Continuous Improvement Partnership Approach

Beyond Monitoring Working Group
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About the Beyond Monitoring Working Group

BSR's Beyond Monitoring Working Group is a collaborative industry forum for defining the next phase of sustainable supply chain strategies. Through engagement with supply chain experts and forward-thinking businesses, the Beyond Monitoring Working Group identifies new approaches that companies can implement within their businesses and with suppliers, and contributes to stakeholder understanding of supply chain challenges and solutions.

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Gap Inc.
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Introduction

Supply chain sustainability is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services.[1]

Companies, their suppliers and other stakeholders must partner with each other to accelerate improvements in sustainability management practices and to achieve better sustainability outcomes throughout supply chain systems.

This document was prepared by BSR in collaboration with the Beyond Monitoring Working Group for the purpose of defining **a practical approach to supply chain partnerships between companies and their suppliers**.

The Continuous Improvement Partnership Approach includes three components:

» Creating a shared vision for how companies, suppliers, and factories can partner to achieve continuous improvement in supply chain sustainability performance

» Defining a robust process for jointly assessing current capabilities and planning for the continuous improvement of management systems

» Outlining consistent criteria for evaluation of management systems

OBJECTIVES – HOW TO USE THIS DOCUMENT
This document presents initial principles and a process for engagement in this area, along with management systems criteria, which can be used to evaluate suppliers' systems and to guide the process of improvement. Companies should use this document to align expectations both internally and with their suppliers, and to improve their approach to evaluating suppliers' sustainability management systems.

Companies can begin by reviewing the document, adapting it to suit their needs, and defining objectives for partnering with suppliers. The next step is to create the business case[2], to gain approval and to allocate budget and resources.

Ultimately, partnerships for continuous improvement are dependent on:

» Agreement on the objectives and ground rules for partnerships, as well as the focus areas that are highest priority

» Adequate commitment of committed by both parties to the partnership

» Comprehensive data points to gauge the performance of both parties on their systems and outcomes

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[1] United Nations Global Compact and BSR, "Supply Chain Sustainability: A Practical Guide to Continuous Improvement," 2010.
[2] See the Beyond Monitoring Working Group's "Business Case for Supply Chain Sustainability" for inspiration in this area.

Partnership Principles for Continuous Improvement

The following principles set the tone for how companies and suppliers can work together on continuous improvement of sustainability management systems covering the areas of ethics and governance, labor standards, health and safety, and environment.

» **Mutual transparency**[3] – Suppliers agree to openly and honestly share information related to their management systems, including commitment, capabilities, and compliance status. Companies also agree to clearly communicate their expectations, relevant business procedures, and other information that can impact suppliers' ability to improve.

» **Continuous improvement** – Suppliers agree to work toward management excellence in the areas of ethics, labor, health and safety, and environment, while at the same time understanding that real and sustained improvements are long-term in nature. Suppliers will provide adequate management capacity and resources to implement and track improvement initiatives, and companies will do the same for their internal sustainability and procurement functions. Companies will not terminate business relationships with suppliers that are challenged to meet code of conduct expectations, unless they discover "zero tolerance issues," which will be clearly defined, and may include, but are not limited to instances of child labor, forced labor, physical or sexual abuse of workers or immediate and serious hazards to worker health and safety, or unless suppliers repeatedly demonstrate a lack of commitment to improvement.

» **Partnership** – Both parties are committed to maintaining open lines of communication between decision makers. Companies will work in partnership with suppliers to clearly define roles and responsibilities and to create and achieve mutually agreed upon goals. Companies will recognize their own role in affecting supplier performance and work to ensure that they have effective internal alignment and that their procurement practices encourage and enable suppliers to improve.

» **Mutual business benefit** – Both parties agree that continuous improvement of sustainability management systems should create business benefits for both entities. Benefits may include reduced risk, increased efficiency and productivity, and enhanced business continuity. Companies and suppliers may also gain access to new customers and markets by demonstrating their commitment to sustainability. Additionally, companies and suppliers should explore opportunities to create business benefits for each other.

Process of Engagement

This section outlines four steps for designing and implementing partnerships:

1. Identification of Supplier Partners
2. Setting Shared Expectations
3. Assessing the Performance and Management Systems Baseline
4. Developing the Relationship Over Time

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[3] This principle and commentary are phrased deliberately in broad terms. On one hand, there are important concerns about sharing competitive or business-sensitive information with suppliers. On the other hand, one of the main criticisms from suppliers about customers' sustainability expectations is that information sharing is largely one-sided. Information is often requested of suppliers, but rarely is the request put in context, and suppliers often do not have access to information needed to improve their performance. Companies should carefully evaluate what information they can share with suppliers and how it can help improve outcomes.
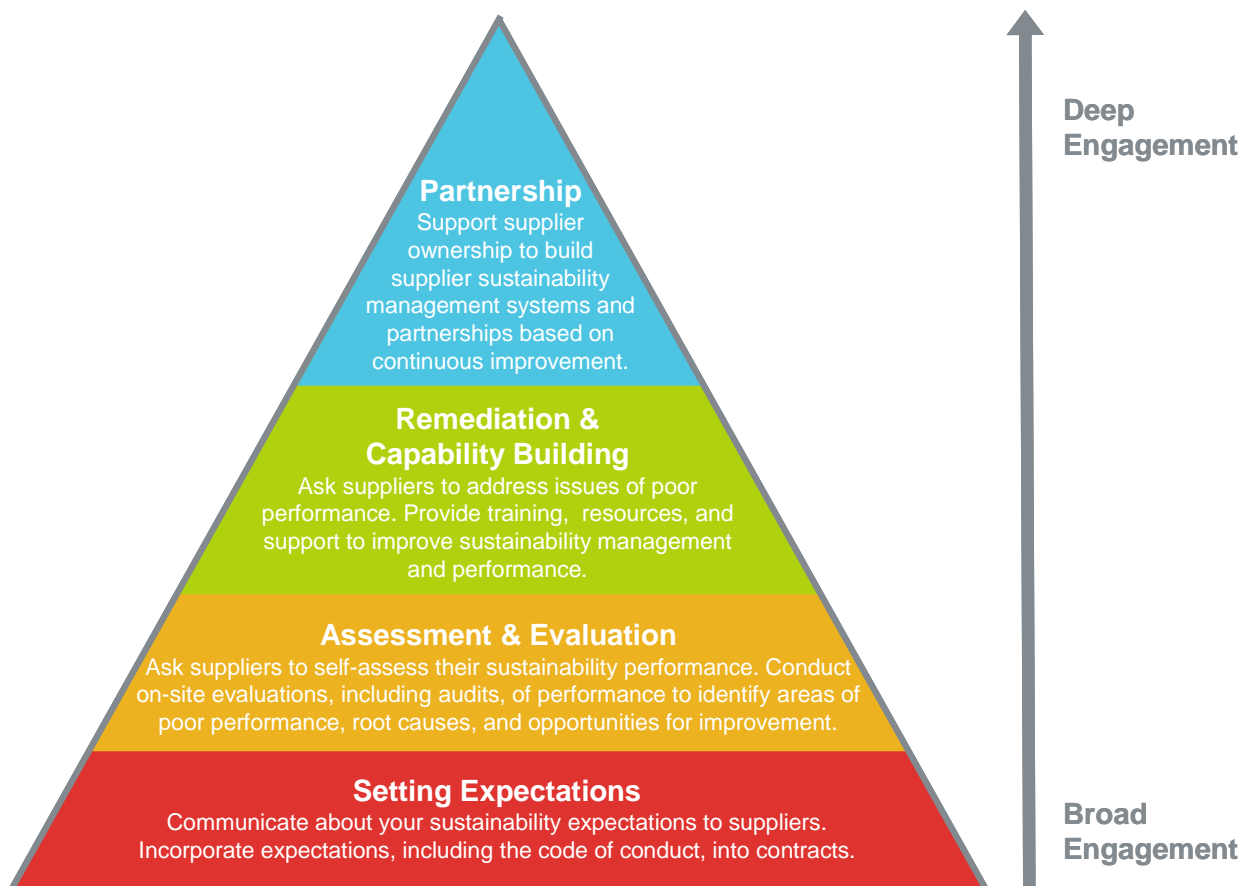
1. IDENTIFICATION OF SUPPLIER PARTNERS

Not all suppliers will be willing to commit to a partnership approach for continuous improvement of management systems. Nor, given the commitment required by companies, will it be realistic to develop a partnership approach with all suppliers. Selecting strategic partners for this type of program can be based on criteria such as:

» Relative importance to business

» Interest in partnership

» Shared values and philosophy

» Existing programs

» Ability to influence

The partnership approach should be seen as one of several approaches that companies can use to work with suppliers on supply chain sustainability. It can be used in parallel with other approaches (as shown in Figure 1).

Figure 1: Tools for Engaging with Suppliers on Sustainability

Deep Engagement

Partnership
Support supplier ownership to build supplier sustainability management systems and partnerships based on continuous improvement.

Remediation & Capability Building
Ask suppliers to address issues of poor performance. Provide training, resources, and support to improve sustainability management and performance.

Assessment & Evaluation
Ask suppliers to self-assess their sustainability performance. Conduct on-site evaluations, including audits, of performance to identify areas of poor performance, root causes, and opportunities for improvement.

Setting Expectations
Communicate about your sustainability expectations to suppliers. Incorporate expectations, including the code of conduct, into contracts.

Broad Engagement

2. SETTING SHARED EXPECTATIONS

Both parties should commit at a senior management level to agreed expectations for how to effectively work together in this area, including specific objectives and processes.

Supplier Commitment

»   Suppliers will demonstrate their dedication to meeting companies' sustainability expectations as set out in relevant principles/standards (e.g. Code of Conduct).

»   Suppliers will assess their current management systems capabilities and provide results and analysis.

»   Suppliers will create, implement, and communicate improvement plans based on management system self-assessments and compliance audit findings.

»   Suppliers will design and begin to implement their own supply chain sustainability program with their suppliers.

»   Suppliers will clearly communicate progress and challenges encountered to companies to enable companies to provide appropriate support.

Company Commitment

»   Companies will provide suppliers with guidance, tools, and advice to assist suppliers in the development and implementation of effective management systems and to reduce duplication of efforts. Companies will also set clear and realistic requirements and timelines for supplier improvement to set suppliers up for success.

»   Companies will increase transparency with suppliers, including but not limited to information on how assessment data is used in sourcing decisions and strategic business plans and processes that could impact suppliers' ability to improve performance.

»   Companies will provide training to their procurement professionals on supply chain sustainability expectations, common challenges in implementation within manufacturing facilities, best practices in engaging with suppliers, and the importance of ethics, workplace conditions, and the environment for high performing supply chains.

»   Companies will listen and respond to and collaborate with suppliers to address supplier concerns related to procurement practices that contribute to non-compliance instances at supplier facilities.

»   Companies will implement a strategic partnership model that creates incentives for suppliers to continuously improve, such as recognition of suppliers, limited or no auditing by third parties, or increases in order volumes, price, or other contract terms.

3. ASSESSING THE PERFORMANCE AND MANAGEMENT SYSTEMS BASELINE

Companies and suppliers should develop a shared sense of the baseline and priorities for improvement. To that end, companies and suppliers should together agree on a credible, comprehensive approach for evaluation of current supplier performance as well as suppliers' existing sustainability management systems. This includes a combination of:
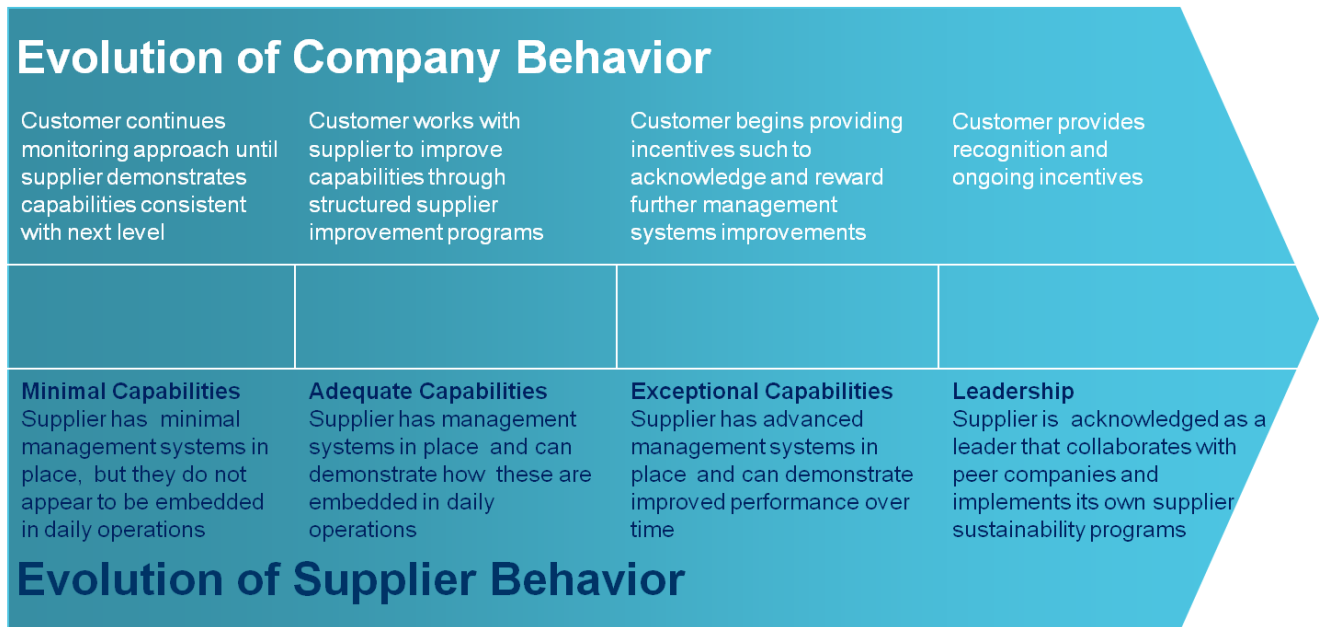
» Existing documentation from previous supplier self-assessments, audits, risk assessments, inspection reports, etc.

» Additional self-assessment methodologies performed by the supplier, which incorporate feedback from workers, technical personnel, and management

» Additional on-site evaluations performed by companies or external independent experts

A comprehensive baseline assessment enables the supplier and company to reach a common understanding of what are the key areas to target for improvement. This requires a credible picture of current supplier performance on ethics, labor, health and safety and environment, to the level of detail which enables companies and suppliers to be confident that they clearly understand what both parties are doing well and where they should be improving. Thus, a baseline assessment should include the in-depth evaluation typical of compliance-type audits (see Appendix I for a sample topic list). The baseline assessment should also include an understanding of suppliers' existing sustainability management systems, as well as companies' supply chain sustainability management practices. Based on these data sets, the supplier and company can agree on prioritized areas and timing for improvement.

4. DEVELOPING THE RELATIONSHIP OVER TIME

As suppliers continue to improve their performance and management systems, the company-supplier relationship will also evolve. The creation of incentives for improvement helps to enable the process to move forward, so that as suppliers advance towards exceptional capabilities and leadership, companies also modify their behavior in recognition of that progress (see Figure 2 below).

Figure 2: Evolution of Customer and Supplier Behavior and Interactions

Evolution of Company Behavior

Customer continues monitoring approach until supplier demonstrates capabilities consistent with next level	Customer works with supplier to improve capabilities through structured supplier improvement programs	Customer begins providing incentives such to acknowledge and reward further management systems improvements	Customer provides recognition and ongoing incentives
Minimal Capabilities Supplier has minimal management systems in place, but they do not appear to be embedded in daily operations	**Adequate Capabilities** Supplier has management systems in place and can demonstrate how these are embedded in daily operations	**Exceptional Capabilities** Supplier has advanced management systems in place and can demonstrate improved performance over time	**Leadership** Supplier is acknowledged as a leader that collaborates with peer companies and implements its own supplier sustainability programs

Evolution of Supplier Behavior

Creating Incentives for Sustainability

As suppliers' approaches to sustainability become more oriented to management systems and continuous improvement, companies should consider establishing clear benchmarks and rewards for consistently strong performance. Incentives could include:

» Reducing the number of compliance audits conducted

» Providing assistance for capability building

» Increasing business

» Establishing a preferred supplier program

» Providing recognition and awards

» Sharing costs for sustainability improvements

» Allowing participation in strategic buyer/supplier planning meetings

Evaluation Framework for Supplier Continuous Improvement

Focusing on management systems provides a direct and effective way to support the continuous improvement of suppliers' sustainability performance. We believe continuous improvement of suppliers is driven by three integrated elements:
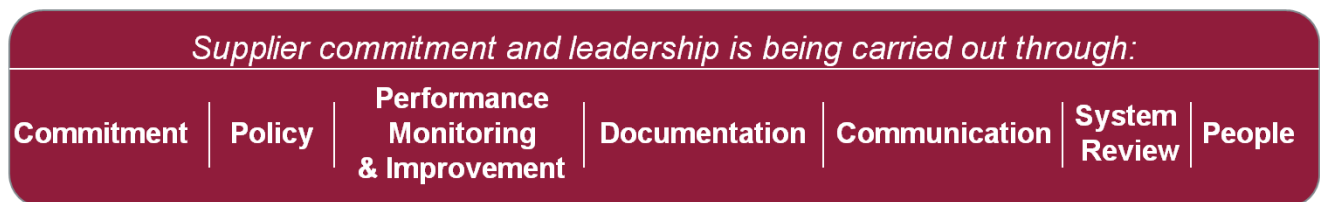
» **Strategic Alignment**: Supplier has developed its own clear vision, goals, and commitments for sustainability.

» **Competency Areas**: Supplier has established the components of the management system which enable those goals and commitments to be met.

» **Topical Areas**: Supplier has addressed the concrete and practical 'compliance' issues which constitute supplier performance outcomes.

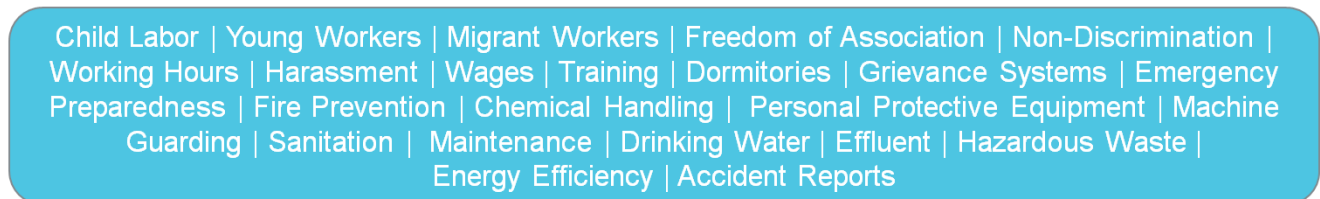Figure 3: Evaluation Framework for Supplier Continuous Improvement

Strategic Alignment

Supplier demonstrates commitment and leadership on:			
Ethics & Governance	Labor	Health & Safety	Environment

Competency Areas

Supplier commitment and leadership is being carried out through:						
Commitment	Policy	Performance Monitoring & Improvement	Documentation	Communication	System Review	People

Topical Areas

Child Labor | Young Workers | Migrant Workers | Freedom of Association | Non-Discrimination | Working Hours | Harassment | Wages | Training | Dormitories | Grievance Systems | Emergency Preparedness | Fire Prevention | Chemical Handling | Personal Protective Equipment | Machine Guarding | Sanitation | Maintenance | Drinking Water | Effluent | Hazardous Waste | Energy Efficiency | Accident Reports
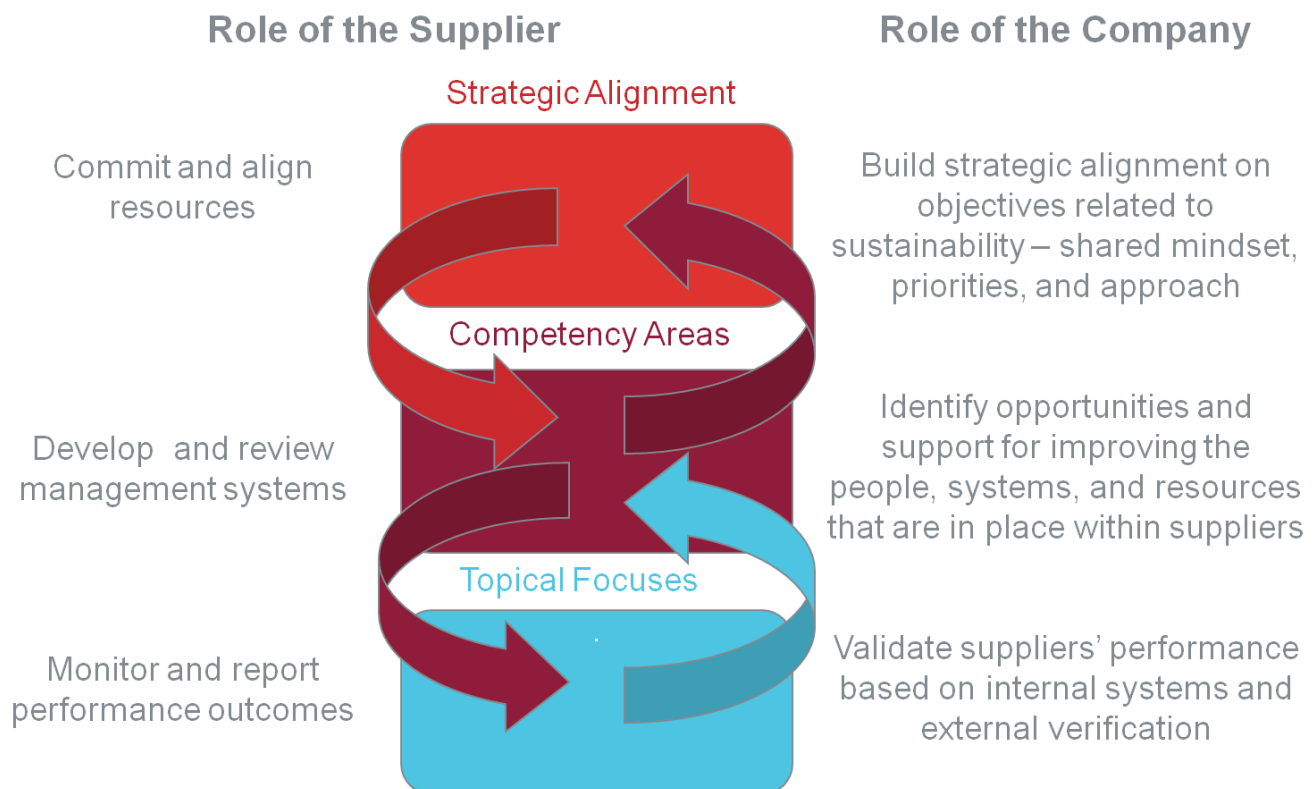
Analyzing suppliers at the topical level, the competency level and the strategic alignment level enables a better and deeper review of the root causes behind supplier sustainability performance and a clearer analysis of supplier capabilities and opportunities for continuous improvement.

For each element, companies can develop specific expectations, evaluation methods, and support for supplier development. The integration and feedback between elements means that performance on each element also reflects the effectiveness of the other elements. For example, strategic alignment can be assessed in terms of the public commitments made by a supplier, but this will also be demonstrated by the presence of an effective management system and outstanding performance in topical areas.

The remainder of this document focuses on the competency element, which describes the components of effective management systems. We believe this is the least developed, and most promising, area for customer and supplier partnerships.

In addition, we believe that more alignment and harmonization of approaches to improving supplier competencies will result in more efficient and effective partnerships, by avoiding confusing, duplicative and contradictory approaches. The Beyond Monitoring Working Group is committed to exploring and contributing to alignment in this area going forward.

Figure 4: Customer and Supplier Roles for Implementing Continuous Improvement

Role of the Supplier

Role of the Company

Strategic Alignment

Commit and align resources

Build strategic alignment on objectives related to sustainability – shared mindset, priorities, and approach

Competency Areas

Develop and review management systems

Identify opportunities and support for improving the people, systems, and resources that are in place within suppliers

Topical Focuses

Monitor and report performance outcomes

Validate suppliers' performance based on internal systems and external verification

Elements of Management Systems

Effective sustainability management systems must apply the following components to each of the topic areas, including ethics and governance, stakeholder engagement, labor, health and safety and environment:

» A **commitment** from senior leadership at the supplier

» Clearly stated **policies**

» **Performance monitoring** that measures change over time and provides data for the improvement process

» Clear **documentation** of program implementation and operational practices

» Appropriate **communication** (internal and external) for employees at the managerial, supervisory, and workforce levels of the supplier as well as relevant external stakeholders

» A **systems review process** which assesses overall system function and refines goals and objectives

» Appropriately skilled and qualified **people** tasked with implementing the system and engaged in on-going professional education

Figure 5: Intersection of Management Systems Components and Topical Focuses
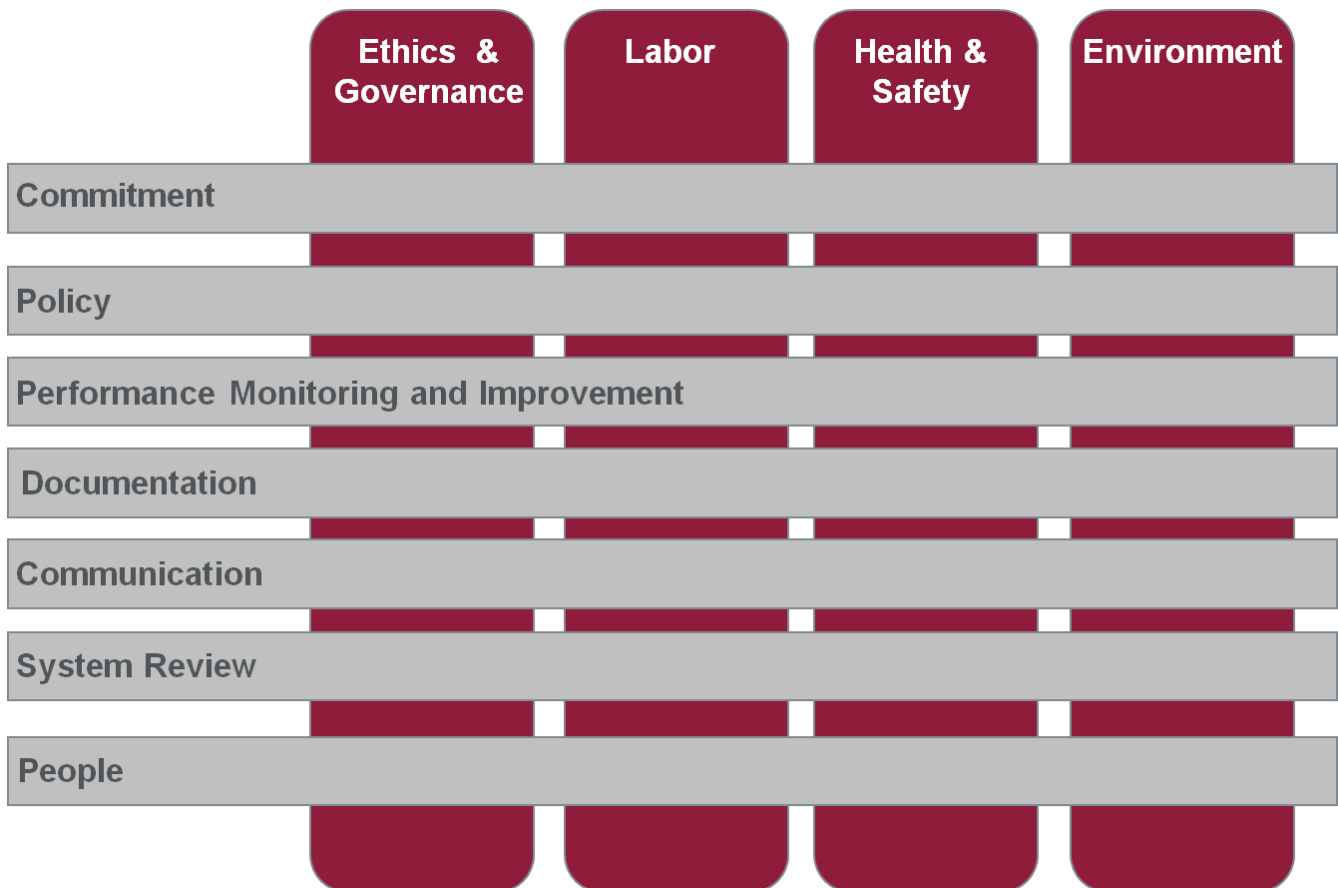
Detailed Criteria

Each component is listed below with specific detailed criteria, which should be applied across the five areas of ethics and governance, stakeholder engagement, labor, health and safety, and environment. These descriptions provide guidelines for how to assess the type of management system which will enable good performance.

Commitment

» A public commitment has been made to meeting specific objectives and to compliance with relevant standards.

» Relevant goals and objectives are embedded into business operations or linked closely to business strategy.

» A management representative of the company has been assigned responsibility for implementing programs to ensure compliance with laws and regulations and customer expectations.

» Accountability is not limited to one individual or department, but rather shared through a commitment by all persons working for the organization or on its behalf.

» Roles and responsibilities of key employees for each issue area are well-defined and communicated.

Policies

» Written policies exist which apply to all facilities and describe management commitments and standards for each area.

» Policies are appropriate to the nature of the business, scale and impacts of activities, and products and services.

» Policies include a commitment to comply with applicable legal requirements and other relevant standards.

» Policies include a commitment to continuous improvement.

» Policies provide the framework for setting and reviewing objectives and targets.

» Policies identify the person responsible for oversight and implementation.

» Policies are communicated to all persons working for or on behalf of the organization, and are available to the public.

» Sample topics that may need to be covered as relevant include:

  - Ethics: business integrity, improper advantage, disclosure of information, confidentiality and intellectual property protection, fair business practices, identity protection

  - Labor: freely chosen employment (no forced, bonded, involuntary, prison labor), child labor, young workers, working hours, wages and benefits, humane treatment, non-discrimination, freedom of association, grievance systems, worker/management committees

  - Health and Safety: occupational safety, emergency preparedness, occupational injury / illness, industrial hygiene, physically demanding work, machine safeguarding, living conditions

  - Environment: environmental permits, pollution prevention, hazardous substances, wastewater and solid waste, airborne emissions, product content, energy efficiency, and carbon and water management

Performance Monitoring and Improvement

» Written performance objectives should include metrics and targets.

» Objectives should be specific and measurable when possible, and should cover short-term and long-term issues.

» Objectives should be endorsed or approved by relevant parties, such as site management.

» Each objective has an implementation plan with assigned owners and due dates.

» Periodic monitoring of metrics is used to review performance against objectives and targets.

» Performance that does not meet objectives is identified, causes are investigated, and corrective actions are taken to improve it.

» Reviews are conducted to evaluate effectiveness of corrective actions and preventative actions.

Documentation

» Written evidence of policies, practices and evaluation is created, effectively maintained, and updated on a regular basis. These include:

- Scope and description of the main elements of the management system and reference to related documents

- Policies, objectives, targets, and implementation plans

- Internal and external standards

- Summary of applicable laws and regulations and key customer expectations

- Approach to risk assessment, findings of assessment process, and actions taken

- Performance against objectives and targets

- Management system audit findings

- Regulatory compliance evaluation findings

- Work practices and procedures

- Injury and illness logs

- Worker benefits and pay information

- Reports of external inspections by regulatory agencies such as:

  · External audit reports (e.g. ISO 14001, SA8000)

  · Incident investigation reports

  · Worker complaints

  · Training records

  · Corrective action records

  · Emergency plans

  · Organizational charts

» Procedures are in place to safeguard the confidentiality and privacy of employee information.

Communication

» Internal communications channels among the various levels and functions of the organization are used to reinforce the importance of issues and allow employees to raise concerns.

» Training for new workers and managers covers all essential information (e.g. benefits, code of conduct requirements, emergency procedures, injury reporting, etc.).

» Additional training for managers is provided where needed for relevant responsibilities.

» Commitments and policies are effectively communicated to all employees.

» Information about performance, practices, and expectations is communicated on an ongoing basis to workers through appropriate means – notice boards, worker handbooks, electronic communications, formal training, etc.

» Workers are encouraged to suggest changes and improvements and to raise concerns without fear of retaliation.

» Worker-management committees are used in the creation of policies and procedures, and to assist in implementation and issue resolution.

» External stakeholders are periodically informed of performance, e.g. through annual reports and company publications.

» Processes are in place to solicit, evaluate, and respond to feedback from external stakeholders such as customers, government, and communities.

System Review

» Internal and external audits are undertaken to determine if management systems are functioning effectively and efficiently and resulting in the achievement of policies, objectives and targets.

» A review process assesses overall management system function for effectiveness and efficiency, determine any system deficiencies and identify necessary changes, and determine whether policy, objectives and targets are still appropriate.

» The facility has a system to track applicable laws and regulations and customer expectations, including access to periodic updates.

» A formal assessment process is used to identify risks in the areas including but not limited to ethics and governance, stakeholder engagement, labor, health and safety, and environment.

» Relative significance of each risk is determined and used as the basis for establishing and updating appropriate procedural and physical controls.

» Periodic self-audits are conducted to assess conformance to legal and regulatory requirements, company standards, and customer expectations.

» Audit findings and corrective actions are reviewed by senior management. Action plans are developed to address audit findings, and management monitors plan completion.

» During management system review, inputs can include:
  - Results of internal audits and evaluations of compliance with legal and other requirements
  - Communications from external parties
  - Performance on ethics, labor, health and safety, and environmental issues
  - Performance against objectives and targets
  - Status of corrective and preventive actions
  - Follow-up actions from previous reviews
  - Changes in legal and other requirements

People

» For positions requiring specific skills or qualifications, procedures for evaluation are in place to identify suitable employees.

» Contingency plans are in place in case of staff absence or turnover.

» On-going capacity building and skill training is implemented for relevant positions.

» Appropriate resources in terms of time and support are allocated in order for employees to effectively perform their roles and responsibilities related to sustainability.

Beyond Good: Moving towards Even Better Practices

The components described above are the pieces of a functional management system. Suppliers that have these components in place can work towards exceptional capabilities and performance. This will involve discussion and partnership with customers on equal footing, and demonstration of an ambition for leadership and a track record of impacts in implementing sustainable business practices. Specific areas for demonstrating leadership include the following:

» **Transparency** – Suppliers can begin reporting their performance on ethics and governance, stakeholder engagement, labor, health and safety, and environmental issues to a wider audience through the publication of their own sustainability reports.

» **Setting higher standards** – Rather than hewing to local legal requirements or even applying more stringent global standards, suppliers can decide to set more ambitious goals for performance in areas such as worker compensation and benefits, workplace safety, or wastewater treatment and carbon dioxide emissions.

» **Stakeholder engagement** – By proactively engaging with stakeholders, such as local communities near their facilities, government agencies who regulate labor and environmental issues, or critical civil society groups, suppliers can demonstrate that they are actively advancing the sustainability agenda beyond just their own business needs.

» **Cascading supply chain programs –** The approach outlined here can be replicated by a supplier for its own supply chain, from the initial steps of evaluating suppliers on their performance and communicating clear expectations, through the process of supporting their suppliers' development and ownership of issues.

Call for Comments and Feedback

The Beyond Monitoring Working Group welcomes feedback and debate about this approach. We hope to organize events in 2011 focused on this topic. Please direct all comments to Cody Sisco at csisco@bsr.org. Future versions of this guide may be produced based on feedback received.

Appendix 1

Sample of topics to be evaluated in a baseline assessment

Accident Reporting and Investigation
Bloodborne Pathogen Control
Workplace Occupational Risk Assessment
Chemical Management
First Aid
Personal Protective Equipment
Emergency Evacuation
Fire Prevention and Control
Machinery Maintenance
Confined Space Control
Needle/Sharp Tools Control
Welding and Cutting
Canteen Management
Dormitory Management
Drinking Water Test
Energy Efficiency Policy
Environmental Emergency Procedure
Noise Management
Biohazardous Waste Management
Wastewater Management
Solid Waste Management
Freedom of Association
Working Hours
Anti-Forced Labor
Child Labor & Young Workers
Anti-Harassment
Non-Discrimination
Wages and Benefits
Grievance & Suggestion System
Employee Training
Background Check
Hiring
Employee Handbook
Internal Audit
Document Control
Policy Distribution and Review