# Social and Environmental Compliance in Licensing

Summary Report for the BSR Licensing Working Group

December 2009

# About this Report

This synthesis was written by Blythe Chorn, Cody Sisco, Laura Gitman, and Kara Hartnett Hurst of BSR's Advisory Services teams with support from the members of BSR's Licensing Working Group: Hasbro, Inc., Mattel, Inc., MTV Networks, NBC Universal, Inc., The Walt Disney Company, and Time Warner Inc. Expert guidance was provided by The International Licensing Industry Merchandisers' Association (LIMA).

The report is based on a survey of over one hundred companies. The authors would like to thank the survey respondents for their input. Any errors that remain are those of the authors.

Please direct comments or questions Blythe Chorn at bchorn@bsr.org.

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# Introduction

## Compliance with social and environmental standards in the supply chain is increasing well-understood as a driver of business success and sustainability. Much of the research to date on opportunities and challenges to compliance have focused on direct buyer-supplier relationships. Within the licensing business model though, barriers to compliance have yet to be fully explored.



Under the licensing model, licensors, which own product brands, contract with licensees to produce goods using their brands. Although licensing strategies vary, the licensing model enables very broad and disperse supply chains. Licensors receive revenue when they contract with a licensee, and they can do so without the time and expense required to set up a factory, or even select a factory, leading to a proliferation of licensees and sub-contractors. Some licensees manufacture the products themselves, while others contract with third parties to make the products. As a result, licensors' oversight of social and environmental conditions in manufacturing facilities that make their products is more challenging. And although licensors don't manufacture products, they are subject to many of the negative business impacts of poor sustainability performance in the supply chain including product delay and reputational damage.

With support from members of the Licensing Working Group, and in collaboration with The International Licensing Industry Merchandisers' Association (LIMA), BSR undertook this research study to better understand the current state of supply chain compliance among licensees and to identify opportunities for improved collaboration between licensors and licensees.

The objective of this work is to challenge standing assumptions, identify root causes, and elicit open responses from licensees to improve licensors' understanding of barriers and opportunities to improve compliance. BSR anticipates that this project will help unify licensors' perspectives on these issues and may serve as the basis for further collaboration.

## Project Methodology

BSR conducted an online survey to better understand licensees' perspectives on effectively managing the social and environmental compliance expectations of licensors within their own factories and in their supply chains.

Questions also focused on communications between licensees and licensors and opportunities for collaboration. A copy of the survey is included in Appendix B of this report.

The survey was distributed by LIMA and member companies, and participation was voluntary. Consequently, there is some self-selection bias in the results, but as outlined below, the results seem varied enough to be basically representative. The survey ran for one month, and we received 130 responses representing 126 unique companies from a variety of industries. More information on the participants in the survey is included in Appendix A of this report.

Initial results were reviewed with members of the working group. This report reflects their input as well as BSR's analysis of the results.

# Key Findings

Analysis of the survey results revealed a number of overarching themes and observations on the current state of licensee compliance:

1. **Licensors' expectations seem to be well-understood.** Licensees believe they have senior level support to meet licensors' standards and at least think they understand expectations. Yet they still desire more training on codes of conduct, potentially indicating that a focus on codes is being used as a substitute for strong compliance knowledge and communications.

2. **Traditional compliance challenges are still pervasive.** Many respondents identified key challenges to compliance to include well known issues such as costs, audit fatigue, and lack of resources for monitoring and remediation.

3. **Licensees are trying to take a more collaborative approach with suppliers in their efforts to build supply chain compliance.** Many respondents are working to build ongoing relationships with suppliers based on continuous improvement and are seeking support from licensors to create incentives.

4. **Communications between licensors and licensees remain a work in progress.** There is a strong foundation for communications between licensors and licensees but room for increased transparency and trust.

5. **Opportunities for capacity building are clear.** Training seems to be an underutilized tool for improving compliance, and licensees are anxious for more.

6. **Existing collaborative compliance efforts have not yet addressed licensees' needs.** Licensees are supportive of collaborative approaches among licensors to decrease the compliance burden but have been disappointed by efforts so far.

Findings are explored in more detail below. Because most respondents have indicated that they use third-party suppliers rather than company owned or operated, these findings are focused on challenges related to compliance in licensees' supply chains. Conclusions drawn from questions about management of company owned and operated facilities are designated below.

## 1. Licensors' expectations seem to be well-understood.

Based on responses and comments to questions on managing compliance at company owned and operated facilities, licensees seem to generally understand expectations and have internal senior level support. Answer choices about understanding the audit process and having senior level commitment to addressing non-compliances elicited the lowest response rates to the questions about top challenges.

*What are the most significant challenges related to Licensors' (or third party) audits at your company's owned/operated factories? (Please choose the top three)*
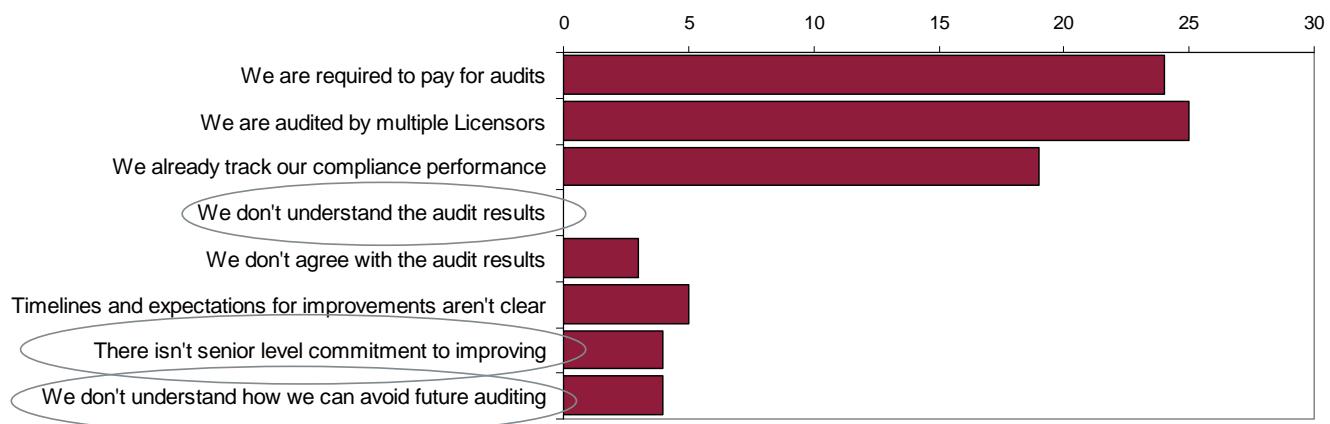
*What are the most significant internal challenges related to managing compliance at your company's owned/ operated factories? (Please choose the top three)*
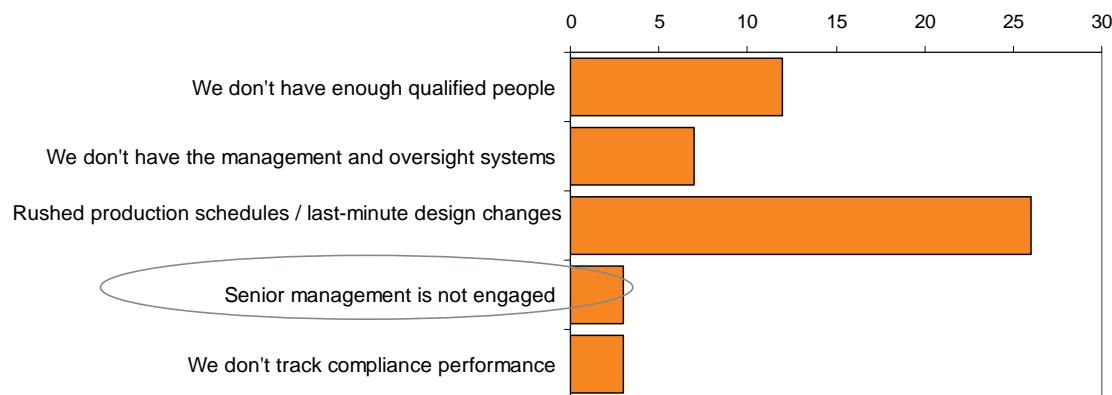


However, when asked about training interests, the top choice was licensors' codes of conduct. This is likely an indicator that codes of conduct, rather than training or management systems for example, remain the primary topic of conversation between licensees and licensors. Licensees who recognize compliance as an ongoing challenge, and who receive repeated signals from licensors that compliance is primarily about meeting the expectations outlined in codes of conduct, may infer there is still something about codes that they aren't understanding.

*What training topics would be most useful for your company? (Please choose the top three)*



The tension in the results may indicate that codes of conduct are being used as a substitute for strong compliance understanding and communications. Interesting, as the chart above on training topics reveals, licensees expressed comparatively little interest in learning about opportunities to improve their own internal alignment or even about specific compliance topics like ethics or labor. There seems to be an over-reliance on codes as the primary source of knowledge and less of a desire to dig into the actual issues and root causes. Licensors have an opportunity to push conversations with licensees beyond the focus on codes to build understanding about the issues themselves and compliance management systems.

## 2. Traditional compliance challenges are still pervasive.

Many respondents emphasized traditional compliance challenges such as the expense of audits and remediation activities and rushed production schedules and last-minute design changes. For example, one participant noted that "Product approvals by licensors can take a very long time and do not match up with customer delivery needs." Another participant commented that "I really need to be on site for an extended period of time to verify changes. Because most of our vendors are not huge volume suppliers for us, it is hard to justify compliance expenses that exceed that of our own factories."

Survey respondents also highlighted challenges with codes of conduct—managing multiple codes and inconsistency in the acceptance of licensees' own codes—and the auditing process—over-auditing and unrealistic timelines. Many respondents also commented that the challenges are magnified by retailers—"It's not just licensors' requirements—it's retailers' also such as Kohl's for Private Brand Goods, Sears Holding, Wal-Mart, etc. and each has their own compliance guideline."

*What are the most significant challenges related to Licensors' codes of conduct? (Please choose the top three)*
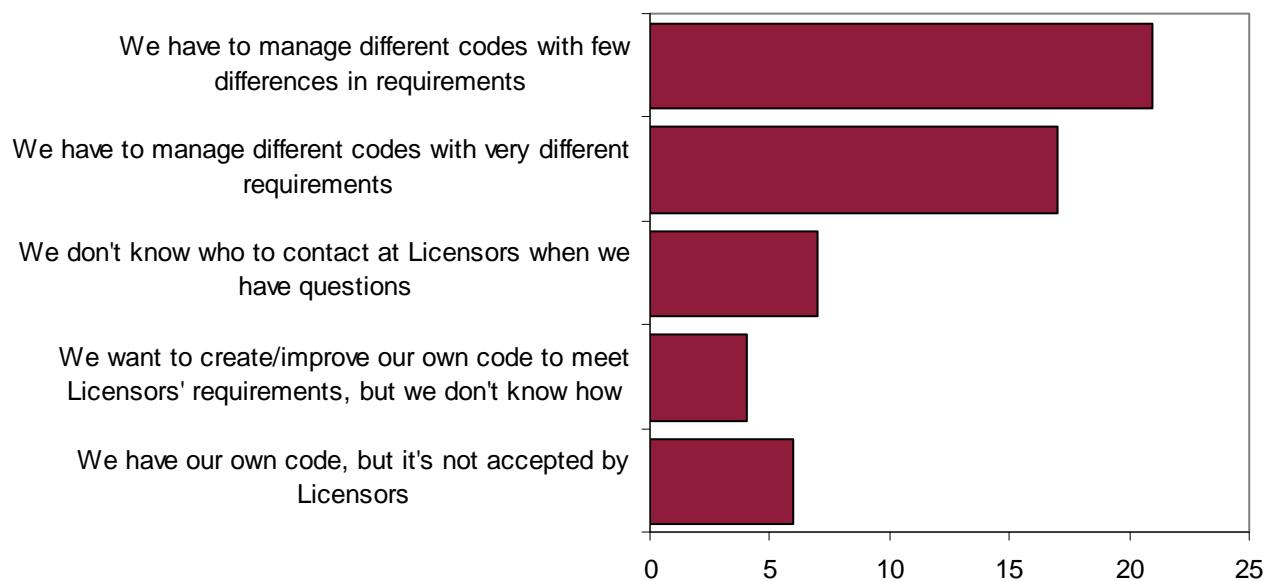


Lack of incentives and leverage with suppliers were also emphasized by respondents. For example, one participant commented that "High performing suppliers are that way because we put the time and effort into true compliance, not smoke & mirrors. There needs to be a way to reduce the requirements for good performers whether through fewer audits, or by accepting other internationally accepted audit results". Similarly, another participant highlighted reliance on licensors for leverage, saying that "We are trying our best to have our manufacturers comply with licensor requirements. We also count on the licensor to help us enforce them via written comments to us that we forward to the manufacturers". And participants also highlighted the role their own companies play in the leverage challenge—"It is difficult to provide realistic incentives to a supplier who is noncompliant. Procurement is not willing to promise more business or go into long term contracts with suppliers. Poor performance will get you kicked out of the supply chain, but top performers are not always rewarded." While the number of suppliers manufacturing product for any one licensor may rule out direct interactions to create leverage, the comments do suggest an opportunity to support internal alignment between licensees' compliance and procurement teams.

*What are the most significant challenges in managing compliance in your supply chain? (Please choose the top three)*



Bar chart with horizontal axis from 0 to 45 (increments of 5):
- Licensors' expectations for our role aren't clear
- We don't have enough qualified people
- Supplier compliance performance isn't factored into sourcing
- Our IT systems aren't sophisticated enough to manage data
- We don't have the resources or knowledge to provide training
- We are unable to provide incentives or rewards
- Our company doesn't have the leverage

## 3. Licensees are trying to take a more collaborative approach with suppliers in their efforts to build supply chain compliance.

Many respondents indicated that they are making efforts to move beyond the policing compliance model by building long term, collaborative relationships with suppliers. As one participant explained, "I do my best to help factories learn how to properly correct issues and write meaningful corrective action plans. Goal is to help them make permanent changes, not put a Band-Aid on things to help temporarily. This type of meaningful change takes time and requires patience on the part of licensors." Survey respondents generally indicated strong interest in collaborating with licensors to build capacity in their supply chains.

*For which of the following initiatives would your company find the most benefit in partnering with Licensors to manage compliance in your company's supply chain? (Please choose the top three)*



Bar chart with horizontal axis from 0 to 70 (increments of 10):
- Designing corrective action plans for non-complying suppliers
- Providing recommendations for third party consultants to suppliers
- Providing external resources to suppliers
- Creating resources to provide to suppliers
- Providing compliance trainings for our suppliers
- Conducting risk assessments in factory locations
- Conducting factory audits
- Creating self-assessment questionnaires

However, licensees expressed that they efforts in this direction are hampered by the existing audit process. For example, one participant expressed frustration that "Complete re-audits were sometimes required even when the infractions were considered minor and a CAP was in place." Another respondent explained that efforts to focus on continuous improvement are undermined by the auditing system—"It seems that we are evaluated on a black and white basis. We either PASS or FAIL. I'd like to see more subjectivity and analysis of specific audit results. If

licensors could be clearer in allowing a middle ground to work towards improving factories that have only minor failures, it would be helpful." And the timeframe for improvements required by licensors also seems to be problematic—"If a factory is found to have only minor violations, I wish there was more support from the licensing community to help bring suppliers who are trying to comply up to speed. I feel that factories that are being HONEST when they are evaluated are penalized for minor violations. We should be helping these factories and giving them more time to succeed." Licensors have an opportunity to partner with those licensees pursuing this more collaborative approach to refine their compliance processes.

## 4. Communications between licensors and licensees remain a work in progress.

Comments from survey respondents indicated that communications between licensors and licensees are generally perceived to be strong. For example, one participant noted "No real challenge as we know who our contacts are." However, the self-selection bias of participants may be driving these types of comments, and respondents also indicated concerns about negative consequences from proactive communications about compliance concerns. This points again to the conclusion above that there is opportunity to refine the compliance process for those licensees that are proactively seeking solutions.

*What are the most significant challenges related to communicating with Licensors about compliance? (Please choose the top three)*
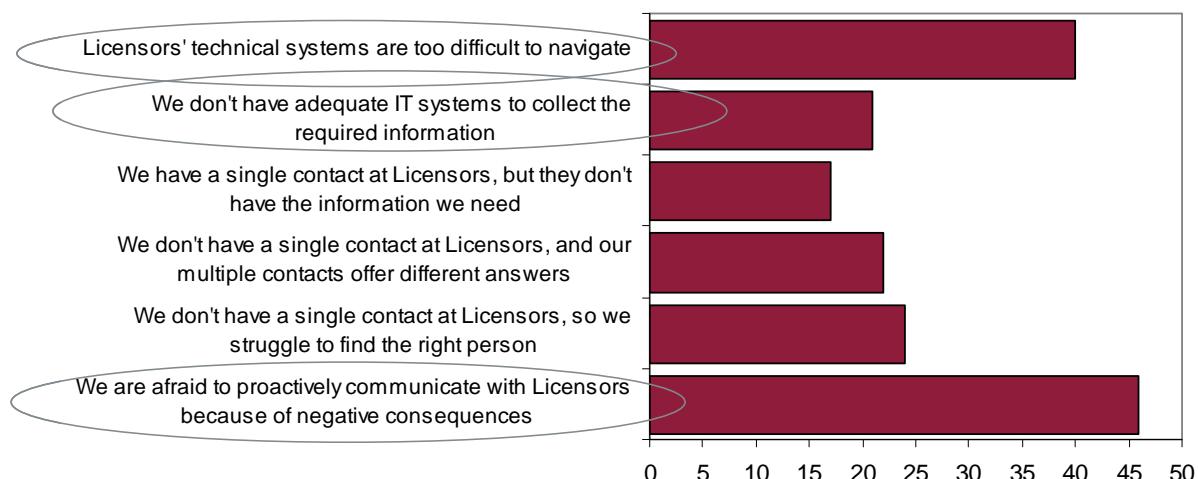


Many participants also noted that communications mechanisms are challenging. One participant for instance noted that "Systems to download data are complicated and time consuming," and another respondent explained that "It's a mix of databases and paper trails for communicating compliance with each licensor. One database for all would be must more user-friendly."

## 5. Opportunities for capacity building are clear.

Respondents who had received training were generally satisfied, but many participants indicated that they've never received training. For example, one respondent asked "Is there ongoing training as we don't know about it if there is? Is there a notification that goes out?" Another participant noted that "It was very helpful but I had to request the training, it was not offered. There is definitely room for improvement here."

*When Licensors provide training to your company, does it generally meet your company's needs/expectations? (Please choose the top three)*

| Response | Value |
|---|---|
| We've never been provided with training | ~53 |
| No, our company is asked to pay for part/all of the costs | ~13 |
| No, trainings aren't timely or offered regularly enough | ~27 |
| No, trainings aren't provided on the right topics | ~22 |
| No, trainings aren't provided in the right formats | ~21 |
| No, trainings aren't provided for the right people | ~21 |
| Yes, trainings have been very helpful | ~35 |
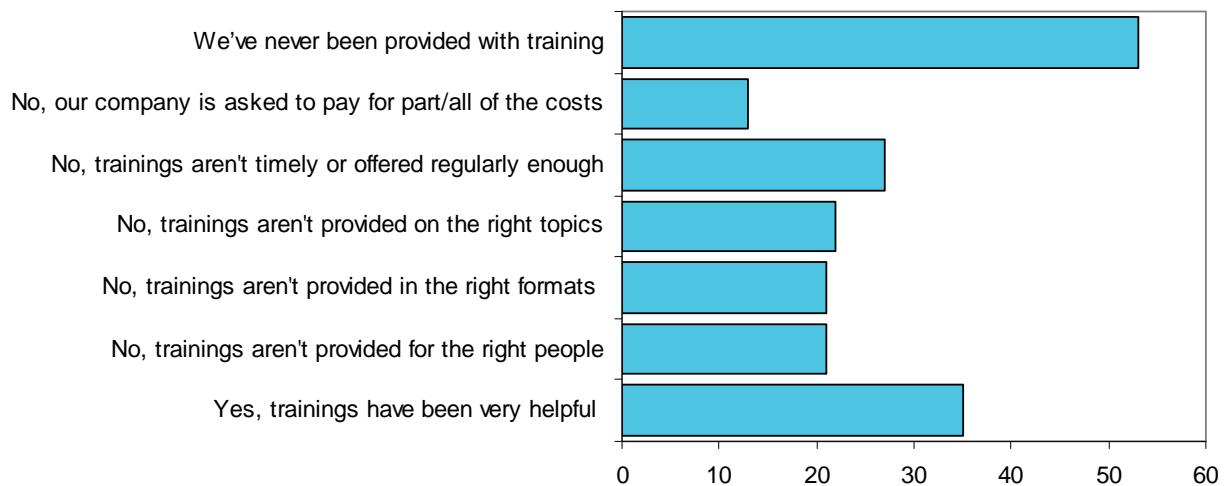
Again, licensees expressed the most interest in receiving training on licensors' codes of conduct. They also expressed considerable interest in training that would support their efforts to build compliance capacity among their suppliers—one respondent noted for example that "Any topics helping the conversation with suppliers about compliance would be very useful."

*What training topics would be most useful for your company? (Please choose the top three)*

| Topic | Value |
|---|---|
| Assisting suppliers in developing effective corrective action plans | ~33 |
| Understanding and communicating the business case | ~32 |
| Improving incentives for our suppliers to meet compliance standards | ~31 |
| Providing training and resources to our suppliers | ~38 |
| Improving communications about compliance to our suppliers | ~32 |
| Understanding how our company's processes impede our suppliers | ~22 |
| Integrating supplier compliance performance into sourcing | ~22 |
| Building compliance management systems | ~38 |
| Licensors' code of conduct | ~43 |
| Ethics and governance issues | ~28 |
| Environmental issues | ~31 |
| Labor issues | ~30 |

However, there is also concern among participants about the time and cost of trainings. As one participant explained, "There are many, many sources and requests for training. From whom or what topic should we spend our time attending to? Everyone has an opinion and idea to be "expert" or expect it to be done "their way". Then we need to sort through this litany of info sharing and determine how to delegate our resources." Another noted that "Training is limited and, when it has been done, it was done in China for the factories. I am in N. Am so I could not attend. If I did, I would have to pay to get there."

Potential solutions to these concerns lie in the comments participants made about trainings that they've received which have been particularly useful. Positive themes emerged around offering trainings when first brought on as a licensee, providing trainings at licensing shows, and communicating regularly and frequently on issues of interest.

## 6. Existing collaborative compliance efforts have not yet addressed licensees' needs.

Most licensees indicated significant interest in seeing more collaboration among licensors and between licensors and retailers to reduce the burden of compliance on them and their suppliers. However, existing collaborations have clearly not addressed compliance challenges, and many licensees expressed disappointed with outcomes thus far. One respondent explained that "We've found that Licensors' still want to audit our factories even with certificates, so these programs have not been a focus of compliance efforts." Another participant explained that "We thought that ICTI was intended to be the common certification to cut down on multiple audits of same factory. This has not been the case."

The source of frustration with current collaborations, and the key to future collaboration, may lie in the high number of respondents who indicated that they'd never heard of the example collaborations. While some of this lack of awareness may be attributable to the particular individuals completing the survey, the response rate was high enough to indicate that these collaborations have suffered from a low number of participating licensors—and hence a low number of licensees and low impact on the compliance process. Licensors who have joined such collaborations may need to commit to their success, and determine how to reconcile their involvement with their other compliance and auditing activities.

*What three steps could Licensors take to most improve your company's ability to meet compliance requirements? (Please choose the top three)*
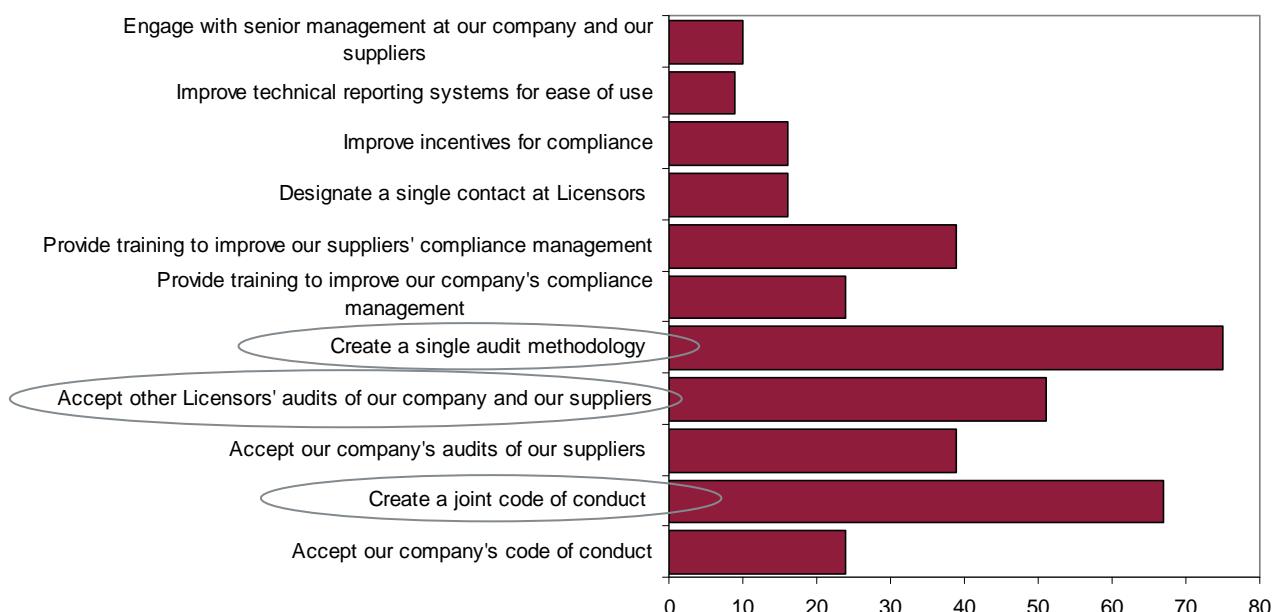
*What has been your company's experience in participating in collaborations or certifications schemes with non-governmental organizations and industry groups? (Select all that apply and explain below)*



Categories (top to bottom):
- We have participated in these programs but they require too much work and are too burdensome for our suppliers — ~7
- We have participated in these programs but they require too much work and are too burdensome for our company — ~5
- These programs have improved communication between our company and Licensors and/or suppliers — ~8
- These programs have improved our company's ability to manage compliance in our supply chain — ~11
- These programs have improved our company's ability to meet compliance standards — ~14
- We know what these are, but our company has chosen not to participate — ~32
- We don't know what these are — ~53

# Potential Considerations for Licensors

For licensors, responses highlight a number of areas for potential exploration moving forward:

» **Strengthening Existing Licensor Collaborations.** Considerable effort has gone into building collaborations among licensors, but these clearly still have a long way to go to meet licensees' compliance needs. In the interest of not re-inventing the wheel, licensors should consider their participation and that of their peers in these efforts to identify opportunities to strengthen and expand them.

» **Building Collaboration between Licensors and with Retailers**. Many of the respondents indicated that challenges aren't limited to licensors but are duplicated with retailers. Licensees expressed strong interest in seeing alignment between licensors and retailers on compliance expectations. There is opportunity to understand the full extent of overlap between licensors and retailers' supply chains and compliance expectations to identify areas for simplification.

» **Re-examining the Compliance Process for High-Performing Licensees and Suppliers.** Throughout the survey, licensees noted the challenges they face from low incentives for strong compliance performance. Additionally, with licensees beginning to take a collaborative, continuous improvement approach to compliance in their supply chains, existing timeframes and audit procedures seem to be prohibitive for long-term, sustainable improvement. Licensors have an opportunity individually and collaboratively to examine options to segment licensees and their suppliers and establish different processes to support continuous improvement.

» **Providing Training to Licensees.** Licensees expressed strong interest in increased training. Licensors should build from the best practices identified, and align training topics with the trends that they would like to see further develop—establishing collaborative relationships with suppliers, building internal alignment with procurement within licensees' companies, etc.

» **Building Communications with Licensees.** The survey results also demonstrated opportunities to further develop transparent communications. For example, although licensees indicated that they understand codes of conduct, they still requested more training—this inconsistency suggests an over-reliance on codes by licensees and licensors to communicate expectations. Licensors have an opportunity to increase more nuanced conversations about issues and root causes.

» **Building Licensor Internal Alignment to Address Root Causes.** Licensees' responses expressing concern about proactively communicating with licensors may also highlight an opportunity for licensors to improve their internal alignment. Often, when companies endeavor to integrate social and environmental compliance into sourcing, procurement staff can become over-rigid in enforcement and create mistrust. Continuous improvement should be the tone of most conversations with licensees. There were also indications that licensors should broach compliance earlier in the licensing agreement process and should explore the extent to which last minute order changes and slow approval processes are hampering compliance.

» **Supporting Relationships between Licensees and Suppliers.** The continuous improvement approach that some licensees are pursuing is positive and ultimately more sustainable than the traditional policing model of compliance. Licensors will need to explore their role in supporting and enabling this approach.

# Appendix A. Survey Participants

Participants in the survey identified themselves as belonging to a wide, and fairly equal, range of industries:

*What types of products does your company produce? (Select all that apply)*
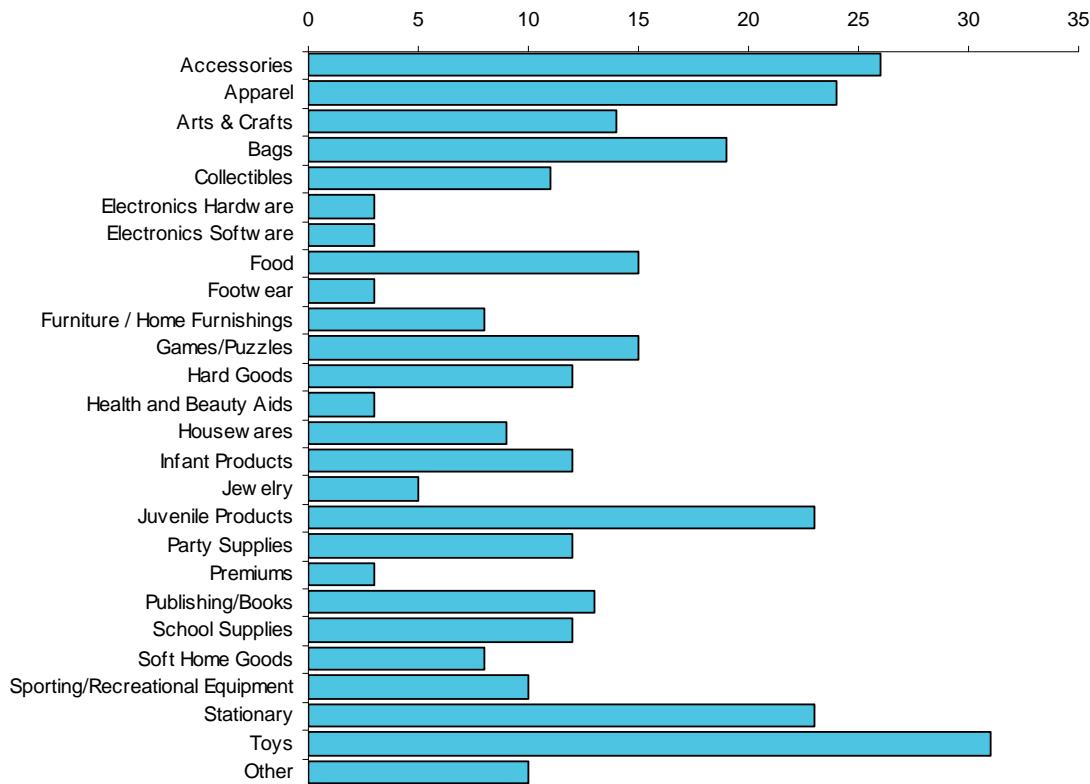


88% respondents indicated that they work at the headquarters of their companies. Most work in functions related to Compliance, Quality Assurance, and Sourcing.

*Which area of your company do you work in? (Select all that apply)*
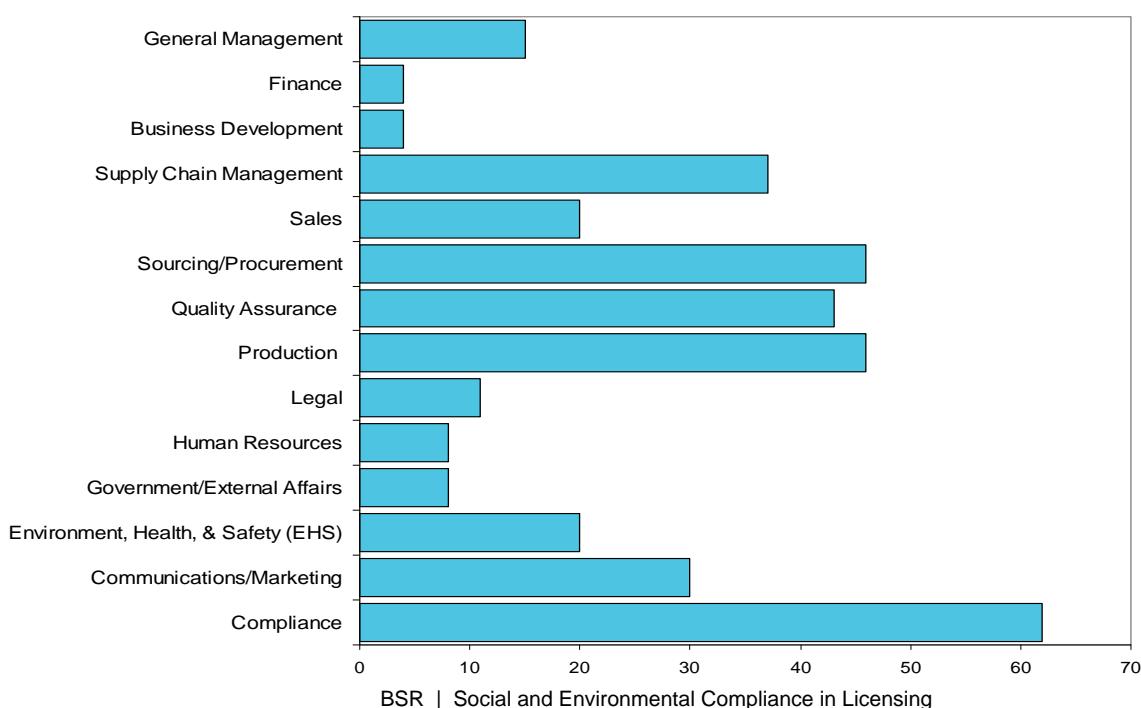
Participants aren't managing large numbers of licenses or suppliers. 74% of respondents hold 25 licenses or less, and most respondents source mainly from third-party suppliers and use only a few suppliers.

*Approximately how many licenses does your company currently hold?*
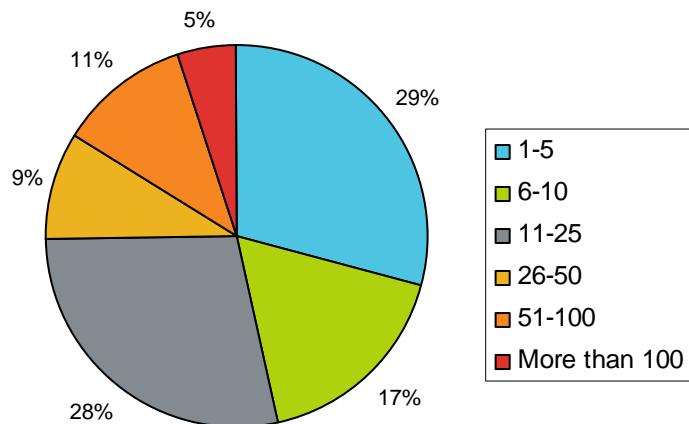


*Which of the following best describes your company's manufacturing / sourcing mix?*
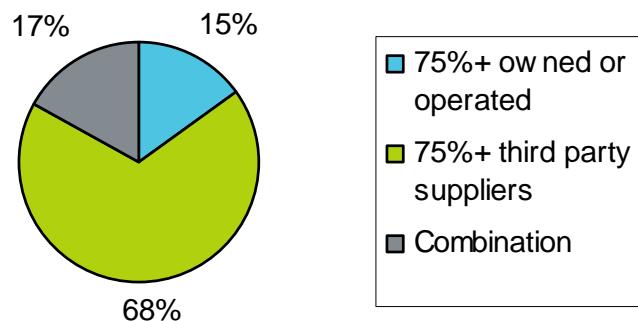


*Approximately how many suppliers does your company typically use in one year?*
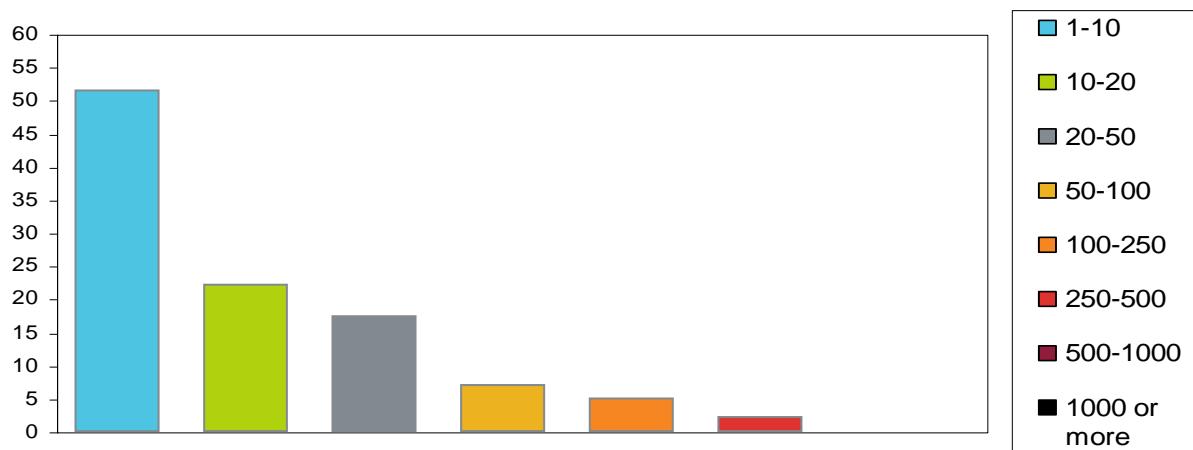
# Annex B. Survey for Licensees on Social and Environmental Compliance

Page 1

This survey is being conducted on behalf of a group of companies with significant licensing operations, including Hasbro, Inc., Mattel, Inc., MTV Networks, NBC Universal, Inc., The Walt Disney Company, and Time Warner Inc., in partnership with the International Licensing Industry Merchandisers' Association (LIMA) and Business for Social Responsibility (BSR).

We are interested in your views on the needs and constraints you face in effectively managing social and environmental compliance and Licensors' standards. The survey should be completed by licensee employees with responsibilities related to social and environmental management, including social compliance, supply chain management, human resources, procurement, government/external affairs, legal, production, and EH&S. The survey may be completed by more than one employee at each licensee.

All responses will be kept confidential by BSR and will be reported only in aggregate to Licensors.

We anticipate the survey will take approximately 15 minutes for respondents to complete, and your responses and input will be kept confidential. Please complete this survey by October 16th, 2009.

If you have any questions or would like to fill out a paper copy of the survey, please contact Blythe Chorn at bchorn@bsr.org or 212.370.7716.

**Definitions**

Please Note: Throughout this survey, we use a number of different terms that may have different meanings to different participants. For clarity, we have explained our meanings below:

"Compliance" – refers to Licensors' standards for social and environment performance. These standards may go beyond basic regulatory compliance.

"Audit" – includes any type of external assessment (including pre-approval questionnaires, monitoring, etc.) of factories' performance in meeting social and environmental compliance expectations.

"Supplier" and "supply chain" – refers to those companies that manufacture licensed products directly for your company (Tier 1 suppliers). It does not include indirect spend, i.e. goods your company buys that aren't related to licensed products, nor does it include the companies that provide inputs or raw materials to your Tier 1 suppliers (sub tier suppliers).

BACKGROUND INFORMATION

Questions in this section are for follow up and demographic purposes only. They will be kept confidential by BSR and reported only in aggregate to Licensors.

Page 2 - Question 1 - Open Ended - One or More Lines with Prompt    [Mandatory]

Please provide the following:

Name
Title
Company

Page 2 - Question 2 – Multiple Answer [Mandatory]

Which area of your company do you work in? (Select all that apply)

○ Compliance
○ Communications/Marketing
○ Environment, Health, & Safety (EHS)
○ Government/External Affairs
○ Human Resources
○ Legal
○ Production (design & marketing)
○ Quality Assurance
○ Sourcing/Procurement
○ Sales
○ Supply Chain Management
○ Other (Please specify)

Page 2 - Question 3 – One Answer [Mandatory]

Where in your company do you work?

○ At headquarters
○ In a branch/regional office
○ At a company owned/operated factory
○ Other (Please specify)

Page 3 - Question 4 – Multiple Answer [Mandatory]

What types of products does your company produce? (Select all that apply)

○ Accessories
○ Apparel
○ Arts & Crafts
○ Bags
○ Collectibles
○ Electronics Hardware

○ Electronics Software
○ Food
○ Footwear
○ Furniture / Home Furnishings
○ Games/Puzzles
○ Hard Goods
○ Health and Beauty Aids
○ Housewares
○ Infant Products
○ Jewelry
○ Juvenile Products
○ Party Supplies
○ Premiums
○ Publishing/Books
○ School Supplies
○ Soft Home Goods
○ Sporting/Recreational Equipment
○ Stationary
○ Toys
○ Other (Please specify)

Page 3 - Question 5 - Choice - One Answer [Optional]

Approximately how many licenses does your company currently hold?

○ 1-5
○ 6-10
○ 11-25
○ 26-50
○ 51-100
○ More than 100

Page 3 - Question 6 - Choice - One Answer [Mandatory]

Which of the following best describes your company's manufacturing / sourcing mix?

○ We produce 75% or more of our licensed products in factories that are owned or operated by our company. Forced skip to Page # 4 and then to Page #6
○ We source 75% or more of our licensed product from third party suppliers. Forced skip to Page # 5 and then to Page #6
○ Our licensed products are manufactured in a combination of our company's owned/operated factories as well as by suppliers – no more than 75% of our products come from one source or the other. Forced skip to Page # 4 and then to Page #5 and then to Page #6

MEETING LICENSOR EXPECTATIONS IN YOUR COMPANY

The questions in this section relate only to how compliance is managed in **your company's owned and operated factories**.

What are the most significant **internal** challenges related to **managing compliance at your company's owned/operated factories**? (Please choose the top three)

○ We don't have enough people or people with the right skills or knowledge
○ We don't have the management and oversight systems
○ Rushed production schedules and last-minute design changes
○ Senior management is not engaged, so it's hard to keep people focused on compliance
○ We don't track compliance performance, so we don't know what is and isn't working
○ Other (Please specify)

Please comment:

What are the most significant challenges related to **Licensors' codes of conduct**? (Please choose the top three)

○ We have our own code, but it's not accepted by Licensors
○ We want to create/improve our own code to meet Licensors' requirements, but we don't know how
○ We don't know who to contact at Licensors when we have questions
○ We have to manage different codes with very different requirements for each of our Licensors
○ We have to manage different codes with few differences in requirements for each of our Licensors
○ Other (Please specify)

Please comment:

What are the most significant challenges related to **Licensors' (or third party) audits at your company's owned/operated factories?** (Please choose the top three)

○ We are required to pay for audits, but the payment structures with Licensors don't reflect this additional expense
○ We are audited by multiple Licensors, which creates unnecessary expense and resource burden for our

company
- ⭕ We already track our compliance performance, but Licensors won't accept this data in place of audits
- ⭕ We don't understand the audit results
- ⭕ We don't agree with the audit results
- ⭕ Timelines and expectations for improvements aren't clear
- ⭕ It's not clear how non-compliances will affect our business with Licensors, so there isn't senior level commitment to improving
- ⭕ We don't understand how we can avoid future auditing by improving our performance
- ⭕ Other (Please specify)

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Please comment:

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Page 4 - Question 10 - Choice - Multiple Answer & Comments Box [Mandatory]

What are the most significant challenges in **implementing corrective action plans** (also known as remediation plans) following an audit? (Please choose the top three)

- ⭕ Timelines for implementing the plans are unrealistic
- ⭕ Expectations and consequences for completion or non-completion of the plan aren't clear
- ⭕ The right people aren't involved in creating and approving the plans
- ⭕ We don't know who to contact for questions
- ⭕ Licensors don't provide any training or resources to support our company's implementation of the plan
- ⭕ Licensors don't regularly follow up on the plans throughout implementation
- ⭕ Licensors don't follow through when our plans are successfully implemented (i.e. licenses are revoked anyway, audits aren't decreased, etc.)
- ⭕ Our company is decentralized, so our headquarters struggles to support our factories
- ⭕ Other (Please specify)

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Please comment:

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MEETING LICENSOR EXPECTATIONS IN YOUR SUPPLY CHAIN

"Supplier" and "supply chain" – refers to those companies that manufacture licensed products directly for your company (Tier 1 suppliers). It does not include indirect spend, i.e. goods your company buys that aren't related to licensed products, nor does it include the companies that provide inputs or raw materials to your Tier 1 suppliers (sub tier suppliers).

Page 5 - Question 11 - Choice - One Answer [Mandatory]

Approximately how many suppliers does your company typically use in one year?

○ 1-10
○ 10-20
○ 20-50
○ 50-100
○ 100-250
○ 250-500
○ 500-1000
○ 1000 or more

Page 5 - Question 12 - Choice - Multiple Answer & Comments Box [Mandatory]

What are the most significant challenges in **managing compliance in your supply chain**? (Please choose the top three)

○ Licensors' expectations for our role in ensuring and improving supplier compliance aren't clear
○ We don't have enough people or people with the right skills or knowledge
○ Supplier compliance performance isn't factored into our company's sourcing decisions
○ Our IT systems aren't sophisticated enough to manage supplier compliance performance data
○ We don't have the resources or knowledge to provide training or resources for suppliers
○ We are unable to provide incentives or rewards to suppliers for good performance
○ Our company doesn't have the leverage with factories to enforce compliance requirements
○ Other (Please specify)

Please comment:

Page 5 - Question 13 - Choice - Multiple Answer & Comments Box [Mandatory]

What are the most significant challenges related to **Licensors' audits in your supply chain**? (Please choose the top three)

○ Suppliers have to pay for audits because we can't cover the costs
○ Suppliers are over-audited **because Licensors only accept audits conducted by, or on behalf of, their company**
○ Licensors don't reduce audit requirements for high performing suppliers
○ We struggle to identify third party auditors that will provide audits that meet Licensors' expectations

○ It's unclear which results should prevail when audits conflict (such as those conducted by our company versus by the Licensor)
○ Suppliers are over-audited **because we have to conduct audits based on multiple Licensors' codes of conduct**
○ Our suppliers refuse to allow us to conduct an audit at their facility
○ Other (Please specify)

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| Please comment: |
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| What are the most significant challenges related to **suppliers creating and implementing corrective action plans**? (Please choose the top three) |
| :--- |

○ Our company isn't involved in designing plans
○ Our company isn't involved in monitoring the implementation of plans, so we have no opportunity to support suppliers with training or resources
○ Licensors expect that we will oversee implementation of plans, but we don't have the resources to do so
○ Licensors expect that we will provide training and/or resources to support implementation, but we don't have the resources or knowledge to do so
○ Licensors don't follow through when plans are successfully implemented (i.e. our company is required to stop sourcing from the supplier anyway, audits aren't decreased, etc.)
○ Other (Please specify)

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COMMUNICATIONS AND COLLABORATION WITH LICENSORS

Page 6 - Question 15 - Choice - Multiple Answer & Comments Box [Mandatory]

What are the most significant challenges related to **communicating with Licensors about compliance**? (Please choose the top three)

○ We are afraid to proactively communicate with Licensors about potential compliance problems because we are afraid of negative consequences
○ We don't have a single point of contact at Licensors, so we are constantly trying to find the right person
○ We don't have a single point of contact at Licensors, and our multiple contacts offer different answers
○ We have a single point of contact at Licensors, but they don't have the information we need
○ We don't have adequate IT systems to collect the required information on factories and audit results
○ Licensors' technical systems are too difficult to navigate
○ Other (Please specify)

Please comment:

Page 6 - Question 16 - Choice - Multiple Answer & Comments Box [Mandatory]

When Licensors provide training to your company, does it generally meet your company's needs/expectations? (Please choose the top three)

○ Yes, trainings have been very helpful in helping our company improve our/our suppliers' compliance performance
○ No, trainings aren't provided for the right people in our company
○ No, trainings aren't provided in the right formats (in-person versus online, etc.)
○ No, trainings aren't provided on the right topics
○ No, trainings aren't timely or offered regularly enough
○ No, our company is asked to pay for part/all of the costs, and we don't have the resources
○ We've never been provided with training
○ Other (Please specify)

Please comment:

Page 6 - Question 17 – Write in - Comments Box [Optional]

If you answered "Yes" to the question above, please describe helpful, useful, or positive engagements you have had with Licensors that have resulted in improved social and environmental performance in your company or at your suppliers. (Where possible, please name the Licensor, the type of engagement, and the positive result)

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Page 6 - Question 18 - Choice - Multiple Answer & Comments Box [Mandatory]

| What training topics would be most useful for your company? (Please choose the top three) |
|---|

○ Labor issues
○ Environmental issues
○ Ethics and governance issues
○ Licensors' code of conduct
○ Building compliance management systems (Plan-Do-Check-Act) to meet multiple licensors' expectations
○ Integrating supplier compliance performance into our company's sourcing decisions
○ Understanding how our company's processes impede our suppliers from meeting compliance standards
○ Improving communications about compliance to our suppliers
○ Providing training and resources to our suppliers (train the trainers)
○ Improving incentives for our suppliers to meet compliance standards
○ Understanding and communicating the business case for strong compliance performance
○ Assisting suppliers in developing effective corrective action plans
○ Other (Please specify)

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Page 6 - Question 19 - Choice - Multiple Answer & Comments Box [Mandatory]

| Who in your company would most benefit from compliance training? (Please choose the top three) |
|---|

○ Our senior management team
○ Staff with compliance responsibilities in our headquarters
○ Staff with compliance responsibilities in our factories
○ Our manufacturing staff in our factories
○ Staff with supply chain compliance responsibilities
○ Our procurement/sourcing staff
○ Our licensing/sales staff
○ Other (Please specify)

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Page 6 - Question 20 - Choice - Multiple Answer & Comments Box [Mandatory]

For which of the following initiatives would your company find the most benefit in partnering with Licensors to manage compliance in your company's supply chain? (Please choose the top three)

- ○ Creating self-assessment questionnaires
- ○ Conducting factory audits
- ○ Conducting risk assessments in regions where factories are located
- ○ Providing compliance trainings for our suppliers
- ○ Creating resources (e.g. manuals, sample documents, etc.) to provide to suppliers
- ○ Providing external resources to suppliers
- ○ Providing recommendations for third party consultants to suppliers
- ○ Designing corrective action plans for non-complying suppliers
- ○ Other (Please specify)

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Please comment:

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Page 6 - Question 21 - Choice - Multiple Answer & Comments Box [Mandatory]

What has been your company's experience in participating in **collaborations or certifications schemes with non-governmental organizations and industry groups** (e.g. Fair Labor Association Enhance Licensee Program, United Students Against Sweatshops/Worker Rights Consortium's Designated Supplier Program, etc.)? (Select all that apply and explain below)

- ○ We don't know what these are
- ○ We know what these are, but our company has chosen not to participate
- ○ These programs have improved our company's ability to meet compliance standards
- ○ These programs have improved our company's ability to manage compliance in our supply chain
- ○ These programs have improved communication between our company and Licensors and/or suppliers
- ○ We have participated in these programs but they require too much work and are too burdensome for our company
- ○ We have participated in these programs but they require too much work and are too burdensome for our suppliers
- ○ Other (Please specify)

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Please comment:

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What three steps could Licensors take to most improve your company's ability to meet compliance requirements? (Please choose the top three)

- ○ Accept our company's code of conduct
- ○ Create a joint code of conduct that is accepted by multiple Licensors
- ○ Accept our company's audits of our suppliers rather than conducting their own
- ○ Accept other Licensors' audits of our company and our suppliers
- ○ Create a single audit methodology that is acceptable to multiple Licensors
- ○ Provide training and resources to improve **our company's ability** to manage compliance issues
- ○ Provide training and resources to improve **our suppliers' ability** to manage compliance issues
- ○ Designate a single point of contact at Licensors that we can work with on compliance
- ○ Improve incentives for compliance
- ○ Improve technical reporting systems for ease of use
- ○ Engage with senior management at our company and at our suppliers to emphasize the importance of compliance
- ○ Other (Please specify)

Please comment:

Do you have any other comments on the constraints of meeting Licensors' compliance requirements?

Do you have any other comments on opportunities for Licensors to better support your company's ability to meet compliance requirements?

Thank you for your time and your input.