppliers in a number of ways to develop and enhance its sustainability impact.

The first of these dimensions is the **direct impact** of the company, which includes the effects of the company's operations. The second is the **products-in-life** dimension, which is the impact of the company's products when being



*Fiber Optic Cable Close-up. Photo: Shutterstock/Techgoondu*

used by its customers. The third is **enabled impact**, which is a measure of the impact a company has from the indirect impact of its products and services. The fourth dimension is related to the ability of a company to **inform and influence** customers and other stakeholders.



Photo: [www.renewablepowernews.com](http://www.renewablepowernews.com)

## DIRECT IMPACT DIMENSION

In assessing BT's direct impact, a broad and long-term focus on the company's supply chain is necessary. Obvious areas of high-impact include BT's network data centers and their energy use – 50% of which comes from air conditioning in the summer and heating in the winter. "We realized that if we could run our data centers at a wider range of temperatures throughout the year, letting them get a bit warmer in the summer and a little cooler in the winter, we would save a lot of energy," Moss says.

But the temperature of a given data center is dependent on staying within the operating temperature ranges required by the manufacturers of the equipment and technology in the center. If the data center operator allows temperatures to slip outside that tolerance then the manufacturers' guarantees are at risk.

There is an obvious solution. Moss says: "We worked directly with our suppliers to increase the acceptable temperature range of the equipment provided to us. Sometimes, this didn't actually require the manufacturer to change the design but just to re-test their equipment so they would be certain it was tolerant of a greater temperature range."

It turns out that the tolerances had been an industry standard for a number of years and despite the improvements in standards and technology, no one had questioned them. "And, engineers continued to design to that standard. So this solution, working with our suppliers, was more about developing better thinking than doing anything new and technically dynamic," Moss says.

## PRODUCTS-IN-LIFE DIMENSION

Moss highlights a very simple but effective example where BT has worked with its own supply chain while in turn supplying products that – through their use – had a positive impact on its own customers.

He says: "We brought out a new line of phones over a year ago that use half the energy of the equipment they were replacing. We specified the design and worked with our suppliers who made the products for us."

Affordability for consumers was a central concern, and BT worked with its suppliers to develop a price and structure that was fixed within an affordable price range but still allowed for products that used less energy.

## ENABLED IMPACT DIMENSION

A theme that runs through many aspects of BT's supply chain management, Enabled Impact, is all about helping consumers improve their sustainability impact beyond the direct energy consumption beyond a product's direct energy consumption. Moss explains: "Examples of this for BT include working with a customer to develop a GPS solution that improves the efficiency of a vehicle fleet, or demonstrating for a customer the reduced costs and carbon emissions inherent in travelling less and using video conferencing instead." These are all benefits that BT has to work with its own supply chain to deliver.

Moss says: "Working with customers -- government, business and consumers -- to improve their efficiency by providing efficient ICT services represents a major opportunity for ICT companies to help reduce global GHG emissions."

## INFORM AND INFLUENCE DIMENSION

The fourth of Moss' sustainability dimensions is perhaps the most interesting, and subtle. He says: "The inform and influence dimension includes the perception of the brand: Which suppliers do you want your customers to see you working with? The supplier, visible to your customers, is going to influence the perception of your sustainability profile."

Moss has a simple example that makes this point. He wrote about this in a blog post Ethical by Association (see [www.csrperspective.com/2009/01/ethical-by-association.html](http://www.csrperspective.com/2009/01/ethical-by-association.html)). He describes a company that produced a domestic electric heater in the US, the wooden mantle of which was made by a supplier from the Amish community. The company's marketing for the product emphasized the mantle and where and how it was made. "They had taken the public perception of the quality and trustworthiness of one of their vendors, that espoused Amish community values, and allowed it to reinforce the image of the heater itself," Moss says.

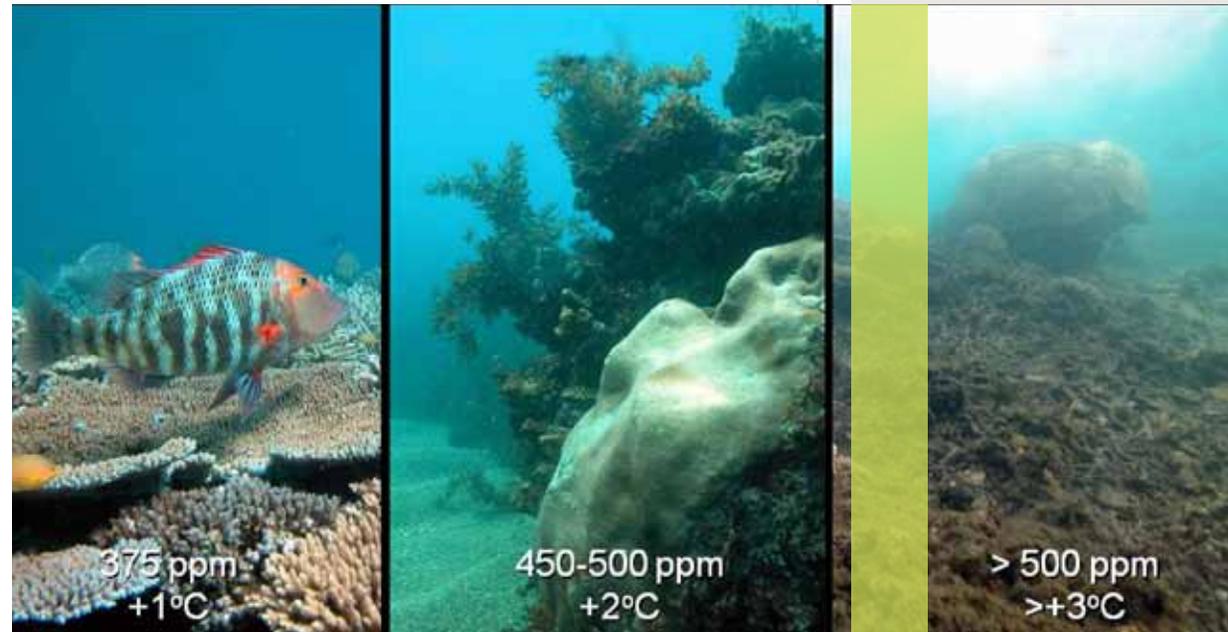
There is an interesting postscript to this story. "The approach backfired a little on the Amish community. There was some criticism that the advertising claims made for the heater were misleading and the Amish community was the target of some on-line criticism for being associated with this product," Moss says.

Moss further illustrates his "inform and influence" dimension by examining the buying practices of a hypothetical large retailer – for which consumer perception is vital. "For this retailer, there are three categories of products and services that they would source. First is a product where the supplier's brand is visible to the store's customers. The second is where the supplier's product is visible but the brand is not – such as furnishings in the store. The third is where neither the brand nor product is visible as it is behind the scenes somewhere."

Where consumer perception of the three product categories is concerned (assuming all else is equal), the corporate responsibility performance of the supplier has a potentially diminishing level of importance for the retailer.

If you are building an ethical brand then where and from whom you source makes a big difference. Similarly, to whom you supply can change or enhance your reputation. And,

of course, any reputation capital that accrues from a positive supplier relationship can further improved if it is secured over the long-term.



Credit: Coral Reef Targeted Research and Capacity Building for Management Program  
*CO2 emissions-effects on coral: Effects of increasing carbon dioxide and temperature on coral reefs*

Kevin Moss blogs at [www.csrperspective.com](http://www.csrperspective.com), where his paper, "The Four Dimensions of Sustainability", is reproduced.

**CLIMATE STABILIZATION: HOW TO DO YOUR BIT**

BT's Kevin Moss says that the company recognizes that it should take responsibility for achieving



Photo: Thibault Camus, Associated Press

meaningful reductions of its carbon emissions. He says: “The best example of this is our climate stabilization intensity (CSI) target. This establishes a target for emissions that are directly related to potentially catastrophic climate change.”

The CSI target is aimed at actually solving the problem. “The intent is to come up with an approach that if everyone – business and other carbon emitters – set their targets in this way then, according to consensus of climate science, we would, together, avoid catastrophic change,” Moss says.

BT’s carbon mission is to achieve an 80% cut in global carbon intensity by 2020, from 1997 levels. A target of this kind is more sophisticated than an absolute reduction, linked as it is to the company’s contribution to GDP. In other words, the CSI represents BT’s share of the total reduction required for climate stabilization without inhibiting economic growth. BT’s climate target is based on avoiding more than a 2C rise in global temperatures.

Moss explains “The guiding principle is an important one for corporate responsibility programs: looking for ways to guide operations so that they effectively address the underlying issues.”

The information and communications technology sector combined accounts for 2-3% of global carbon emissions. “So we’re not comparable with power generation, mining, oil or forestry, but are still significant,” Moss says.

For the ICT sector as a whole, a lot of the carbon emissions come from data centers, which can be

very energy intensive. And for BT, its comprehensive network in the UK represents a large share of the focus on emissions reduction.

### SUPPLY CHAIN FOOTPRINTING

Currently, BT’s carbon footprint calculations are based primarily on the operation of the company and products rather than on manufacturing *per se*. Moss says: “A significant portion of much of our equipment derives from their operational use. The same goes for the equipment we sell to our customers.”

For example, if BT sells someone a router for use in their home, it may well be drawing power 24 hours a day for a number of years. For most of BT’s products this is more significant than the energy used in their manufacture and so this becomes a priority for the company’s sustainability efforts.

Greening its energy supply chain is a big part of BT’s carbon reduction strategy and also represents significant investment, especially in the UK. Moss says: “BT is the largest private, single energy buyer in the UK. We are targeting that, by 2016, 25% of our energy requirements will come from wind turbines on or adjacent to BT’s own premises.” determine top-rated appliances.





**ETHICAL SOURCING REPORT** ■ 2011



Workers in field  
Photo Source: [www.commdev.org](http://www.commdev.org)

■  
GOING  
MAINSTREAM.

Rainforest Alliance  
and the Search  
for the “Certification  
Tipping Point”

Harvesting tea leaves on a Rainforest Alliance Certified™  
farm, Australia. Source: [www.ogilvypr.com.au](http://www.ogilvypr.com.au)



## Ana Paula Tavares, Senior Vice-President, Rainforest Alliance, explains how persuading big companies to source 100% certified products can bring sustainability to the mass market

*What are the big challenges for Rainforest Alliance in 2010 and 2011?*

Rainforest Alliance's budget has grown in the past ten years from \$3.5m to \$35m. So there has been tremendous growth in the organization. We're now working in 72 countries, and with this has come an increased social, environmental and economic impact. But we are very lean – \$35m does not go very far in 72 countries. We need to be focused and strategic, choosing where we can have the greatest impact.

While the growth is exciting, the biggest challenge is how to advance our program in the forestry, agriculture and tourism sectors – there is just so much to be done.

*Are the challenges related to scale?*

We are working on taking the positive and successful results of our projects and scaling them up significantly.

For example, we have been working in Mexico on sustainable forestry practices with some certified operations, improving efficiencies and developing their products. We've focused on connecting them with markets – national and international – for their products so that they can see an economic benefit of committing to sustainability.

There have been some very specific positive results, but now we need to scale it up. We had been working with 10 indigenous forestry operations and now have a larger project to work with 50 indigenous operations. But there are actually 2500 of them across Mexico! So even though Rainforest Alliance has been growing significantly, the question is: how we are going to get to 2500 forestry operations?

*Is there a point of critical mass for developing sectoral sustainability?*

We believe there are tipping points. Take the coffee community, for example. Approximately 3% of all the coffee market is Rainforest Alliance certified and we've seen some very exciting wider impacts even from this share. Farmers are adopting sustainable practices and companies are increasingly wanting to purchase from sustainably certified farms. Farmers have improved productivity and the quality of the products that they have produced, which benefits them as well.

Our target is to get to a 10-15% coffee market share in the next five years, and our goal is that this will then push the coffee growing industry to a tipping point when sustainability will be mainstream.

*How has Rainforest Alliance's focus altered through its years of operation?*

As an organization we are 24 years old. As a rough approximation, for the first half of this period Rainforest Alliance focused on developing sustainability standards and promoting them -- and then getting farmers and operations to adopt them.

Around a decade in, we realized that we needed to look at the demand side in order to create an economic incentive for people to stay with the program. And so, more recently we've worked on marketing Rainforest Alliance in the developed world to companies who can commit to sourcing sustainably. The focus has been not on niche products but



*Child cocoa laborer, Ghana  
Source: Rainforest Alliance*

on mainstreaming sustainability – working with companies that are commercializing a large percentage of a commodity or crop.

### *What other big challenges is Rainforest Alliance facing?*

As big companies commit to sourcing sustainably, we need to make sure that there are enough certified products available for them to buy.

Most recently, for example, Unilever has committed to buying 100% of their tea from Rainforest Alliance certified sources by 2015. Mars is another company that has made a big commitment – 100% of its cocoa from sustainable sources by 2020.

The plan is ultimately to certify hundreds of thousands of farms. It's an exciting challenge and one that we are planning to meet.

### *What process does Rainforest Alliance apply when working with a company that wants to develop a more sustainable supply chain?*

When we start interacting with a company we want to help them understand the holistic value of sustainability and how it will have a significant, positive impact on their bottom line. Sometimes this takes two meetings, sometimes up to two years or more. The goal is to transform their purchasing policies, incorporating a commitment to sustainability.

This usually needs to be done gradually, in phases, and we recognize this. What is most exciting for us is when a company doesn't just put a single line or brand of products up for sustainability but actually commits 100% of its products.

### *How do you develop a company's supply chain?*

When we work with companies we look at their needs and their suppliers. This can be done in a couple of ways.

The first option is to green a company's existing supply chain. We would work with current suppliers, step by step, to help them become sustainable. Sometimes these suppliers may be very close to the required level of sustainability, with just a few changes required for them to reach certification. For others it may be difficult or impossible, for one reason or another.

A second option is to link the company to new suppliers that are already certified, and have already achieved the quality and other standards required by the company.

Through our Smart Source program we have been working with the stationery supplier Staples to get them to commit to purchasing FSC certified paper. Now we're working with Staples' suppliers – either greening the existing supply chain or introducing new suppliers. We're helping Staples find the wood supplies it needs, sustainably.

### *Can you demonstrate the value to a supplier of becoming Rainforest Alliance certified?*

Suppliers can volunteer to become certified and through workshops, trade shows and events we promote the benefits of certification.

We do not promise that farmers will receive a premium price for certified products, but we are able to demonstrate how others have fared following certification. We have a case study that was funded by US AID on shade-grown coffee from El Salvador. Based on reports from 183 growers, the harvest from farms preparing for certification or verification rose by 76% over the previous year's yield.



*Sam's Choice, Rainforest Alliance Certified Organic Coffee, at Walmart*  
*Photo: Wal-Mart Corporate Image Library*

While this is terrific, it is perhaps exceptional. The average increase we see is a 22% in yield from studies of farmers in controlled groups. We can show a reduction in costs as they use fewer chemicals, particularly harmful pesticides. There is also an increase in productivity and in the quality of their products.

Importantly, these farms and operations become, overall, better managed companies. Marketing and management are requirements of the certification process. In some cases we can provide support to farmers and companies, linking them with traders and other buyers throughout the supply chain.

### *Is there a balance between certification and quality?*

There was an important stage where we realized as an organization that it doesn't matter how sustainable a coffee is, if it doesn't taste good then it won't get sold. If furniture is badly designed or priced too high, it won't pass muster on the market.

So, we looked at incorporating aspects of quality and process efficiency into our standards. We wanted to help companies develop products that would find a place in the market and assist in smoothing their route to market.

### *What are some examples of companies seeing the benefits from embedding sustainable sourcing policies?*

One of the best examples of the benefits of improving practices has to be Chiquita bananas, a company that Rainforest Alliance worked with for many years.

Chiquita invested \$20m in its supply chain – to change practices at all of its supplier farms over a ten year period -- this at a time when the company was going through serious economic difficulties. Don't forget that Chiquita

bananas were being boycotted in parts of Europe due to social and environmental concerns about practices in Latin America.



*Tea farmer, Kenya. Photo: Rainforest Alliance, thefrogblog.org.uk*

At the end of the ten years of investment Chiquita was saving close to \$10m per year as a result of introducing sustainable practices. Almost half of this came from savings on pesticides that the company didn't need to use. Additional

savings were made on transportation and other costs, often through simple measures such as re-using pallets.

And of course there was the \$200m increase in sales that they would not have enjoyed were it not for certification. Chiquita is an excellent example of how you can turn things around and go from having sustainability weak spots to being a real leader. It's a real win-win outcome.

### *...and suppliers?*

There were a number of forestry operations in Guatemala that were selling their raw lumber to timber agents, and not making a great deal of profit. We've worked with them and they now sell directly to Gibson, the musical instrument manufacturers. These forestry operations now condition the raw lumber and supply a more finished product to Gibson. Suddenly, the foresters are getting much more money for their timber. And Gibson is pleased to be working with sustainable forestry operations.

### *Clearly there's still a long way to go. What's next for Rainforest Alliance?*

It's a huge planet. We are lucky that we have very smart people who are interested in this kind of work – trying to open the market and incentivizing people to work in a sustainable way.

More and more, people are realizing that sustainability issues need to be addressed. But there is only a small window of opportunity. And Rainforest Alliance must keep focusing on where it can have the most impact.

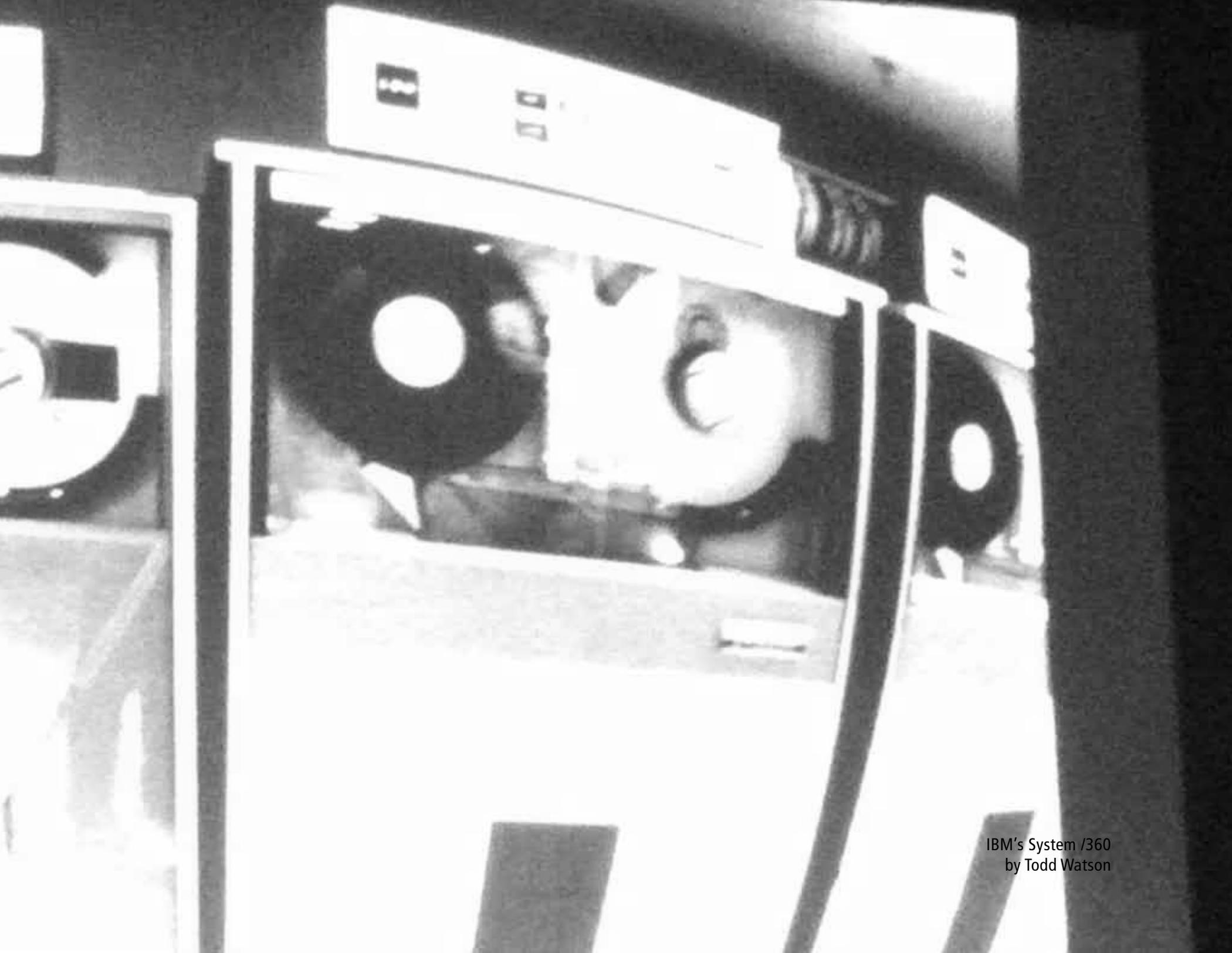


*Deforestation, Northern Ontario Boreal Forest. Photo: [www.orestethics.org](http://www.orestethics.org)*





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IBM's System /360  
by Todd Watson

■  
OPEN SOURCE:

Supply Chain  
Knowledge  
Management in  
an Era of Greater  
Transparency and  
Information Sharing

Data visualization art, courtesy, [www.thenextweb.com](http://www.thenextweb.com)



As the challenges facing supply chain managers have evolved so to have the requirements for data collection and analysis. **Christina Siun O’Connell, President – Americas at Credit360**, explains how the issues have evolved, why a willingness to embrace data sharing and cooperation has been such a paradigm shift and what to look for in an effective ethical supply chain data management system.

*How have the challenges for supply chains been evolving in recent years?*

There has been a real evolution in recent years in terms of what supply chain players are being asked to address. Traditionally the focus was on quality, efficiency and cost. Then, a few years ago the primary concerns of the sustainability community and socially responsible investment funds were human rights in the workplace, including worker conditions, hours of work, child labor and so on.

The companies that addressed these issues and developed programs to examine their own performance saw a genuine benefit in terms of attractiveness to investors and how they were regarded by consumers. Companies such as Nike really stepped up with regard to information relating to their supply chain.

Cooperation between NGOs, corporations and the investment community is important, along with the skills and commitment of senior management of a given company itself.

*How important is a multi-stakeholder approach?*

A number of building blocks have to be in place in order for ethical supply chain programs to work: stakeholder collaboration, the company’s management agreeing about the best approach, and senior individuals really committed to pushing the agenda forward.

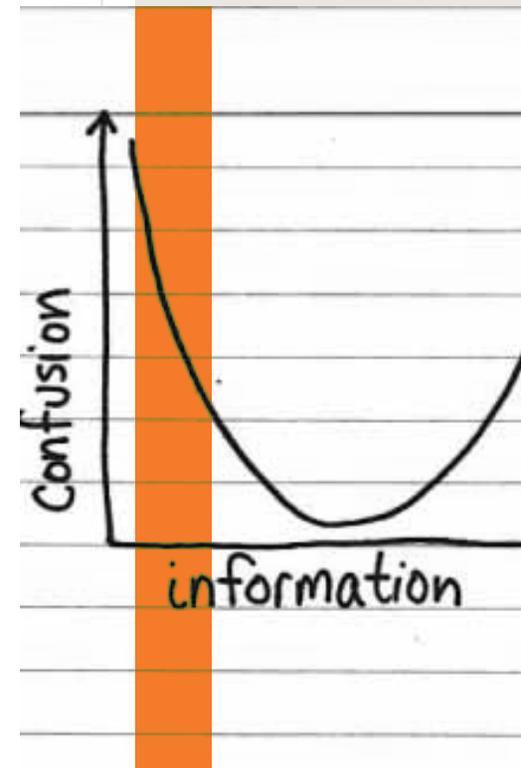
It can be very useful to have NGOs or other voices to keep companies on track. Supply chain managers, for example, are frequently overworked and under-resourced. And when there are company business objectives to be realized, corporate responsibility issues can be overlooked. NGOs can be very knowledgeable about factory conditions in factories – sometimes more so than a company manager.

*What about environmental impact? Do you see greater emphasis placed on this issue by supply chain managers?*

Managers’ focus is definitely expanding from issues such as worker hours and child labor to environmental considerations. Companies scrutinizing their own carbon footprint more intensely and pushing their analysis out into their supply chains.

And it’s not that the other issues have gone away, more that supply chain managers are being asked more questions, and the issues are becoming more complex. They have to examine cost, plus human rights, plus environment.

More and more, the triple bottom line approach – people, planet and profit is taking root in supply chain management. And carbon footprinting is something that companies are addressing more closely. Of course this can be a difficult area and rather overwhelming. Carbon footprinting requires a whole new type of information from suppliers, and this demand in turn requires that factories and suppliers provide the necessary information.



*Confusion as a function of information load  
Photo/drawing: Jessica Hagy,  
[www.thisisindexed.com](http://www.thisisindexed.com)*

*Is this, then, another area where cooperation between competing companies can be effective?*

One of the most exciting things we've seen in the past five years has been the willingness of companies to come together with competitors and discuss how to work with each other on standards and audits for everyone's benefit. This is a real shift in the way that companies operate. In the past companies wouldn't talk to each other, but now they are prepared to do so for mutual benefit.

My first experience of this willingness to share information was in the apparel industry, and it really did feel like a paradigm change. The companies that led the way were courageous, but they were the first to see the exciting benefits that come from such cooperation.

*What has been the impact of the development of standards?*

Companies have found themselves not only pushed by their own internal drivers, including questions from management and investors, but also by an new array of new standards and certifications – for instance those of the Rainforest Alliance or Forest Stewardship Council – that consumers are paying attention to. The shift has directed supply chain managers' activities towards coordinating and managing certification schemes. Again, this can be a large undertaking – and that is why the evolution towards commonly accepted standards for certification must be a good thing.

The challenge for companies is to collect a wide array of data and to be able to analyze it effectively. And that's information not just from down the hall or the next town, but from all over the world, sourced from people speaking different languages and from contrasting cultures.

If, for example, I want to know the carbon footprint of ten supplier factories in China then that is clearly a very different

challenge from calculating, say, the footprint of the building where I work. And so this requires a more sophisticated set of data management tools with which to address the relevant standards.

*What are the basic requirements for an effective tool?*

I find that supply chain managers do have limited time, so they need systems that are rigorous enough to supply useful information but simple enough to be useable.

Remember that corporate responsibility professionals and the sustainability community in general are not perhaps the top people in their organization familiar with data management. Their interests and knowledge will typically be more qualitative in nature than quantitative. And so for them to be able to effectively analyze their data, it is crucial to have tools on hand they are comfortable using.

Companies need technological solutions that are adaptable. Even basic logistical information can be hard to deal with when companies have multiple suppliers.

*What can a good data management system do to help?*

There are several characteristics that I would argue any supply chain manager should look for.

First, look for a technology supplier that has experience working with a supply chain and that has worked with other similar – preferably global – organizations.

Second, the system should have an administrative interface that is easy to manage and for users to access and work with. If users find it difficult to use, then they are not likely to work with their data effectively. The system has to be user friendly enough so that, for example, someone at a factory in Bangladesh can login and upload the information the manager needs to collect.



*Photo by data visualization artist,  
Aaron Koblin*

Third, the system needs to be flexible enough to adapt to the demands of a given corporate strategy. It must be modifiable over time as corporate requirements change.

Fourth, it is vital that the system has the tools for rigorous auditing. When presenting or analyzing data it's key to have available and accessible the documentation and information that supports the data. The system deployed should simplify this critical activity.

### *How can system flexibility help with compliance with multiple standards?*

Supply chain managers require tools that provide flexibility in how data is aggregated so this data becomes meaningful for them and their company. One approach or single reporting format won't facilitate the multi-faceted understanding that's needed.

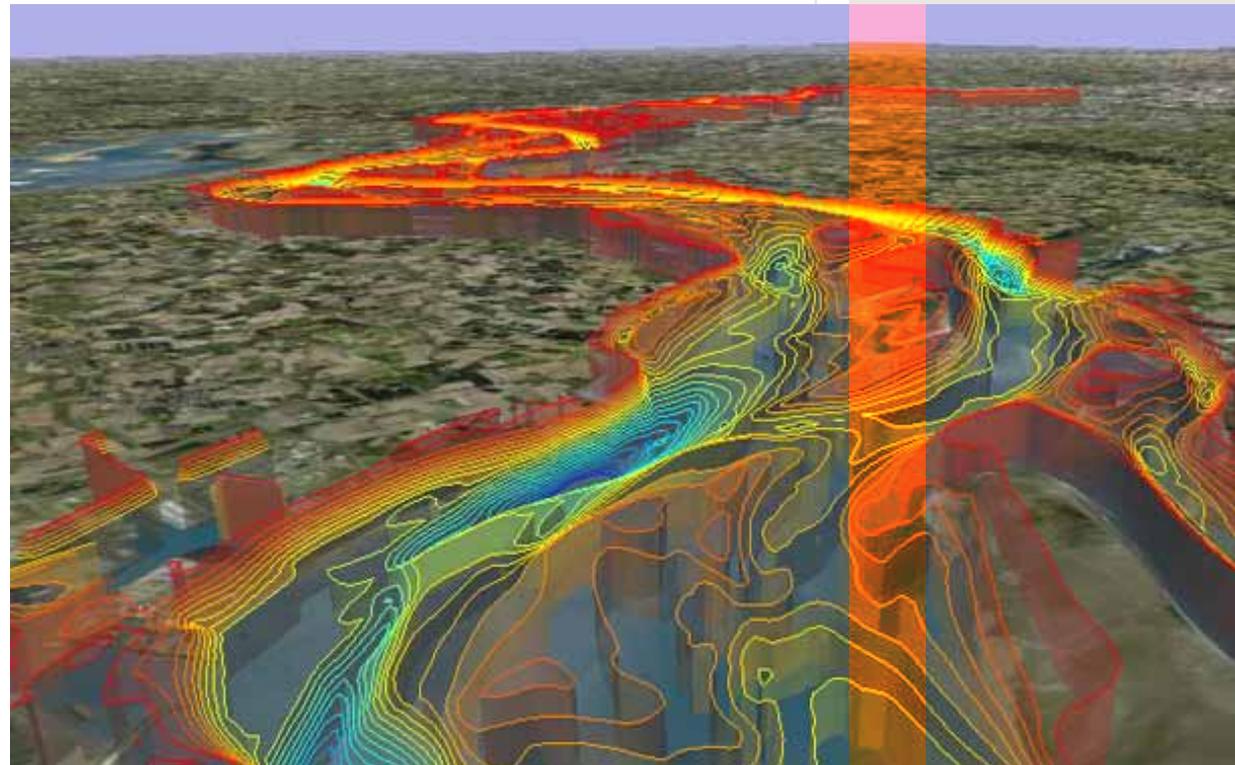
If one is asked what the monthly carbon footprint of, say, what a company's offices in Malaysia is, it should be possible to get the data in useful form. Tools that give one control over reporting are very useful. And it shouldn't be necessary to hire a data analyst to wade through the results.

One should be able to take the data collected and match it to the framework of any of the standards, such as Rainforest Alliance, FSC and so on.

A useful method here is to set up a series of frameworks for each standard into which you can pull your company's data. In most cases, the standards are looking for similar data but in a slightly different format. Having the flexibility to address this through a data, but each in slightly different format. Having the ability to address this through a flexible data management system is key.

### *Is there any consensus as to how different standards want data presented?*

Some compliance codes have a very restricted focus, others examine the broader picture.



*OpenEarth Initiative data visualization image: Animation of water movement during a tidal cycle in an estuary  
Source: World Resources Simulation Center, [www.wrsc.org](http://www.wrsc.org)*

For example, the Global Reporting Initiative's criteria require data relating to impacts across an organization, but the Carbon Disclosure Project seeks a much tighter focus -- on carbon footprint. And while there is considerable overlap,

there are different levels of information required to meet various codes' objectives.

Then if you look at the SRI community, every entity doing analysis is filtering a variety of data. One may look at absolute performance, another may look at relative performance within an industry sector.

### *Is there a solution to standardizing data?*

It would be wonderful if there were more standardization. A very good way of achieving this would be for the leading group specializing in a particular area to set the benchmarks for that sector, rather than each organization setting its own specifications. That would clearly be helpful. But the problem would then be: how would we agree on which group would set the specifications in those sectors that are "crowded"?

Standardization is perhaps some way off -- as right now even governments can't agree on data uniformity.



*Network cables  
Photo: Anthony Shaw*



EPSON

交通銀行

# ETHICAL SOURCING REPORT ■ 2011





Hong Kong, Victoria Harbour  
Courtesy, [www.woodardphotos.net](http://www.woodardphotos.net)

■  
CHINA  
SYNDROME:

Sourcing Ethically  
and Cost-effectively  
from the “World’s  
Workshop”



Sewing department, Chinese garment factory, Beijing

Photo: ILO / M. Crozet

China's factories have become the suppliers of choice for many international brands and companies. **David Abrahamson, Project Manager, China Center for Labor and Environment**, highlights some pointers for doing business in China successfully and ethically.

The explosive growth of the Chinese economy in the past decade has coincided with the country's factories and workforce becoming efficient powerhouses, thus establishing themselves as the first place that many multinational companies and brands look when developing their supply chains. Yet this shift has brought forth a number of challenges as brands have introduced codes of conduct and ethical sourcing policies.

**David Abrahamson**, project manager at the **China Center for Labor and Environment**, emphasizes the basic benefits of sourcing from China. "There is a large working population available, and it remains a relatively inexpensive place to source from." And while Chinese wages remain competitive, and there is a large base of skilled and semi-skilled labor, this working population is mobile, able to move from the hinterland into the industrial areas.

"In addition, there is a stable regulatory environment – something important, especially for big companies. The Chinese government is working hard to make the country a good place for foreign companies to operate. That said, companies do need to be aware of the regulations that are in place."

China also benefits from "a good basic transport infrastructure and port system," Abrahamson says. This latter point is especially important for companies sourcing from factories in different parts of the country. It is a fairly straightforward process to get products from their place of manufacture to shipping ports via China's internal transport networks. Goods can be exported anywhere in

the world from, for example, the Guangdong ports, which are the biggest in the world.

#### **PICK A SECTOR (CAUTIOUSLY)**

Abrahamson notes that currently among the best served sectors in China are mass production retail products, including textiles and apparel, and inexpensive consumer products such as, for example, toothbrushes or other plastic goods, and toys. "Simple products, with a few pieces, from plastic molds, integrating basic electronics and a few moving parts, are ideal. Even better is where these don't need much training for suppliers," he says.

China's factories are also suitable for the manufacture and assembly of more expensive items, such as electronic devices, as "all the parts are available," Abrahamson says. "If you are making a phone then you will easily be able to find a supplier who is making a screen, and one making microchips, mother boards and the other components required."

He offers a word of caution, though: "One big problem for more complicated and up-market electronic devices concerns intellectual property." For some products, such as high-end cameras, the components are made in China, but the full units are assembled elsewhere. Product copying is a danger in China as "it's not something that the government has put a great deal of attention on. Things that are valuable but easily copied – another example is software – are perhaps not best made in China," says Abrahamson.



*Shoe Workers, Singapore  
Photo: [www.seepalweb.com](http://www.seepalweb.com)*



Photo: [www.thedailygreen.com](http://www.thedailygreen.com)

## VISIBILITY DOWN THE CHAIN

A major challenge for any diverse supply chain is being able to keep track of where goods are being produced and how, and no more so than in China. Abrahamson says: “Understanding where your products come from is difficult, as is being able to monitor all your suppliers. Having an ethical supply chain while maintaining low costs is a tough balance.”

Sourcing companies need to realize that, like elsewhere, Chinese suppliers may cut corners in terms of labor standards and in various other key ethical areas, in order to keep costs to a minimum. The challenge is for brands and companies to work with their suppliers to eliminate unethical practices, while at the same time developing new working methods that are efficient and effective.

Abrahamson suggests that the appropriate approach is to “set out with the assumption that corners will be cut if suppliers know that they are not being watched.” This is particularly the case in tough economic times when the pressure to cut costs becomes ever more acute.

“When you focus on keeping costs low it can mean that ethical standards fall short.” But losing track of these issues means a company runs a big reputational risk. And the cost then becomes potentially far higher.

Over a decade ago toy manufacturer Mattel came under criticism for having unsafe levels of lead in its toys. Abrahamson says: “At the time the company said that ‘China’ was the problem. But other toy companies didn’t have the same difficulties. This example shows what can happen when you are not in touch with your supply chain. It is easy to miss the big picture, even if you are auditing a representative sample.”

## WORKING ETHICALLY IS WORKING SMARTER

But Chinese factories are beginning to generally see the benefits of developing better working practices. “It can be a gradual process, requiring a lot of education,” Abrahamson says.

An obvious first step is to demonstrate how more ethical supply chain management can result in savings, for instance, from improved energy efficiency. And this is an area where the Chinese government is playing a role. “There are now local energy efficiency goals for particular regions, with rewards for companies that cut energy use,” Abrahamson points out.

Local solutions can be best. “IBM, for example, has a centralized energy efficiency unit, but the company has gone a step further and shared its energy efficiency goals with its supplier companies, placing the responsibility for implementing them with these local partners,” Abrahamson says.

Making processes more energy efficient undoubtedly cuts costs, but the savings are not necessarily immediate. It comes as no surprise, therefore that many suppliers focus on the short-term up-front costs rather than take a strategic approach, bringing savings in the long-term.

Other social elements of a brand’s code may take more time to implement. “Yes, factories want to pass their audits. But conceptually they sometimes go about things the wrong way. For instance, you should want to make your factory safe - not just safe enough to pass an audit. Safety is something that management should be thinking about all the time,” Abrahamson says.

There is an opportunity here for international companies and brands to demonstrate to their suppliers – through their own strategies for implementing codes of conduct or

energy efficiency measures – not only how to satisfy their clients, but also how suppliers can be better as a business. “Supplier factories are, in effect, getting free business advice from some of the world’s leading brands. Their clients are big companies that really know what they are doing, after all,” Abrahamson says.

### GOVERNMENT GETS INTO THE ACT

In addition to tax incentives for green energy, there are a number of ways in which the Chinese government is encouraging better corporate sustainability practices. “There are now tax incentives for companies using advanced technology, particularly relating to energy efficiency, in their production processes. This is improving factory systems while also bringing down costs,” Abrahamson says.

Also, he argues, “government transparency has definitely improved and you can rely much more than in the past on the court system to provide fair arbitration in disputes. Both parties in a dispute are now able to make their cases openly and transparently.”

In addition, China’s new labor laws, which came into effect in 2008, introduced a range of rights for workers. “These laws represent a dramatic shift regarding how labor is regulated in China; however, it is taking quite some time for them to take effect. Their implementation is still uneven, certainly -- not yet there 100%. But they have ushered in more rights for workers and, importantly, made these workers aware of what their rights are,” Abrahamson says.



*Chinese factory workers assembling fiber optic systems. Photo: "In Rows and Rows", Steve Jurvetson*



*The recently staged International New Materials Fair, Handan, China  
Photo: [www.chinasourcingblog.org](http://www.chinasourcingblog.org)*

### COLLECTIVE BARGAINING, CHINESE STYLE

For western brands and companies sourcing in China, a major difference from their own domestic labor markets is how trade unions are set up in China and how they operate.

All unions must be affiliated with the government-recognized All-China Federation of Trade Unions (ACFTU). Non-affiliated unions are not permitted.

Unions provide worker representation in factories and mediate in disputes with the management. Factories have to educate workers as to their rights and have an ACFTU presence in their company.

David Abrahamson says that union intervention on behalf of workers provides an effective dispute mechanism, which has been strengthened by the new labor laws. He says: "Before these new laws, when a worker had a dispute with management he may have had to go to court, which would be time consuming and expensive. By going through the union chapter, a solution can be more easily reached."

Unions are more effective in some regions in China than others, Abrahamson suggests, and industrial negotiations tend to be local – on the factory level rather than a regional or national level.

### NGOS IN CHINA – ACTIVISM THE HARD WAY

Activist groups and non-governmental organizations (NGOs) do not operate in China as they do elsewhere.

"The system and process of registration for NGOs is very complex, to the point that it is almost impossible. All NGOs have to register with a local government partner before they can set up. As this is so complicated, some bigger NGOs register as consultants rather than as non-profit organizations," David Abrahamson says.

And because of this process, a registered NGO has to "operate at the whim of the local government, and if that government doesn't want you to operate then you won't be able to operate in China." This means that activism is significantly limited for both local and international NGOs.

"An international NGO cannot just set up offices in a community and get to work and, for example, interview local workers. They either have to do it secretly or via a government partner," Abrahamson says.

The result is that a lot of international activist NGOs are based in Hong Kong – which is governed separately from mainland China – or elsewhere in Asia. Abrahamson says: "The most vocal NGOs operate out of Hong Kong. There is a risk elsewhere in China that registration will be revoked and that you might not be able to operate at all, anywhere."

There is an increasing number of native Chinese civil society groups. As they tend to be newer, they

are “less mature than international groups and operate more at a grass roots level.” Also they are typically not big organizations with representative offices across the country; rather, they operate more locally.

Reaching out to these local NGOs is an important aspect of stakeholder engagement in China, Abrahamson maintains. “Engaging with them can be a useful way of learning about local customs and needs,” he says.

Abrahamson highlights a generational shift in China, which means younger workers are much more aware and activist than their parents. “Younger people care more openly about corporate responsibility and ethical issues. The older generations have lived through instability, so are perhaps less keen to rock the boat. Furthermore, given the growing economy and increased wealth, people now have more opportunity to be involved in non-profit enterprises and have more time to devote to these causes.”



*Terra cotta army excavated in Xi'an, Shanxi Province, China. These warrior figures, discovered in 1974, were created in 210 BC, in homage to Qin Shi Huang, the First Emperor of China*

*Photo: Jeremy Barwick, Creative Commons*



**ETHICAL SOURCING REPORT ■ 2011**



From the film, "Last Train Home," directed by Lxin Fan, depicting Zhang Qin, 17, as she travels from her rural village to Guangzhou to join throngs of other migrant workers who have sacrificed education for money and the promise of a better life

■  
SUSTAINABILITY  
REPORTING:

The Global  
Reporting Initiative  
and the promise  
of greater supply  
chain disclosure

Report by  
Kathrin Bohr | Director, Advisory Services  
Intertek Sustainability Solutions

CRAMP SHIPBUILDING COMPANY, TURRET SHOP, 2009.  
Window walls and butterfly trusses allow copious light  
Photo: Chris Dougherty, [www.ruins.wordpress.com](http://www.ruins.wordpress.com)



With non-financial reporting having been around for nearly twenty years, the question for companies, according to **Kathrin Bohr, Director of Advisory Services at Intertek Sustainability Solutions**, is no longer whether to report or not to report on sustainability performance. Rather, the issues today deal much more with *how and what to report*, and how to convey that information in a concise and meaningful manner that will allow a company's stakeholders to retrieve relevant, material information from what is being communicated.

Enter the **Global Reporting Initiative**, the most widely used, standardized reporting framework, established in 2002. The GRI's stated vision is "that disclosure on economic, environmental and social performance become as commonplace as financial reporting, and as important to organizational success." While this may be a lofty goal, there is clear evidence that the framework is getting traction globally. There has been, for example, a 29% increase in GRI reporting globally from 2008-2009 and while 45% of GRI reports in 2009 were of European origin, the US produced the second largest number of reports (132) after Spain (140). These numbers are encouraging from several perspectives, notably that of stakeholders interested in standardized reporting for purposes of accurate comparison.

As GRI-based reporting continues to gain ground, we are seeing other noteworthy trends. These include integrated reporting whereby comprehensive environmental, social and governance data and information are provided alongside standard financial information in annual reports. The idea is that this more complete information will allow investors to make better-informed decisions and allow both management and investors to adopt a long-term sustainability strategy. It is also likely that by providing this type of information in annual reports, a clearer link will be established between sustainability and economic value. In August 2010



*Robert Smithson, "Spiral Jetty," 1970. Long-term installation in Rozel Point, Box Elder County, Utah. Photo: Eppich/Esmay/Tang, J. Paul Getty Trust. Collection Dia Art Foundation*

the International Integrated Reporting Committee was formed by the GRI and the Prince of Wales' Accounting for Sustainability Project. This group's mission is to develop a global framework for integrated reporting.



The initiative is being led by the GRI. For more information, visit [www.integratedreporting.org](http://www.integratedreporting.org)

Another key development over the past few years relates to supply chain reporting. Increasingly it is no longer sufficient for companies to focus their sustainability/CSR initiatives and strategy purely on their own, immediate operations. Companies such as Walmart, for example, are requiring their suppliers to report on their environmental and social activities, initiatives and achievements.

The existing GRI Guidelines, however, are limited in their ability to provide relevant and material information on the supply chain. While reports are getting broader readership, according to **Rutger Verkouw, SME and Supply Chain Program Coordinator at the GRI**, “many report users agree that supply chain performance reporting in GRI-based reports remains limited and inconsistent.”

To address this issue the GRI established the **Supply Chain Disclosure Working Group**. This working group is cross-sectoral and international, with representatives from twelve organizations including industry, labor and the non-profit sector. They have been tasked with providing recommendations for edits to the G3 Guidelines to enhance the quality of disclosure regarding supply chain performance. As with all GRI output, these recommendations will be available for public comment before being published. For full information on the GRI and supply chain reporting, visit [www.globalreporting.org/CurrentPriorities/SupplyChain/SupplyChainDisclosure/Supply+Chain+Disclosure.htm](http://www.globalreporting.org/CurrentPriorities/SupplyChain/SupplyChainDisclosure/Supply+Chain+Disclosure.htm)

In response to the need for better supply chain reporting, **Intertek has become an official GRI Certified Training Partner for China**. Intertek’s Shenzhen office currently offers two-day, intensive learning programs that provide comprehensive training on how to get started in the reporting process, how to include stakeholders in the dialogue, how to determine report content, how to prepare and communicate a sustainability/CSR report.

It is worth noting that even a comprehensive report using the best reporting framework and robust indicators, isn’t a guarantee that a company is engaged in high-quality, progressive work when it comes to CSR. GRI reporting does however go a long way towards assuring the reader that a company has at least undergone thorough analysis that enables management to better understand the company’s social and environmental impacts, and opens the door to two-way communication with stakeholders. Intertek’s training courses have been designed to assist companies in managing the reporting process as effectively as possible. “For more information or to register for upcoming courses, please contact [Ryan.Foo@Intertek.com](mailto:Ryan.Foo@Intertek.com).

#### NEW TO THE GRI? HERE IS A QUICK PRIMER:

The GRI is regarded as the world’s most widely used non-financial reporting framework. It was developed in 2002 with the input of stakeholders drawn globally from business, NGO’s, academia, labor, and professional institutions, and was revised and updated in 2006 to become the G3, or third generation of reporting principles since the GRI’s inception. The GRI’s headquarters are in Amsterdam.

The GRI framework consists of a set of principles and 79 indicators which can be used to measure and report on an organization’s economic, environmental and social performance. There are 79 indicators are applicable to most organizations. Then there are several sector supplements providing indicators that are specific to a given industry or sector and which can be used along with the overall framework. The Guidelines include protocols that provide guidance on the application of all indicators. In addition to English, the GRI documents are available in 24 languages. To download the Guidelines and additional information, visit [www.globalreporting.org](http://www.globalreporting.org)





ETHICAL SOURCING REPORT ■ 2011





Conflict minerals' used in electronics sold in the west are frequently sourced from mines in eastern Democratic Republic of Congo (DRC); the minerals finance armed groups waging civil war in the region

Photo from the German Documentary Film, Blood in the Mobile, directed by Frank Poulsen

■  
SOCIAL  
COMPLIANCE  
FROM THE  
PERSPECTIVE  
OF A CANADIAN  
RETAILER

In Conversation  
with Julie Yan,  
Senior Manager for  
Social Compliance,  
The Hudson's Bay  
Company

1970s Hudson's Bay Woolrich Blanket Coat  
Photo: [www.etsy.com](http://www.etsy.com)



***Ethical Sourcing Report* speaks to Julie Yan, Senior Manager for Social Compliance at Hudson's Bay Company, about the firm's approach to social and environmental initiatives, and why involvement on the part of management makes a major difference to both short and long-term planning.**

**ESR:** *How did social compliance begin and evolve at HBC?*

**JY:** The social compliance program began in 1998 with the creation of the Code of Vendor Conduct. In 2003 HBC strengthened its commitment to ethical sourcing by building a monitoring program, and a corrective action process. Our overall objective in social compliance is to ensure that our products have been made in humane conditions and to protect the integrity of our private brands. We aim to improve workplace conditions as part of our social responsibility mandate in working within our global supply chain.

**ESR:** *What challenges have you faced along the way?*

**JY:** One of our challenges in executing this program is sustaining clear and concise communications with our suppliers, our buyers, and our customers. We are fortunate that we have senior leadership supporting and communicating the merits of the social compliance program. As new hires start with our company and new vendors partner with Hudson's Bay Company, we do what we can to ensure the program is communicated effectively and clearly. Our other challenge is having the right tools and enough resources to stay connected with relevant stakeholders, to share information, and to facilitate improvement on a particular issue.

**ESR:** *Social compliance has come a long way since the 1990s. What do you think the future holds?*



*Former Hudson's Bay Blubber Station at Pangnirtung, Canadian territory of Nunavut  
Photo: Slp1, wikimedia.org (Commons)*

**JY:** I believe the future of ethical sourcing will evolve into a more regulated and systematic program – although this is probably a long way off. But I think the work of non-governmental organizations (NGOs) and social compliance departments from brands and retailers will impact



Photo: Ben Schumin, Wikimedia.org  
(Commons)

governments. We have already seen China strengthen their labor legislation and Bangladesh increase minimum wage, and this signals significant progress in terms of labor rights. I believe more manufacturing facilities will evolve into mature systems where certain standards will become ingrained and the need for factory audits as an additional cost of doing business will be obsolete. There is still a long journey ahead for businesses with regard to embracing and integrating corporate social responsibility to the point where it yields tangible and measurable results. I think it will also be increasingly important that companies take on the responsibility to help their customers and stakeholders understand these measurements and results. As a result, Social Compliance managers will need to take on analytical roles in their organizations, in addition to functioning as their company's conscience.

**ESR:** *You mention that what is needed is making the connection to business value. Intertek's next **Ethical Sourcing Forum** will be focusing on how to extract business value from CSR practices. This can't be done, however, without the participation of consumers. In your opinion, does the consumer care about these issues?*

**JY:** I do believe some customers care about ethical sourcing, but in general I don't think corporate social responsibility is top of mind for them. I think we have an opportunity to educate customers about where products come from, the raw materials used, and how they're made. I think that's one reason why a CSR report is important; it helps stakeholders understand production processes and what manufacturing in places far from entails.

**ESR:** *Thank you for your time, Julie.*

**The Hudson's Bay Company began as an English trading company in 1670. Today it is Canada's largest diversified general merchandise retailer with over 600 retail locations and nearly 60,000 associates located in every province in Canada. In 2008, NRD Equity Partners, of Purchase, NY, owners of Lord & Taylor, acquired The Hudson's Bay Company's family of stores including The Bay, Zellers, and HomeOutfitters.**





**ETHICAL SOURCING REPORT ■ 2011**



Glacial Iceberg, Jacobshavn fjord, Greenland  
Photo: Konrad Steffan, University of Colorado

■  
GREENING THE  
VALUE CHAIN,  
EFFECTIVELY &  
PRAGMATICALLY

Responding to  
Industry's Mandate,  
Intertek introduces  
'Think Green Initiative'  
(TGI)

Report by  
Christopher Foss  
Intertek Sustainability Solutions

Photo: Transparent Globe. [www.wallpaperstock.net](http://www.wallpaperstock.net)



**“Think Green.”** It sounds positive, but often the desire to implement environmentally progressive production methods is met with the reality of daunting logistical challenges. Either the costs of a given environmental program are too high (considering current global economic conditions), or the various standards and initiatives aimed at footprint reduction lack the necessary reach – especially when it comes to managing environmental factors deep within the supply chain.

Meanwhile the pressure to “get it right” when it comes to implementing green manufacturing processes is gearing up significantly. Consumers, more sensitized than ever to environmental issues, are more likely than before to examine information about a product’s environmental footprint before making a purchase.

It is therefore hardly a surprise that market players including retailers, brands, government bodies and other stakeholders increasingly look to the manufacturing sector to demonstrate environmental compliance and continuous improvement.

Major brands and retailers (such as Walmart, PUMA, Marks & Spencer etc.), are now putting in place rigorous standards or environmental targets (e.g. Walmart’s now famous 15 Sustainability Questions for Suppliers). Yet reliable methods for comparing and benchmarking supplier environmental performance across multiple industry sectors and geographic regions remain elusive.

Suppliers, for their part, lack effective channels with which to showcase environmental performance achievement for review by clients. Additionally, they have no easy way to access professional assistance or guidance with regard to industrial best practice.



Marine station solar panels, Galapagos Islands. Photo: Nick Wolfe, Colorado Energy News

### **INTERTEK RESPONDS TO THE “THINK GREEN” CHALLENGE**

The “Think Green Initiative” (TGI), Intertek’s response to industry’s increasingly urgent mandate to “Think Green,” makes supplier environmental performance assessment



think green initiative



Red-eyed tree frog, Costa Rica  
Photo: Cory Thomas

more efficient and robust – as well as highly cost-effective. Consider it “a sustainable approach to greening the value chain.” It is also a resource center and stakeholder engagement platform that fosters collaboration by making the sharing of environmental information easier. TGI was designed to:

- Assess environmental improvement benchmarked against global performance data
- Offer cost-saving environmental solutions and guidance
- Provide a platform for showcasing environmental improvement
- Provide environmental good practice and sustainable production intelligence
- Offer access to a network of environmental performance management experts
- Serve as a platform for offering training sessions, seminars and workshops in environmental performance management
- Provide up-to-date news on environmental issues and regulation
- Make self-assessment manageable as well as effective in supporting core business imperatives

Brands and retailers view it as crucial to maintain a streamlined sourcing process – one where suppliers and clients can collaborate easily via a common industry platform. One early adopter of TGI, Techtronic Industries (TTI), is a leading manufacturer of consumer and professional power tools. At Intertek’s “New Audit Solutions Information Day” in summer 2010, TTI was presented with the TGI Achievement Award. The award was presented by Intertek’s David Horlock, VP of Global Inspection and Auditing, who stated: “Intertek is proud to present this award as a testament to TTI’s diligence in affecting continuous improvements and best in class environmental practice.” This kind of recognition is a vital part of TGI’s value proposition: enabling brands, retailers and their suppliers to communicate environmental

commitment to stakeholders. It is also a testament to TGI’s role as a partner in the development of pragmatic and cost-effective sustainability solutions.

### CASE IN POINT

TTI, for its part, had a lot to be proud of. TTI’s presentation at the ceremony showed how TGI enabled significant cost reduction. TTI summarized TGI’s benefits to the company as follows:

- Established measuring standards for environmental performance
- Provided benchmarking against industry peers
- Helped identify & prioritize key performance indicators (KPIs)
- Drove sustainable production
- Minimized waste & negative environmental impact
- Enhanced enterprise vitality & social responsibility
- Reduced operational costs

TTI cited “reuse and recycling” and “energy conservation and carbon emissions reduction” as its two primary areas of focus. Their results in one year for energy and carbon management were impressive – including more efficient use of light sources, electric water heaters, air-conditioning and molding machines. In leveraging TGI to reduce energy use, the total in CO2 reduction has amounted to 4,030 tons for the year – and in the process it significantly reduced operational costs.

TGI is here to help suppliers, brands and retailers alike in their efforts to green the supply chain. The key is not merely to “think green,” but “act green” as well—to pragmatically, powerfully and cost-effectively reduce negative environmental impacts of manufacturing processes. TGI has been road-tested and proven as a breakthrough for companies eager to leverage the increasingly obvious nexus of environmental and business performance.



# ABOUT INTERTEK SUSTAINABILITY SOLUTIONS

**Intertek Sustainability Solutions (ISS)** works with businesses to seamlessly integrate CSR and Sustainability with their brand and operations. We are proficient in delivering solutions dealing with immediate environmental and social concerns, but our ultimate value for clients has proven to be our ability to develop a portfolio of initiatives (such as stakeholder engagement programs and ethical supply chain management tools) that align social and environmental performance with business imperatives for maximum Return on Sustainability Investment (RSI).

Specifically, we:

- Design sustainability strategy, tailored to client needs and utilizing a variety of techniques – such as corporate risk/opportunity profiling, benchmarking, gap analysis and assessment of sustainability reporting and communications efficacy;
- Deploy cost-effective and materially-relevant sustainability programs for our clients, including audits and inspections of client and supplier facilities, certifications of compliance with a variety sustainability schemes and standards, such as environmental assessment, supplier impact assessment, as well as training, capacity building, remediation and continuous improvement programs;
- Provide key industry-leading CSR/Sustainability tools, including:
  - » **The China Center for Labor and Environmental Law** is designed to promote innovation and facilitate information exchange with regard to CSR practices and tools. The Center's aim is to provide seamless access to high quality, web-based resources for participating organizations working on social and environmental sustainable development in China ([www.csrlaws.com](http://www.csrlaws.com))
  - » **Global Security Verification** provides global importers and their suppliers with extended supply chain and trade security systems that make international business safer and more profitable. It is the best way to reduce risk, save time and money, minimize business disruptions and drive business benefits ([www.importsecurity.com](http://www.importsecurity.com))
  - » **Global Supply Chain Compliance** is a secure web-based auditing platform that enables all international supply chain partners to work together through a single gateway, to plan, execute, monitor and bring to closure multiple compliance related activities across the international supply chain such as CSR, Environmental, Security and Quality ([www.suppliercompliance.com](http://www.suppliercompliance.com))
  - » **Mill Qualification Program** is an assessment program for textile mills, aimed at providing a holistic picture of mill performance in all areas, and to link sustainability and quality performance requirements ([www.millqp.com](http://www.millqp.com)).
  - » **Supplier Qualification Program** is a "supplier improvement initiative" that encourages retailers and consumer brands to take an intensively proactive approach with regard to supply chain management SQP is a total solution which incorporates a full range of quality and safety standards through improved process controls.

- » **Think Green Initiative** is a pragmatic, supplier focused environmental assessment tool and capacity building resource that facilitates suppliers' effort to improve and showcase their environmental performance. (www.thinkgreeninitiative.com)
- » **Workplace Conditions Assessment** consists of an assessment standard and tools for evaluating, benchmarking and improving workplace conditions in the global supply chain.

- ISS hosts highly informative CSR/Sustainability Conferences, featuring expert presenters and actionable insights.

The **Ethical Sourcing Forum** (www.ethicalsourcingforum.com) brings together brands, retailers, suppliers, government agencies and NGOs for discussion of current and future trends, "Innovation Labs" and the sharing of best practices.

- ISS provides full Sustainability Communications & Reporting Services. Examples include:
  - » The Ethical Sourcing Report, which provides detailed analysis of issues and discussions covered in each Ethical Sourcing Forum and beyond;
  - » A series of white papers and specialized reports on the latest sustainability/ CSR issues and innovations;
  - » CSR/Sustainability Reports in long and short formats; online social and environmental communications

The Intertek Sustainability Solutions team includes a network of global professionals and technical experts, offering a broad range of advisory, technology, assurance and support solutions and services aimed at driving effective sustainability practices

Our goal is to help companies design, build, and deploy innovative sustainability solutions that are well aligned both with ethical and business imperatives. Our process for working with clients hinges on robust dialogue and collaboration. More than simply a style of doing business, this approach has been a key factor in our ability to produce successful sustainability solutions for our clients.

For further information, please Intertek Sustainability Solutions' New York offices: +01.212.803.5300

