

**Intertek**

# Supply Chain Integrity



- 1. Problem Statement – Setting the scene**
- 2. Demystify – be realistic & understand the complexities**
  - How supply chain corruption takes place?
- 3. What are the cost of corruption?**
- 4. Sharing practical solutions?**
- 5. What can we do better?**

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## Before, talking about Integrity Lets talk about the good things

- Enormous Improvements have been made over the years
  - Working conditions have improved
  - Health, Safety and working environments have improved
  - Workers have greater power and influence
  - Child labour is not endemic as it was 15 years ago
  - International brands and retailers are actively engaged and have collectively contributed to these improvement
- However, we have some issues in the low price mass market
  - Working hours
  - Integrity and bribery issues

**STATEMENT OF FACT – Applies to mass**

Unlike other International Standards, the Social Compliance audit industry has resulted in the proliferation of:

- Consultant website claiming to help factories to cheat and facilitate a pass
- Consultant websites making false associations with 3<sup>rd</sup> party audit providers
- Double book keeping – approx 70% factories in some countries
- Factories and agents offering to pay huge sums of money to pass audits
- In-house and 3<sup>rd</sup> party auditors leveraging their positions to scare factories and extract benefits
- Factories & Agents not using appropriate channels available to report & manage integrity violations ?
- Auditors colluding with consultants through complex networks to establish business models to profit
- We have created an environment which is a perfect incubation ground for bribes and integrity
- Companies terminating their auditors – in most cases on basis of highly suspicious but no objective evidence beyond doubt have a string of labor court cases for un fair dismissals

**ROOT CAUSE**

1. Working hours are at the heart of the problem .....not enforced by government
2. The economic reality concerning price points, excess capacity, deflationary environment, wild currency fluctuations, rising cost all make economical survival very challenging
3. The fear of Audit Failure and associated disqualification and delisting force factories to do what they need to do to survive..

**Question: FACT**

Why would a factory that spends US200K on improving working condition, facilities, health & safety – a sign of genuine best practice

Yet the same factory pays a consultant to run a separate set of double books.

**Possible Answer: FACT**

1. The economics do not allow some factories in the low price point mass market to comply with local law
2. Failing an audit could result in lost contracts and delisting
3. To protect his economic unit from the consequences of non compliance

## Demystify - Be realistic & understand the complexities

- Social Compliance audits are an incubation ground for compliance issues?
- Bribery is a by-product of the stress and opposing forces of compliances v's economic reality
- Receipt for gratuity, benefits, envelopes or bribes do not exist
- Its difficult for Auditor to invent problems in the absence of objective evidence
- Factories excessively frightened of auditors
- In some cultures giving & taking is a way of life and disguised in many forms
  - Gratuity or red pocket money
  - Tea money, form of Insurance policy as pre-payment to ensure smooth & fair play
  - A bribe or significant benefit to influence or change results
- Separate facts from fiction - Many contradictions involved
  - Factories sign declarations but still give benefits
  - Factories rarely use compliance hotlines for reporting breaches in integrity
  - Factories often blame reason for failure on fact they would not pay or give enough

## Demystify - Be realistic & understand the complexities

- A by product of inspection and auditing is failing, pending results which put's stress on businesses and provide an incubation ground for integrity.
- Audit outcomes if negative can have significant economic impact on businesses so they become leveraged stress points.
- Factories and Vendors as givers of bribes are equally responsible as the taker. It takes two to Tango.
- Irritation, anger and concerns over integrity are critical and emotional issues that we need to manage. Be prepared
- We see less integrity and bribery issues associated with
  - High end manufacturers with best in class production processes
  - Stable suppliers with mature relationships and understanding
  - Programs based on continuous improvement removing the fear factor on working hours

## **What are the cost of Corruption ?**

- Loss of reputation & trust
- Loss on business
- Remediation in building reputation
- Monitoring and Control to improve safeguards
- Fire fighting
- Business disruption

# The Cost of Corruption ?

## FAILURE COST

### Internal Failure:

- Fire fighting
- Remedial action and rework
- Re-inspection or re-audit
- Replacement suppliers

### External Failure:

- Handling complaints
- Recalls
- Loss of goodwill
- Loss sales
- Reduce reputation
- Share value suffers
- Loss approved supplier

## APPRAISAL COST

- Monitoring & Controls of auditors, service providers & suppliers
- Un-announced audits
- Telephone audits
- Mystery Audits
- Report review & checks
- Internal and external compliance programs
- Revise standards to improve safeguards

## PREVENTION COST

- Risk response strategy
- Setting policy & KPI's
- Training
- Monitor & Controls
- Statistical process control
- Professional advise



## Intertek's Integrity - Golden Rules

- Trust & Integrity are critical components of Intertek's brand equity
- Compliance is the responsibility of everyone to work together
- View facilitators, givers or receivers of benefits equally responsible
- Individuals are duty bound by the declarations they sign.
- Employees **MUST** never collude, demand, request or be involved in a facilitation payment, bribe, gift or benefit.
- Factories should **NEVER** give benefits or payments
- All meals and travel benefits provided must be declared
- Compliance hotline are there to be used



# Intertek – “Integrity Message Triangle”

## # 1 – Integrity Policy

1. Integrity is critical to Intertek’s
2. Zero tolerance Policy
3. Best in class program
4. Actively Managed

## #2 – Pre-Conditions Rules

1. Employee screened & Trained
2. Givers and takers both responsible
3. Factories sign a declaration
4. Must work with our client on issues
5. Fact based investigations
6. Breaches of Integrity will result in
  1. Termination
  2. Report to police.

**TAKE AWAY  
MESSAGE**

## #3 – Tools for Implementation

1. Intertek Integrity Golden Rules – Actively communicated to all parties
2. Independent compliance team divorced from operations
  - Factory Integrity Declaration Form & Employee Declaration Form
  - Telephone Audit, On-site Integrity Audits,
  - Management KPI’s and Educational programs
  - Integrity Compliant handling process, statistical analysis

## SHARING PRACTICAL SOLUTIONS - Retailer

- **Managing Integrity NEEDS the efforts of all parties to work together and use their collective influence to communicate & educate**
- **Defined Company Ethics & Integrity Policy**
- **Regular Internal Ethics/ Anti-corruption Training Workshop**
- **Do not design your program with inherent stress and leverage points**
- **Regular Internal Communications**
- **Define clearly what happens if Suppliers give bribes and do not follow guidelines provided in the “Intertek Factory declaration letter”**
- **Work with your service providers and understand that:**
  - **The common target and enemy is the giver or the taker**
  - **A breach of Integrity is a criminal offense and a company policy violation**

### Integrity Violation

- Offered kickbacks/benefits
- Violated Buyer's Compliance policies
- Use of false documents
- Attempted to offer an envelope

### Consequences for Supplier

#### 1st Integrity Violation

- Attend a meeting with clients and Agents
- Submit an Anti-bribery Program in 30 days
  - Client will validate implementation

#### 2nd Integrity Violation

- Supplier ID will be deactivated for 1 year
- No New PO allowed

#### 3rd Integrity Violation

- Supplier will be deactivated **permanently**.
- All unshipped orders will be **cancelled**.

**Statement: FACT**

- For a breach of Integrity to take place requires a giver and a taker. Therefore, both parties should be equally responsible for any breach.
- As a 3<sup>rd</sup> party service provider, Integrity must be part of our DNA and we contribute enormous resources into training our staff, suppliers and creating policies and programs to improve safeguards and controls.
- Service providers have influence on the Takers BUT not always the Givers....
- Service providers are frustrated at times that some Retailers, Brands and their agents who have the greatest power, do not put as much energy into:
  - Educating Factories not to give benefits and the consequences for doing so
  - Insisting that factories use the appropriate compliance hotlines and reporting channels

## Question:

1. What could we do better to make agents more accountable for the behavior of factories ?
2. What could we do better to get factories to play by the rules and report incidences ?
3. What can we do better to create a less fearful environment associated with failure?
  - Are we setting unrealistic standards or models?
  - As retailers and brands are we contributing to the the problem?
  - Should we establish 3 way COC declarations between Master client, Agents, Factory & Audit Firms ?