Sharing audits

Improving CSR standards

Improving working conditions

Building supplier capability

AIM-PROGRESS

PROGRAM FOR RESPONSIBLE SOURCING

Overview of AIM-PROGRESS and Responsible Sourcing

Ashlin Ramlochan, Kraft Foods

WHAT IS AIM-PROGRESS?

- **Global forum of consumer goods companies assembled to enable & promote responsible sourcing practices**
- **Sponsored by the Grocery Manufacturers Association (GMA) and the European Brands Association (AIM)**
- **30+ Companies**
- **Representing > USD$ ½ Trillion annual revenue**

www.aim-progress.com

AIM-PROGRESS OBJECTIVES

- **To promote responsible sourcing through common, or mutually accepted Supply Chain Standards:**

- **To increase efficiency by sharing data – "*an audit for one is an audit for all*"**
- **To seek convergence with other similar initiatives**

AIM-PROGRESS UNDERLYING VALUE/CONCEPT/IDEA

Responsible Sourcing is the process of purchasing goods and services **without** causing **harm** to, or **exploiting, humans** or the **natural** environment.

Core Responsible Sourcing Principles

1. Legal Compliance
2. Forced Labor
3. Wages & Benefits
4. Hours of Work
5. Freedom of Association
6. Child Labor
7. Discrimination
8. Abuse of Labor
9. Health & Security
10. Environment
11. Bribery & Corruption

VALUE PROPOSITION

- **Meets multiple customer requirements**
- **Builds & protects reputation with:**
  - Consumers
  - Regulators
  - Wider society
  - Investors
- **Increases employee morale and productivity:**
  - Improves retention rates
  - Lower overtime
  - Reduces health and safety incidents
  - Reduces quality incidents
- **Is a sustainable foundation for growth**
- **Is “the right thing to do!”**

REPUTATIONS: HARD TO BUILD…. EASY TO LOSE!

FASHION CHAIN ACCUSED OF CHILD LABOUR IN INDIA

Press Trust of India
letters@hindustantimes.com

LONDON: Monsoon, Britain's leading fashion chain that pioneered ethical shopping, has been accused of using suppli-

NEWS: SM 100 | Daily news by email

'You can't hide factory scandals', warns Adidas CSR chief

Want the latest procurement and supply chain news delivered straight to your inbox? Sign up for the Supply Management Daily

10 February 2012 | Paul Snell

You cannot hide scandals at supplier fa because campaign groups will always u them, according to the head of corporat responsibility at Adidas.

According to Frank Henke, global director, group

Apple, Foxconn Scandal Highlights Exploitation Of Chinese Workers By Foreign Firms

Ben Blanchard

IJING (Reuters) - Some foreign companies in ina exploit their workers by forcing them to do ertime or underpaying them, the labor minister said

M&S WON'T SOURCE FROM GURGAON

PTI
LONDON

AFTER a British weekly's revelation that rgaon-based factory used by British l major Marks & Spencer was abus- s workers, the company has stopped ng orders with the factory.

India activists decry Gap child labor

Rescued child laborers are led away from their workplace after small scale garment

Tyson to Pay $500,000 to Settle Wage Dispute

By THE ASSOCIATED PRESS
Published: June 3, 2010

WASHINGTON (AP) — Tyson Foods has settled a decade-long

Top labels thrive on Indian sweatshop labour

EXPOSE GAP, Marks and Spencer source products from factories where workers put in 16 hrs a day for ₹ 20 an hr

DARK SIDE OF GLOBALISATION

- Factories use workers hired through middlemen, pay them as little as 25 pence (₹ 20 approx) an hour. In the case of Gap and Next, Marks and Spencer pays 26 pence an hour
- All three firms have pledged to end the practice of excessive overtime
- Next called situation 'deplorable' and said chairman of the Indian company it uses has promised to make amends, blaming demand for workers at Commonwealth Games for the

Guardian News Service

LONDON: Some of the biggest names on the British high street are at the centre of a major sweatshop scandal. An *Observer* investigation has found staff at their Indian suppliers working up to 16 hours a day.

Marks & Spencer (M&S), Gap and Next have all launched their own inquiries into the abuses in flagrant breach of the industry's ethical trading initiative (ETI) and Indian labour law. Some workers say they were paid at half the legal overtime rate.

Gap, which uses the same factory as Next, confirmed it had found wage violations and gave its supplier a deadline of Saturday midnight to repay workers who lost out.

M&S says it has yet to see evidence to support the

who refuse to work the extra hours have been told to find new jobs.

Those in the factory supplying Gap and Next also claim staff who refused to work extra hours were threatened and fired, a practice defined under international law as forced labour and outlawed around the world.

The factory has pledged to apologise and reinstate anyone who lost their job.

the chairman of the Indian company it uses has apologised and promised to make amends, blaming demand for workers at the forthcoming Commonwealth Games in Delhi for leaving factories short of staff.

Gap admitted wage and overtime violations and ordered its supplier to reduce working hours to within the legal limits and to refund workers who have been illegally underpaid

excessive overtime but said it had acted quickly

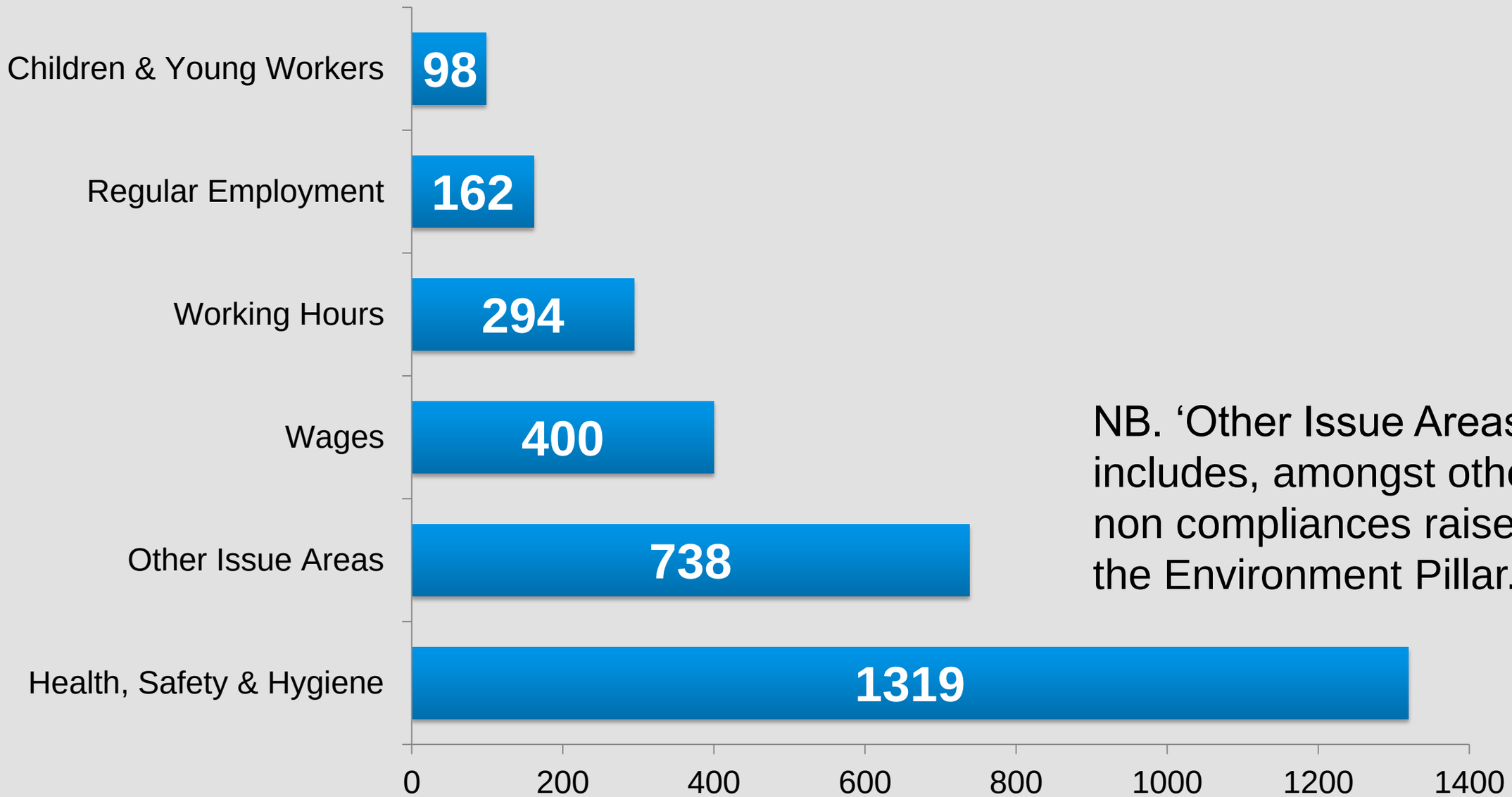
Wal-Mart to pay $4.8 million in back wages

By Tian Q. Mei, Published: May

The Labor Department on Tuesday ordered Wal-Mart to pay $4.8 million in back wages and damages to thousands of employees who were denied overtime charges, the latest in a string of embarrassments for the company over its business practices.

NECESSITY FOR RESPONSIBLE SOURCING

Most Common audit non-compliances found in India



NB. 'Other Issue Areas' includes, amongst others, any non compliances raised under the Environment Pillar.

Source: AIM-PROGRESS member company data 2005-present

AIM-PROGRESS ACTIVITIES

- **To maximize synergies**

Mutual Recognition

- Benchmark company assessment protocols
- Sharing best practice
- Audit data exchange

Data Exchange

- Common assessment methods
- Maximize synergies
- Use of the Sedex system

Engaging others

- Promoting supplier awareness

- ***<u>NOT</u>: Create a new set of codes or create new audit standards***

MUTUAL RECOGNITION – REDUCE AUDIT FATIGUE

Purpose:

- **Reduce Audit Fatigue through mutual recognition of assessments**
- **Reduce duplicative costs throughout supply chain**
- **Align standards and share best practices**

Results to date:

- **Over half of Aim-Progress companies have signed on to MR**
- **Over 300 audits avoided**
- **Audit avoidance resulting in an estimated savings of $750,000 for suppliers**

MUTUAL RECOGNITION COMMUNICATION…..

AIM-PROGRESS[1] Mutual Recognition

To reduce audit fatigue and align on key issues of responsible sourcing, several brand manufacturers agree to mutual recognition of social compliance assessments[2]

The companies listed below are part of a forum under AIM - the European Brands Association, called AIM-PROGRESS which seeks to promote responsible sourcing while reducing the duplication of supplier assessments. These companies have responsible sourcing programs which may include the request for on-site assessments of suppliers. The companies listed below agree to recognize supplier audits completed on behalf of another company and will review submitted assessment reports to confirm it meets internal company requirements.

Suppliers are therefore encouraged to share their assessment reports directly with these companies upon request or upload them via the Supplier Ethical Data Exchange (Sedex) platform, which provides a secure online data exchange between suppliers and customers. A supplier may only share assessment reports[3] which they own the rights to or which they have received prior authorization to share.

Companies that agree to mutually recognize responsible sourcing assessments include:

AB Inbev	AB InBev	Hershey's	HERSHEY'S
Bacardi		Kellogg	Kellogg's
Beiersdorf	Beiersdorf	Kraft Foods	kraft foods
Britvic	BRITVIC	Mars	MARS incorporated
Carlsberg	Carlsberg Group	MWV	MWV
The Coca-Cola Company		Nestlé	Nestlé
Colgate-Palmolive	COLGATE-PALMOLIVE	Orkla	ORKLA
Danone		PepsiCo	PEPSICO
Diageo	DIAGEO	Procter & Gamble	P&G
General Mills		Unilever	
Givaudan	Givaudan	United Biscuits	UB

The companies listed here promote suppliers' sharing of assessment results while retaining the following rights:

1. To accept or not accept any audit or part of an audit.
2. To require additional follow-up or conduct a full assessment
3. To verify the scope and integrity of a report. The audit report must have the auditor's name, affiliation and contact information. Other relevant information such as the standards used to measure compliance may be deemed necessary for a company to accept any report.

SELF-ASSESSMENT & DATA EXCHANGE

SEDEX Members

- Online tool that enables global suppliers to share assessments and audits on ethical and responsible practices with their customers and avoid duplication
- Common tools to enable companies to analyse and assess risks:
  - SAQ – self assessment questionnaire
  - SMETA – Sedex Members Ethical Trade Audit

Non-SEDEX Members

- Company Protocols
- Benchmarked against each other and SMETA
  - For Instance, The Coca-Cola Company uses The Supplier Guiding Principles (SGP)

Empowering responsible supply chains
Sedex

Sedex does not…

- set policy
- pass, fail, certify, or score suppliers
- conduct social audits
- issue certificates
- promote suppliers

www.sedexglobal.com

Sharing audits

Improving CSR standards

Improving working conditions

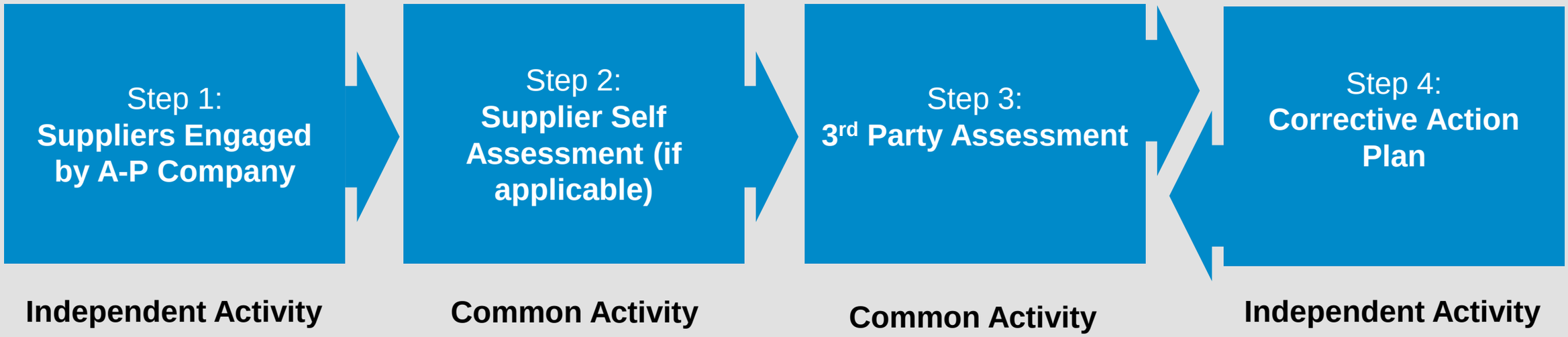
Building supplier capability

AIM-PROGRESS

PROGRAM FOR RESPONSIBLE SOURCING

Demonstrating Compliance

RESPONSIBLE SOURCING CONTINUUM



- Creates *synergies:* data can be shared among various customers, since AIM-PROGRESS members mutually recognize 3rd Party Assessment to avoid duplication

SUPPLIER SELF-ASSESSMENT

Step 2: Supplier Self Assessment

Common Method among SEDEX members; not required by all

- A **self-assessment questionnaire** is a useful tool to help **suppliers** and **buyers** assess overall **capabilities** and ensure **processes** are in place to manage.
- Self-assessment are only required by some companies are NOT always required
- If applicable, the **Sedex self-assessment** covers the following:
  - Site Profile
  - Labor Policy & Standards
  - Health & Safety, Hygienic Assessment
  - Business Integrity (anti-corruption)
  - Environmental Stewardship

ASSESSMENT OVERVIEW – 4 PILLARS

3rd PARTY ASSESSMENTS

Step 3:
3rd Party Assessment

Common Method

Who conducts the audits?

- Audits are conducted by independent, accredited professionals (examples include Intertek, UL, SGS, BV, Level Works)

What is the role of the auditor?

- Auditors are independent and impartial professionals trained to evaluate compliance to laws and responsible sourcing standards.

Who pays for and owns the audit?

- Suppliers pay for the audits as this allows them to own the data and share the reports with multiple customers through AIM-PROGRESS

Does an audit adhere to Privacy Protection laws?

- Process and protocols are in place to ensure no personally identified information leaves the facility.
- Goal of assessment is to protect employees not infringe on privacy

Are other standards acceptable (ISO, SQF, SA8000, etc)?

- There is no comprehensive standard (yet) that covers all the 4 Pillars
- Standards that are relevant to an individual pillar e.g. OHSAS 18001, would be taken into account during the audit process
- Other audit protocols e.g. SA8000, may be acceptable if conducted by an independent 3rd party auditor and within a reasonable timeframe.
- Check with your customer for specifics

3rd PARTY ASSESSMENTS

How long does the audit take?

- Assessment duration varies depending on size of facility and scope of production. In general, two auditors spend one day in a facility, but can take up to 4 person days

Step 3: 3rd Party Assessment

Common Method

Time	Assessment Process	Key Staff
45 Min	**Opening Meeting** Explanation of the audit scope, deliverables and process Review of your self-assessment information off SEDEX Review of the document request list Identification of documentation to be prepared for review	Site Manager, HR and EHS Manager
1 hour	**Site Inspection:** Understanding site areas	Site & EHS Manager
2 hours	**Document Review** Review of management documentation Review of employee personnel files Review of wages and payroll related information	HR Manager Payroll Clerk EHS Manager
3 hours	**Interviews with production employees**	Floor Staff only
30 min	**Secondary Site Inspection/Misc**	**None**
30 min	**Preparation of Onsite Report**	**None**
30 min	**Presentation of Onsite Report to Management**	Site, HR, EHS Manager

CORRECTIVE ACTION PLAN

Step 4: Corrective Action Plan

- Non-compliances identified must be addressed through **Corrective Action Plans**
- **Timeframe** and follow-up methods depend on the type of issue and the severity
  - Desk based verification vs. follow-up visit
  - Critical, Major, Minor categorization of issues
- Individual buying companies determine the corrective action plans

SUPPLIER COMMENTS

- **Supplier comments on the purpose of internal responsible sourcing program*:***
  - *"To earn the trust of our customers, licensing partners, suppliers, and consumers by manufacturing and purchasing quality products using ethical standards".* ***MWV***
  - *"We believe that companies must take steps to manage their impact on the natural environment. As a consequence we are committed to conducting our business in a manner that is sensitive to the environmental needs of the communities within which we operate. External validation of our activities in this area is key to maintaining our creditability and this validation process is supported by our membership of SEDEX."* Simon Houghton-Dodd, Head of Quality & Sustainability ***Tate & Lyle Sugars***
- **Supplier comments on the benefits of Sedex:**
  - *"Over 20 customers have now asked for SEDEX information – All we have to do is go into SEDEX and give access to those companies to view the questionnaire and audit we already completed."* ***Givaudan***
  - *"SEDEX has been very useful within Doehler as it provides a Group standard for CR across multiple sites. In addition, as SEDEX is recognised by many clients, it has been particularly beneficial in developing customer relationships"* ***Doehler***

CONCLUSION

Responsible Sourcing is a growing movement and is critical to maintaining a positive reputation and meeting customers demands.

This as an opportunity to grow our business together with our suppliers in a sustainable and responsible manner.

NEXT STEPS…

- Review your customer specific requirements
- If required by your customer, register on Sedex and conduct self-assessment to identify areas for improvement
- Schedule assessment and share results with AIM-PROGRESS companies
- Focus on continuous improvement by:
  - addressing non-compliances in requested timeframes,
  - leveraging results and remediation across business,
  - engaging suppliers in similar work and requirements

www.aim-progress.com

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Tea Break