Business for Social Responsibility

Pilot Summary Report:

Building Capabilities to Implement CSR Management Systems at ICT Suppliers in China

Prepared
July 2008

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1. Executive Summary

1. Background

In 2006, a collaborative project was initiated to develop a capability-building strategy for the information and communications technology (ICT) sector in Shenzhen to meet international social and environmental requirements. Specifically, the project was intended to investigate the barriers to meeting these expectations and to identify and test strategies and activities that would improve social and environmental conditions while also providing business benefits to the ICT supply chain. The project sponsors included Business for Social Responsibility (BSR); the Foreign Investment Advisory Service (FIAS), a joint venture of the World Bank and the IFC; the Electronics Industry Citizenship Coalition (EICC); the Global e-Sustainability Initiative (GeSI); and the Shenzhen Electronics Industries Association (SEIA).

2. Objectives

Following a research mission, which included discussions and field visits with customers, suppliers and other key stakeholders, a multi-stakeholder workshop was held in June 2007 to discuss the findings of the research and to create a capability-building strategy to address the barriers to improved social and environmental conditions within the ICT industry in China. A comprehensive report summarizing the research findings of the diagnostic assessment, the workshop and the recommended capability-building strategy is available in both English and Chinese on the BSR[1] and EICC[2] web sites. Elements of the capability-building strategy were tested in this project by running four concurrent in-factory pilots focused on improving corporate social responsibility (CSR) management systems and related worker-management communications approaches while measuring the impacts, costs and benefits of each pilot. The overall objective was to identify approaches to building capabilities of the ICT sector in Shenzhen that are successful, replicable and scalable.

3. Work Accomplished

The pilots were shaped during the multi-stakeholder workshop in June 2007. Subsequently, ICT customers requested that their suppliers participate in the pilots on a voluntary basis. Upon suppliers' commitment to participate, BSR worked with each supplier to refine the scope of the pilots and to bring in civil society partners to support the in-factory execution of the pilots as needed. The customer role in the pilot process was purposefully limited to test whether the pilots could be successful when driven mainly by suppliers.

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[1] Business for Social Responsibility and FIAS (World Bank Group), "Corporate Social Responsibility in China's Information and Communications Technology (ICT) Sector, July 2007, in English, http://www.bsr.org/reports/2007_China-ICT-Report_English.pdf, and in Chinese, http://www.bsr.org/reports/2007_China-ICT-Report_Chinese.pdf

[2] Ibid., in English, http://www.eicc.info/downloads/FIAS_ICT_Report_ENG.PDF and in Chinese, http://www.eicc.info/downloads/FIAS_ICT_Report_CHS.PDF

Three of the four pilots were somewhat successful in testing capability-building approaches because they initiated in-factory improvement processes that can be measured in terms of outcomes, costs and benefits. These three pilots tested customer-supplier mentoring, worker training programs, and an environmental, health and safety committee. The fourth pilot, which was intended to test the implementation of a worker hotline, did not progress past the scoping phase due to a disagreement between the supplier and the civil society partner on the sampling procedures for conducting worker interviews.

Several significant challenges were identified throughout the course of the pilot, including challenges related to achieving supplier ownership of CSR, tracking metrics on costs and benefits of improvements, and ensuring appropriate involvement of stakeholders.

4. Recommendations

In order to enable sustainable capability-building activities there are three main considerations: (1) the funding model, (2) which specific approaches to take, and (3) ensuring the involvement and commitment of stakeholders. In addition, while each stakeholder has a unique contribution to make, there is a need for coordination of efforts to ensure alignment.

These considerations are addressed below in a set of recommendations for taking the pilots forward in a scalable manner that builds on the lessons from the pilot projects.

1. Funding Model

- Suppliers pay for increased capabilities at the facility level
- A wide range of stakeholders fund outreach, convening, dialogue and facilitation
- Segment projects into discrete short-term phases
- Move from a cost mindset to an investment mindset
- Identify resources required to execute projects, either internally or externally, and improve them
- Integrate capability-building approaches with current touchpoints at suppliers

2. Multiple Approaches

The approach taken at any specific factory will vary depending on the state of compliance, management awareness and commitment related to CSR, customer pressure or incentives, and external factors affecting suppliers' businesses.

The pilots considered in this project are most appropriate to suppliers with established commitments and basic systems in place, rather than suppliers that have only basic awareness of CSR requirements. Therefore, it is imperative that multiple approaches are used to build suppliers' capabilities in order to be a truly scalable solution.

We highlight the main capability-building approaches below. They are arranged in order from most scalable to least scalable:

- Integrate learning and capability building into auditing
- Provide tools that suppliers can access and use independently
- Provide standardized group training on major areas of non-compliance
- Create or support a learning network for suppliers
- Provide customer-supplier mentorship for continuous improvement
- Customized projects

3. Stakeholder Involvement and Commitment

Each of the recommendations contained in the capability-building strategy for the ICT sector in China is dependent on the others to be successful. Specifically, for the strategy to be successful, contributions are required from each different type of stakeholder as outlined below:

- Suppliers' should begin with ensuring senior management commitment to CSR and assessing which CSR management system improvements to make first
- Customers should focus on equipping their employees to provide mentoring to suppliers to ensure alignment of compliance and procurement activities
- Civil society organizations should focus on providing services to factories and providing input on the direction of the industry's capability-building efforts
- Government should participate in multi-stakeholder discussions about CSR in the ICT sector and focus on creating an enabling environment for CSR
- Industry associations should focus on communicating with their members
- Multilateral institutions should focus on convening stakeholders, and in particular bringing government to the table

II. Background

1. Research Mission and June 2007 Workshop

In 2006, a collaborative project was initiated to develop a capability-building strategy for the information and communications technology (ICT) sector in Shenzhen to meet international social and environmental requirements. Specifically, the project was intended to investigate the barriers to meeting these expectations and to identify and test strategies and activities that would improve social and environmental conditions while also providing business benefits to the ICT supply chain.

The project sponsors included Business for Social Responsibility (BSR); the Foreign Investment Advisory Service (FIAS), a joint venture of the World Bank and the IFC; the Electronics Industry Citizenship Coalition (EICC); the Global e-Sustainability Initiative (GeSI); and the Shenzhen Electronics Industries Association (SEIA).

In June 2007, a workshop was held with stakeholders from Chinese government authorities, China's labor union, international buyers, local suppliers and civil society organizations to review the findings of the research, to introduce and garner feedback on the proposed capability-building strategy from key stakeholders, and to build support for pilot projects that would test elements of the capability-building strategy. The attendees agreed to develop pilot projects consisting of a small group of stakeholders including suppliers, buyers, academics, NGOs and government officials, as appropriate. BSR acted as a facilitator for the project, and in some cases, also acted as a consultant to suppliers. The EICC and GeSI supported the process by participating in the initial research, by facilitating access to suppliers for the research phase, by inviting suppliers to participate in the project and by reviewing progress periodically.

A report published in July 2007 by BSR and FIAS described the findings from the research into the causes of non-compliance issues, recommendations for implementing a capability-building strategy for the ICT sector in China, and the discussions held during the multi-stakeholder workshop in Shenzhen.[3]

The workshop outcomes included a multi-stakeholder framework to implement several pilot projects in the ICT sector in China. Based on a prioritization of the two most important areas for capability building among suppliers, the workshop participants determined that the pilot projects would focus on testing in-factory processes in the areas of worker engagement and management systems for corporate social responsibility (CSR).

2. Pilot Scoping Process

Following the June 2007 workshop, the pilot process worked as follows: (1) an initial vision was established for each of the pilot projects based on the workshop discussions; (2) customers invited suppliers and BSR recommended civil society organizations to participate in the pilots; (3) BSR worked with the participants to refine the scope of the projects to meet participants' needs and capabilities; and (4) suppliers and civil society organizations executed contracts specifying the scope of work and cost directly between themselves. The specific steps and outcomes from each pilot are described in a separate section of this report.

The following pilots were tested as part of this project:

- **Customer-Supplier Mentorship Pilot:** Developing and implementing a CSR management system through direct mentorship between a customer and a key supplier

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[3] Business for Social Responsibility and FIAS (World Bank Group, "Corporate Social Responsibility in China's Information and Communications Technology (ICT) Sector, July 2007, http://www.bsr.org/reports/2007_China-ICT-Report_English.pdf

- **Worker Hotline Pilot:** Improving worker feedback and grievance mechanisms through a worker hotline system/process

- **Worker Training Pilot:** Improving workers' understanding of their legal rights through worker training

- **Environmental, Safety and Health (ESH) Committee Pilot:** Involving workers in the evaluation and improvement of ESH issues through a formal worker ESH committee

In addition, one of the suppliers that had been interviewed in the initial diagnostic assessment identified CSR as an opportunity and proactively initiated a project with BSR to improve its CSR management systems and proactively communicate with customers about CSR. The lessons from this project are included in this report under the heading "CSR Strategy Pilot."

3. Participant Roles

The customer role in the pilot process was purposefully limited to inviting suppliers to participate and to reviewing the progress of pilots on a regular basis (with the exception of more significant customer involvement in the Customer-Supplier Mentorship Pilot). The limitation of the customer role was intended to test whether the pilots could be successful when driven mainly by suppliers.

BSR played a facilitative role by introducing each supplier to the objectives of each pilot and by creating an outline of each pilot to begin the discussion. BSR then worked closely with suppliers and civil society organizations to refine the scope of each pilot to fit more closely with the needs and capabilities of each supplier.

Suppliers played a key role in shaping the pilots to align with their business needs. They also assembled resources, either individuals or teams, to support the actual work involved in each pilot, e.g. providing documents, participating in interviews, hosting on-site meetings and factory tours, etc.

Civil society organizations, which in some cases included BSR, provided services to suppliers as specified in each pilot, e.g. assessing EHS committee effectiveness. In addition, customers perceived that civil society organizations brought credibility to the process. In total, three civil society organizations, including BSR, participated in the project.

The Shenzhen Electronics Industry Association (SEIA) conducted two workshops on CSR for its members in 2007 in order to support capability building in the ICT sector. The first workshop featured an introduction to the EICC and to EICC-related training courses that are offered through BSR's China Training Institute platform[4]. The second workshop convened senior factory management at SEIA's member companies to share information about the FIAS project and to discuss challenges and good practices in the industry.

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[4] China Training Institute, http://www.ctichina.org

The July 2007 report included recommendations for government involvement in a capability-building strategy. As stated in that report, "achieving sustainable labor and environmental practices in global supply chains requires an enabling environment that is supported by the government." Specifically, government can create an enabling environment through four approaches: Mandating, Facilitating, Partnering and Endorsing.

While the workshop participants agreed that the Chinese government's involvement in capability-building strategy is critically important, the pilot process did not test approaches to government involvement for several reasons. First, the primary objective was to test in-factory CSR improvement processes over a period of six months. Government is typically involved at a larger scale and on a longer timeframe. In addition, FIAS was not involved in the pilot process, and as a result, participants' access to government was limited. Finally, turnover of key contacts at the main government agency that was previously involved inhibited government participation. The role of government and implications for the future are considered more comprehensively in the final section of this report.

4. Pilot Summarization Process

To summarize the pilot experience and to understand the successes and lessons embodied by the pilots, as well as to clarify the implications for future efforts, BSR conducted interviews with pilot participants. These interviews gathered participants' feedback on the successes, challenges, costs, benefits and implications for replicating projects beyond the scope of the pilot process. In addition, BSR interviewed individuals who had participated in either the initial diagnostic assessment or in the June 2007 workshop to gather their feedback on how the pilots aligned with the framework established at the June meeting and suggestions for improving the CSR capability-building approach for the ICT sector. Companies participating in the Learning and Capability Building work group also discussed individual pilot findings and provided significant feedback on this report.

A key objective of the pilot summary process was to determine the extent to which measurements of the costs and benefits of each pilot were collected. Where feasible, this report includes metrics on the costs and benefits that were measured as part of the pilot projects. In many cases, metrics were defined; however, measurable results were not yet available because the pilots have not progressed beyond the initial phase. In these cases, the information presented on costs and benefits reflects qualitative drivers of costs and the expected benefits.

Additionally, the applicability of cost and benefit data is limited due to several factors. First, suppliers may not have baseline data against which to measure progress. Second, suppliers vary in the size, scope and complexity of their operations, which limits the comparability of cost and benefit data. Third, each supplier will have a different starting point in terms of management systems and processes to build on. Finally, the specific approach taken will vary depending on what the supplier deems will be most effective for its operation. Taken together, these factors make it challenging to compare cost and benefit data across suppliers in

a meaningful way. However, it is strongly recommended that suppliers establish their own metrics and targets, and that they track progress against these.

Another key objective of the pilot summary process is to reflect on the lessons learned and implications for future activities related to capability building in the ICT sector in China. The final section of this report highlights the recommendations for improving the overall capability-building approach.

III. Overall Lessons Learned

The July 2007 report included a number of recommendations for each type of stakeholder based on the assumption that each stakeholder must contribute to the changes for any capability-building strategy to successfully address systemic issues. The need for each stakeholder to contribute cannot be overemphasized. Nor should perceived inaction on the part of any stakeholder be used as an excuse for inaction by another. Together and independently, stakeholders should continue pressing forward in order to address the issues confronting the industry.

In this section we re-visit the June 2007 recommendations for each type of stakeholder in the context of lessons learned from the pilot process. The discussion includes overall conclusions from across the pilots based on interviews and outcomes of pilots. Individual pilots are discussed in the following section.

The sub-sections below reflect key considerations for successful capability-building efforts. Specific recommendations for the capability-building approach are addressed in the final section of this report.

1. Supplier Ownership: Motivation and Incentives

The capability-building strategy for the ICT sector in China is focused on suppliers — their awareness, their commitment and their capability to manage CSR issues within their operations. The strategy contains recommendations for other stakeholders as well, such as customers, government and NGOs, but the focus remains on enabling suppliers' abilities to improve social and environmental conditions.

> **July 2007 Recommendations for Suppliers**
>
> - Conduct cost-benefit analysis of CSR improvements
> - Implement management and performance measurement improvements
> - Improve worker-management communications
> - Take ownership of CSR improvements
> - Implement CSR improvements with their own suppliers

A gap exists between customers and suppliers regarding the implications of increasing expectations related to CSR. Suppliers see CSR as a new expectation coming from a subset of customers rather than as a set of good management practices with associated costs and benefits that will increase their competitiveness. Most organizations at lower levels within the supply chain, particularly smaller firms, have not been exposed to CSR topics. The suppliers included in this report are likely to have a greater understanding of CSR and customer requirements than smaller companies because the customers of suppliers participating in the pilots proposed them for inclusion.

Currently, incentives for CSR management are not recognized to the degree that ICT suppliers in China are proactively seeking CSR management capabilities in any systematic or widespread manner. The fundamental questions that must be addressed for supplier ownership of CSR in China's ICT sector to become widespread are: *What does it mean to manage CSR issues and what are the incentives for doing so?*

The following are lessons learned about supplier ownership with a bearing on the successful implementation of pilot projects:

- **Suppliers' genuine commitment** to implementing management systems for CSR is essential to the success of the pilot projects. This dimension can be characterized as a continuum of increasing commitment:

    - *Supplier-Led:* The CSR Strategy Pilot is an example of a supplier that was fully and genuinely committed to making CSR improvements, that proactively initiated a project, and that allocated time and resources to make it happen. Supplier leadership is driven by individuals who perceive business benefits and who are open to trying new approaches to CSR improvements.

    - *Supplier Commitment:* The Worker Training Pilot is an example of a supplier that committed to the project after being invited by one customer and encouraged by other customers to participate, and that provided sufficient resources to the project. The EHS Committee Pilot and the Customer-Supplier Mentorship Pilot are also examples of suppliers that committed to the project. In those two cases, it required a greater degree of persistence to win their commitments. Supplier commitment is largely driven by the belief in the business benefits to aspects of CSR, e.g. worker training helps retain workers.

    - *Lack of Supplier Commitment:* In the case of the Worker Hotline Pilot, the supplier agreed to participate based on its customer's request, but the supplier did not believe the project was needed or beneficial other than for meeting its customer demands. Lack of commitment may be driven by a number of factors, including unclear business benefits, a cost-versus-investment mindset, misperceptions about the nature of CSR, lack of empowerment or authority to initiate new projects or processes, unclear scoping, or lack of trust between project participants.

- **Suppliers' initiation and shaping of projects** are essential to their belief in the objectives. During the scoping of the Worker Hotline Pilot, the supplier suggested a change in the scope of a pilot to focus on a need that it identified as important (worker mental health counseling). However, the suggestion was rejected because it would not have tested the worker feedback process that was intended by the pilot.

- **The need for senior management support for new initiatives** is particularly relevant to those suppliers that do not have well-established management systems for CSR. For example, the Customer-Supplier Mentorship Pilot incurred a delay of several months in order to obtain approval from senior management to allow participation in the project. In most global companies, projects that have executive support tend to be much more successful and get management attention; this is even more true in the hierarchical business culture in Asia. In particular, top management engagement is essential because suppliers' internal decision-making processes are often rigidly hierarchical and this can cause significant delays if employees are not fully empowered to implement change. As an example of how hierarchy can hold up a project, for the Worker Hotline Pilot, one of the basic conflicts arose because the scope of the project was narrowly defined to encompass a single business unit and expansion of the scope in order to interview workers in the canteen area would have required a time-consuming and uncertain approval process involving multiple business units across the company.

- **Currently, incentives and/or the business case for implementing projects are not sufficiently compelling** to persuade suppliers to participate. Both internal and external incentives increase suppliers' motivation to take ownership of CSR, meaning that suppliers see value in pursuing CSR and that they have the freedom to do so. As described in the July 2007 report, there are three types of incentives that bear on supplier ownership:

  - First, there are *internal tangible benefits* that can be achieved through CSR management systems implementation. These include cost reductions, e.g. reduced human resource costs (less staff turnover, enhanced retention, reduced training and hiring expenses, reduced medical/insurance costs), or productivity gains, e.g. improved product quality/reduction in errors. Because the field of CSR has yet to mature and adequately measure and correlate concrete actions with results, mainstream business has yet to jump on board. Some believe that tangible benefits are typically difficult to track and correlate to CSR improvements. Although both customers and suppliers have anecdotal evidence of such linkages, the current lack of data makes it difficult to capture the true internal business benefits of sound labor practices. While this is one of the intended objectives of the pilots, this requires a longer time horizon. Pilot participants can continue implementation and track data going forward.

  - Second, there are *tangible external benefits* that may be achieved through suppliers' improved CSR management systems and internal alignment of customers' CSR and business processes and objectives. These include reduced CSR audits, retention of orders, and increases in orders or in price. However,

suppliers have a lesser degree of control over realizing these benefits because they are dependent on customer behavior. Lack of alignment between customers' CSR objectives and their commercial objectives can undermine suppliers' efforts. In addition, customers often have different CSR requirements. One supplier stated that it only hears about CSR from one or two customers and that its other customers have not raised the issue.

- Third, there are *external intangible benefits* such as recognition of excellence and improved relationships with stakeholders. This is also an area where suppliers have less control or influence.

2. Customer Involvement

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July 2007 Recommendations for Customers

- Develop strategic partnerships with suppliers

- Develop supplier incentives for CSR investments

- Align CSR expectations internally

- Implement standard industry code

- Conduct audits for improvement, not compliance

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Customer requests are important mechanisms for raising suppliers' awareness of CSR and motivating them to improve their management of CSR, but customer requests are not always sufficient. For this project, suppliers' acceptance was voluntary. One chose to decline the invitation and others changed the scope of the project. It is instructive that one of the initial suppliers invited by its customer to participate in the Worker Training Pilot declined to do so. The supplier cited a number of reasons, including the lack of incentives, such as increased orders or reduced audits.

However, there are other benefits to CSR that are also important, including improved relationships between management and workers, and risk mitigation. When both internal and external incentives can be realized, the motivation and likelihood that suppliers will take ownership of CSR is increased. The lessons learned presented below should be understood within this context.

- **Customer expectations are important motivators**, but they are not always sufficient forms of encouragement for suppliers to take full ownership. In addition to communication of expectations, clear outcomes are needed to motivate suppliers and secure buy-in. For example, the supplier participating in the CSR Strategy Pilot had seen a reduction in orders from a key customer due to an incident of worker exposure to hazardous chemicals. After implementing CSR management systems, the supplier was able to win more business from its customer. In this case, the clear business benefits to CSR are recognized by the supplier and the customers' actions confirm this. In addition, through participation in the capability-building discussions, the supplier became aware of potential internal benefits to his business from CSR. In the case of a supplier that declined to participate, the reason cited included unclear

business benefits. From interviews with suppliers that participated in the pilot, it was clear that most did not expect customer behavior to change in any way as a result of their participation — although suppliers did express interest in forming closer partnerships with their customers.

# 3. Scoping and Management of Pilot Projects

The pilot process resulted in learning related to the scoping and management of pilot projects. Although these lessons are not specific to CSR, they highlight the important fact that CSR projects require the same level of rigorous scoping and management as other projects. The topics below were mentioned during interviews with pilot participants and highlighted the importance of several aspects of project scoping and management. These include:

- **Realistic expectations on timelines** of projects help to avoid frustration on the part of participants. The length of time required to build relationships, get internal buy-in for projects and execute them is usually longer than expected. Projects should be scoped to allow for more time to get buy-in and build relationships. None of the projects, except for the proactive CSR Management Systems Pilot, were completed in the expected timeframe (originally five to six months).

- **Clarity on the roles, process and intended outcomes** of pilots allows potential participants to accurately assess their readiness to participate and for project teams to assess their progress throughout the project. Seemingly minor details can be very important to individual project participants and project plans that are very detailed will avoid surprises. In one example, the project team performing the on-site assessment of worker training activities was surprised to learn that funding for its project was being provided by the factory, which led the team to delay its report out of concern that the findings would not be well received. This was a communications breakdown that could have been avoided. Additionally, the Worker Hotline Pilot failed due to the inability to agree on roles and process.

- **Consistency of roles** in the project teams. For example, throughout the scoping and execution of the EHS Committee Pilot, four different people from the supplier led the project. This results in delays, duplicity of efforts and a lack of overall buy-in and support.

- **Need for senior leadership support** to enable project teams to accomplish their objectives. For example, the supplier personnel participating in the Customer-Supplier Mentorship Pilot did not have senior leadership support initially, which resulted in a delayed timeline. In addition, the Worker Hotline Pilot faced challenges with getting senior leadership support for project tasks that went beyond the approval that had been granted for a specific business unit. These projects faced significant barriers compared to the proactive CSR Management Systems Pilot, which had leadership support from the company owner. Customers can play an important role in securing senior level support.

4. Connection to a Process to Align Stakeholder Expectations

The July 2007 report contained a number of recommendations for each type of stakeholder (customer, supplier, civil society and government) that holistically addressed the root causes of non-compliance. Each of the recommendations is dependent on the others to be successful. Stakeholders need to trust that their own efforts are being complemented and supported by other stakeholders' efforts and that the industry as a whole is moving toward shared objectives. The pilots highlight a need for a process that continually aligns stakeholder expectations related to capability-building activities.

Figure 1: Stakeholder Model
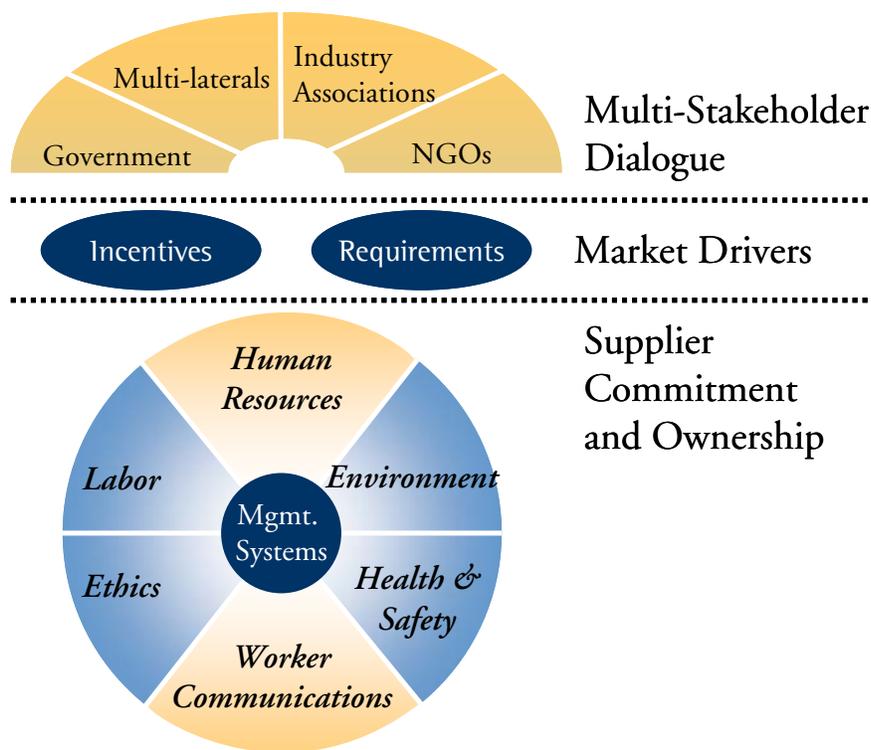
First, a *catalyst* is required to raise awareness among industry stakeholders about the need for improved CSR management systems and effective means of achieving them. The workshop and pilot projects accomplished this to an extent, and it remains an important goal to reach out further to other industry stakeholders, particularly suppliers. In addition, some of the pilot participants — particularly suppliers — stated that after their own pilots began, they did not receive communications about any of the other pilots beyond their own and there was a lack of discussion about the CSR capability-building strategy at a broader level. An ongoing dialogue establishes a focal point for discussion about CSR issues and how they can be understood and managed. It also allows for consistent communications and outreach to audiences that are currently not part of discussions about CSR.

Second, *learning* is necessary about how to initiate and execute projects to improve CSR management systems, about the expected costs and benefits, about roles and responsibilities and about the process steps involved. The pilot projects are an opportunity to share learning more broadly, and there should be a mechanism — either continued dialogues, a network of peers, training programs or an online platform — to accomplish this. For example, in the case of the EHS Committee Pilot, BSR made the case for the supplier to change its injury/illness targets to be more in line with good practice. Discussion or learning about how to set appropriate targets and the business case for doing so may benefit more suppliers and workers.

Third, *incentives* for good performance, beyond the benefits associated with a particular pilot, are an effective motivator of supplier behavior. Each type of stakeholder has a different role to play in pursuit of incentives. Suppliers can account for the benefits and costs of compliance and share these learnings with their peers. Individual customers are in a position to offer tangible incentives and should focus their efforts on aligning their CSR and commercial objectives to achieve this. By contrast, broad recognition for good performance can only be bestowed by a group of stakeholders participating in a credible process to determine what is meant by "good performance." Government can also play a role in establishing incentives for good performance.

5. Civil Society Involvement in Pilot Projects

> **July 2007 Recommendations for NGOs**
>
> - Provide worker training/education
>
> - Partner with suppliers and customers for accountability

Civil society organizations, including NGOs and academics, play a key role in advancing CSR in China's ICT sector. They provide a critical perspective on which CSR issues are important and they provide resources and expertise, particularly related to worker rights, worker education and empowerment.

Civil society, which includes NGOs, academics, consultants and BSR, were involved in slightly different ways for each pilot. For example, in the Worker Training Pilot, an NGO selected an academic organization to work with a supplier to evaluate the training programs provided to workers and to suggest recommendations. The project team was staffed by both professors and students, which presents challenges in terms of the continuity of project teams and the project members' experience and history working with businesses.

In another case, the Worker Hotline Pilot involved an NGO with experience setting up worker hotlines. However, NGOs face challenges in scaling their activities. The NGO we spoke to as part of this evaluation had limited staff resources in terms of capacity and capability.

The lessons from the pilots for NGO involvement in capability-building projects are:

- **Trust in NGOs is lacking** among suppliers. There is a considerable wariness among suppliers that limits their willingness to engage with NGOs and may slow pilot projects.

- **NGO capabilities are limited** by their relatively small size. Their capacity to execute projects with suppliers is likely limited to a few pilots, but not scalable to a large extent. In many cases, they may not also have the capability to deliver training programs.

- **NGOs bring credibility** with external observers by providing positive recognition of companies' CSR activities, information about the local context and critical external perspectives, and by exposing on-the-ground issues. However, NGO credibility must also be recognized by the factory for the relationship to be successful.

- **A neutral third-party facilitator** may be needed to overcome suppliers' hesitancy to work with NGOs, and this may not always be effective. In the case of the Worker Hotline Pilot, despite BSR's considered recommendation of a specific NGO and the NGO's track record working with other multinational customers on worker hotlines, the supplier still did not fully place its trust in the NGO or in BSR's recommendation.

- **Determining the appropriate relationship** to establish with suitable NGOs requires knowledge, experience and judgment. Some NGOs may be capable of providing expertise and advice in a consulting role, while others are more suited to discussion and dialogue around what constitutes good practice and performance. This is particularly true in China, where NGOs are still under intense scrutiny regarding their ideology and associated service offerings. Multinational corporations need to be careful to associate appropriately within the Chinese government context.

6. Roles of Government

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July 2007 Recommendations for Government

- Mandate improvements primarily for migrant workers

- Facilitate CSR engagement through consultation about policy

- Partner with the private sector, ILO and IFC to develop a Better Work Program in China

- Endorse company best practice through a CSR award

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The July 2007 report included recommendations for government involvement in a capability-building strategy. As stated in that report, "achieving sustainable labor and environmental practices in global supply chains requires an enabling environment that is supported by the government." Specifically, government can create an enabling environment through four approaches: Mandating, Facilitating, Partnering and Endorsing.

Table 1: Public Sector Roles

Public Sector Roles			
Mandating	Set standards through laws and regulations	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	Non-binding guidance and support	Capability building through training	Creating incentives and market stimulation
Partnering	Combining public and private resources	Stakeholder engagement	Dialogue
Endorsing	Political support e.g., through CSR award	Highlighting best practices	Awareness raising

Source: BSR/FIAS

The pilot process did not test these approaches to government involvement for several reasons, which are described in the previous section, "Participant Roles." However, government must play a pivotal role in enabling CSR. The role of government and implications for the future are considered more comprehensively in the final section of this report.

IV. Summaries of Individual Pilots

1. The Customer–Supplier Mentorship Pilot

Context and Objectives

An ICT customer conducts monitoring of CSR performance at suppliers as part of its Supply Chain Corporate Social Responsibility program. In late November 2007, this customer's third-party auditor performed a two-day audit at an ICT supplier in Shenzhen. The audit report contained findings related to payment of wages and health and safety issues. Specifically, the supplier did not have an environmental, health and safety management system, and the supplier had a requirement that all overtime wages must be approved by its senior management, who are located in Taiwan. This resulted in delayed payment of wages. There was a general lack of understanding of CSR and of the customer's CSR requirements. In addition, the supplier refused to receive any training or consultancy help from outside the company. It was at this point that the pilot started with the customer and the supplier working together within the customer's existing compliance process.

The overall objective of the pilot was to understand the challenges and effectiveness when establishing a mentoring-based relationship between a customer and a supplier in order to help the supplier establish a CSR management system.

Process

After the November 2007 audit, the supplier and the customer held an in-person meeting to review the audit findings together and to discuss the customer's CSR requirements. At this time, the supplier was introduced to the Plan-Do-Check-Act (PDCA) management systems concept.

In addition, the supplier visited a peer company to observe how it manages CSR. The peer company once had very serious CSR problems, and had subsequently invested in CSR management systems resulting in significant improvements and benefits. Following this meeting, the supplier in this pilot created an action plan for improvement that includes the implementation of a CSR management system.

As a result of this pilot, the senior management of the supplier has appointed a responsible project leader and a project team to implement CSR management systems. Roles have been clearly defined and strong support from their management has been provided. The project team has implemented the PDCA process and has developed the necessary work plan to drive improvements.

Summary of Process for Customer-Supplier Mentorship Pilot:

- Customers communicate with their suppliers about CSR requirements and the necessity of setting up a management system and the associated benefits (business opportunity, risk reduction, workforce engagement)

- Suppliers assign responsible people and sufficient resources to set up their CSR management systems and implement them

- Supplier's project leader, or the project team, visits the customer's operations or those of a peer company with CSR management systems in place in order to better understand how the systems work in practice

- Regular (weekly) conference calls between the customer and supplier to review progress

Success Factors:

- The pilot built on pre-existing relationships and discussions between the supplier and customer about the need for improved management systems, and the pre-existing compliance monitoring process

- Sourcing and compliance personnel fully aligned their messages and responded consistently to supplier questions about the pilot

- The supplier assigned a project leader and a team with formal responsibilities; strong support from the management was provided for this project

- The project leader attended training sessions on EHS management systems and has subsequently trained employees as well

- The supplier learned from visiting another supplier that has successfully addressed similar compliance issues

Challenges:

- Approval by senior management of the supplier in Taiwan to participate in the pilot took several months to obtain

- Delayed supplier recognition of importance of CSR issues

- The supplier has limited awareness and knowledge of EHS management systems; obtaining proper training, understanding and by-in was challenging

Measurement of Outcomes, Costs and Benefits

Outcomes

This pilot partially achieved the objectives of helping the supplier to implement management systems for CSR:

- Supplier management is now aware of the importance of CSR. There is a new team in place empowered to implement EHS management systems with clear roles defined for each individual. A work plan is in place to set up an EHS management system.

- Overtime has been decreased from average 120 hours in November 2007 for the operators to 87.8 hours in May 2008

- Air quality in the workshop has been improved with the washing equipment safely handled

- 40% of lighting electricity has been saved since the implementation of the improvement program

- The supplier's project leader has obtained training in ISO 14001 and has trained the employees accordingly

- The responsible people are obtaining CSR knowledge from the customer through meetings, benchmarking and conference calls

- Although there is some improvement based on the audit findings in November 2007, the supplier still must continue to implement its CSR management system to meet the customer's CSR requirements. This includes ongoing capability building of the factory team to increase CSR knowledge and awareness. Some improvements include classification of wastes and labeling of chemical containers.

Capabilities Improvements:

- Supplier staff has greatly increased knowledge of CSR, particularly environmental and labor standards

- Supplier has the knowledge and the tools to implement and maintain the PDCA process within its operation

- There is now an open line of communication around compliance issues that allows the supplier to share best practices with the customer and peer companies. It also creates an open dialog for expertise and support.

Participation Outcomes:

- The supplier and customer have established a working relationship

Costs-Benefit Analysis

COST DRIVERS

From the Customer:
- Onsite audits: 9 person days

- Onsite support: 5 person days and travel costs

- 4 hours per week to participate in regular review meetings with the supplier, review action plans and provide guidance

From the Supplier:
- Dedicated people for driving this work: project leader time of at least 4 days per week and related team members' time

- Training cost: for the project leader training, employees' trainings

- Time spent for meetings on setting up the system: reviewing the management process and updating the documentation system

- Implementation time including process, documentation and training time

BENEFITS RECEIVED
- Increased awareness of CSR on the part of the supplier

- Proper planning provided a clear understanding of where to focus efforts

- Safer working environment for the employees: more preventive actions are taken, employees are trained in how to handle the work safely, and necessary protective equipment is provided to the employees

- The air quality of the workshop has been improved because of the safe handling of the washing equipment

- Cost saving from environment improvement: 40% electricity savings by changing to energy-efficient lighting

- Supplier management's demonstrable commitment to CSR and to meeting customer requirements

- Formation of an EHS management systems team

- Identification of best practice processes and systems (ISO 14001, SA 8000 and customer and peer examples)
- Safer working environment for employees

Implications for Future Activities

This type of pilot could be implemented by any customer with its own management system and compliance program or through the use of peer suppliers. The main objective is to shift the focus of the follow-up process for audits. The pilot can be implemented by the customer by working with suppliers to identify the root causes of non-compliance, setting baseline expectations for the implementation of CSR management systems, and then putting staff resources toward developing a mentorship relationship with the supplier as CSR management systems are implemented.

There are a few considerations for replicating this type of pilot:

- Customers' procurement and compliance staff must be able to work closely together to send consistent messages

- Customers must commit sufficient resources: people who can share best practices in CSR, track and review the progress with the supplier, and budget that need for on-site support, on-site review and auditing

- Suppliers must be willing to commit to the project and to more closely partner with key customers

- The resources required for this project represent an incremental shifting of resources on the part of both the supplier and customer to nurture a closer relationship

Pilot Metrics

ACHIEVEMENT OF OBJECTIVES:

- The objective was partially met because the supplier and customer have established a working relationship and because management systems for CSR at the supplier have been established.

CAPABILITIES TO INITIATE LONG-TERM CHANGE:

- The pilot has raised awareness of the supplier and set in motion plans to implement better systems, including specific training courses on SA 8000 and ISO 14001.

CONTINUATION OF PILOT:

- It is likely that the relationship established between the customer and supplier will continue.

2. The Worker Hotline Pilot

Context and Objectives

The Worker Hotline Pilot that was discussed in the June 2007 workshop involved the installation of a worker hotline and an evaluation of the effectiveness of the hotline and factory feedback mechanisms. Following an invitation from one of its key customers, a supplier was asked by a brand to participate in the pilot in order to demonstrate leadership in CSR.

Process

BSR, the supplier and an NGO hotline service provider met in September 2007 to discuss the details of the project. The meeting resulted in a defined set of roles and responsibilities and follow-up actions for the NGO to provide a detailed proposal with cost estimate and a reference from another client, and for the supplier to provide a set of key performance indicators (KPIs) to assess the NGO's performance.

As negotiations on the specific scope and deliverables proceeded, the supplier's requirements changed. Because the supplier had pre-existing worker hotlines, the project scope was changed to an evaluation of existing hotlines rather than installation of a new one. Another change that was discussed was the idea of expanding the scope to include counseling for mental health issues, which was declined because it wouldn't meet the agreed objectives of improving mechanisms for workers to provide feedback to management.

After four months of negotiations on the project, terms, scope and confidentiality, BSR, the supplier and the NGO signed an agreement for a project scope that was tailored to the supplier's situation. The agreed-upon project was an independent assessment by the NGO of the existing hotlines operated by the supplier, including worker interviews to determine workers' awareness and trust of the hotlines, and the NGO's feedback on how the supplier's hotlines could be improved.

The run-up to the project was a long process and it is worth noting the significant amount of time by all parties regarding the development of the non-disclosure agreement (NDA) in particular. The NDA went through a number of revisions and was reviewed by all parties multiple times. As a culmination of this work and of the project preparation, the project kickoff was planned for January 11-12, 2008.

One day before the launch, the supplier contacted the NGO and asked that the launch be limited to just one day and only focus on clarifying a few elements of the project that the supplier did not agree with. These elements included the sampling protocol for interviewing workers and defining in detail the questions that the NGO would ask when interviewing workers and management. The last-minute change to the project launch was due to the requested clarity in the boundaries and scope of the work that had been agreed upon, and the factory required reassurances to ensure the project scope was clearly defined for all participants.

Following the in-person meeting, the project came to an impasse, primarily due to disagreement about acceptable sampling techniques for worker interviews and concerns about the content of worker interviews (see "Challenges" described below).

Challenges

- **The supplier placed limited trust in the NGO.** In addition to exhaustive NDA requirements, the supplier raised questions about the lack of information available about the NGO, the qualifications of the NGO staff, and the service quality of the NGO's hotlines. These questions did not seem to be based on any specific cause or justification for the last-minute concerns, and the NGO is viewed as credible by several high-profile customers. The concerns instead seemed to be a result of a lack of experience working with NGOs. In the end, despite the lengthy negotiations on an NDA and the NGO's willingness to work with the supplier to address concerns, the supplier, through its actions, demonstrated mistrust for the NGO. However, the supplier explicitly stated its willingness to work with NGOs in the future, if specific concerns about the design of the project could be resolved.

- **The supplier and the NGO had different perspectives** on important aspects of the technical design of the pilot, specifically the sampling technique and the interview question set. These issues were not discussed in complete detail until the NDA was signed; therefore, they were not highlighted as concerns in advance of the kickoff.

- **Recognition of true value.** Although the supplier was very motivated to participate in the pilot project, the supplier believed that it already had an effective worker hotline. Therefore, it did not perceive a value to evaluate the effectiveness, which resulted in marginal management buy-in to the project. Ultimately, it appeared that the supplier did not value an external process whereby management and workers can engage in anonymous dialogue and feedback.

Measurement of Outcomes, Costs and Benefits

Outcomes

The project did not meet the objectives established at the beginning of the process, namely establishing an effective worker hotline, and secondly evaluating the effectiveness of the supplier's worker hotline and identifying opportunities for improvement. However, the supplier stated that the process resulted in learning about how to work with NGOs.

Cost-Benefit Analysis

COST DRIVERS

Hard Costs:

- Cost for consultants (time and travel expenses) - $4,875 USD (38,000 HKD)[5]

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[5] Using conversion rate of 1 HKD = 0.128295 USD

- Cost for hotline service (external service cost for 7,000 workers) – $1,440 USD (11,200 HKD/month)

Soft Costs:

- Time for email correspondence, conference calls and two meetings to negotiate project scope, NDA agreement and kick-off project

- Time for hosting assessment visit of consultant

- Time for receiving, handling and reporting cases

- Management & oversight costs

EXPECTED BENEFITS (as originally anticipated in the service provider's proposal)

- Enhanced upstream communication system

- Better relations between workers and management

- Identification of issues of concern by workers

- Improved remediation of issues by management

Implications for Future Activities

There are two related but distinct types of projects related to worker hotlines that may be tested in the future:

- Establishing a worker hotline and grievance process in a facility where neither currently exists

- Evaluating an existing worker hotline and grievance system

It may be more valuable from a learning perspective to test the process for establishing a new hotline, in order to better evaluate the costs, benefits and impacts from the new system. Attempting to evaluate incremental changes in an existing system is more challenging and may not be perceived by suppliers as adding sufficient value. The recommendation is to test this pilot at a supplier that currently lacks a worker hotline.

This project also highlighted important success criteria for future projects, specifically the importance of supplier buy-in and relationship building between project partners.

Additional learnings around this process are also worth identifying. Key learnings include:

- Suppliers must recognize the inherent value of the project work — i.e. they believe in and are committed to realizing the expected benefits of increased worker management communications — in order to make the work sustainable. A commitment solely to responding to customer requests is not sufficient motivation.

- One of the objectives of the pilot was to test whether suppliers could own pilot improvements without customer involvement. However, given the fact that the supplier was motivated by customer expectations initially, one of the learnings may be that customers need to be involved to provide further motivation and to reinforce the expectations and benefits associated with increased worker management communications.

- All participants need to be willing to establish new, trust-based relationships if civil society organizations are to be included in such a project.

Pilot Metrics

ACHIEVEMENT OF OBJECTIVES:

- The pilot did not meet the objectives of establishing a worker hotline system at the supplier's facility.

CAPABILITIES TO INITIATE LONG-TERM CHANGE:

- The participating supplier stated that it had learned throughout the process about working with NGOs and it remains open to working with NGOs in the future. However, no new capabilities resulted from this project.

CONTINUATION OF PILOT:

- The pilot did not proceed past the scoping stage.

METRICS:

- No metrics were collected as part of this pilot. Service provider costs reflect an estimate based on evaluation of an existing training system.

3. The Worker Training Pilot

Context and Objectives

The initial supplier that was invited to participate in this pilot declined citing no clear benefits and the work involved. Subsequently, another supplier was identified and the supplier was invited by a different customer. The new supplier operates numerous factories in Dongguan, Guangdong, making electronics products for several major brands.

An NGO was also identified as the project partner due to its experience with worker training. In September 2007, the NGO selected researchers from two universities to conduct the Worker Training Pilot.

The pilot was originally intended to implement and evaluate trainings on workers' rights and responsibilities and the link to a worker-management dialogue process. Through the course of the pilot negotiations, the objectives were refined to account for the existence of a pre-existing

training program at the supplier. The scope therefore focused on the evaluation of the pre-existing training programs at the supplier and identification of recommendations for improvements.

Process

The pilot project was scoped to have three phases, each contingent on mutual agreement among all parties. The objectives for each phase included:

Phase 1 – Benchmarking – Objectives:
The first phase focused on a review of the existing situation of worker training in the factory, focused on both the workplace conditions and the elements of the training program, including:

- Status of current training (who gets trained, when, what amount, what topics, etc.)

- Impact of the current training (what people understand, remember, learn, believe, etc.)

- Outcomes of the current training (how people behave based on this training)

- Costs currently associated with this training approach (both money and opportunity costs)

Phase 2 – Implementation – Objectives:
To make recommendations on continuous improvement ideas based on the needs identified in Phase 1:

- Implementation of continuous improvement ideas focusing on worker training to improve worker-management communication

- Measuring the success and failure of these improvements

- Providing a final report based on the above items

Phase 3 – Ongoing Cooperation – Objectives:
- To follow up on longer term work, such as an ongoing consulting relationship between the supplier and NGO/academic partners on the topic of worker training, subject to the results of Phase 2.

Several key aspects of the current workplace were reviewed including the new employee recruitment policies, the labor contract implementation, working hours and overtime, the wage system, discipline and penalty policies, work rules, employee turnover and employee organizations. The health and safety system and the welfare and security systems (food and dorm, medical, and worker entertainment) were also reviewed. Finally, the communication system between workers and managers and the mental health facilities of the factory were addressed. Both Chinese law and the EICC were references as comparison benchmarks, and performance gaps and opportunities for improvement were highlighted.

The training system was reviewed through a basic workplace survey, interviews and data gathering, starting with a review of the factory training organization. The survey looked at what training was received by the varying levels within the factory and topics of training, which included: (1) labor laws and regulation, management skill, communication skill, customer response for managers; (2) work relation, education, etc. for team leaders of production lines; and (3) factory rules, occupational skills, mental advice for line workers.

Training methods, the training procedure and the employee training tracking were all reviewed as were the testing and training effect focusing on the three types of training in the factory.

> (1) **Basic training**: This training aims to make employees acquire a general understanding of the factory, ensure they acquire basic skills, and ensure production activities are conducted in good order

> (2) **Labor rights training**: Mainly includes training on EICC and relevant laws and regulations

> (3) **Personal development training**: These are trainings that aim to improve personal capabilities of employees, such as communication skills, multiple skill training, and trainings on computer skill and English language, as well as interpersonal communication and collaboration skills training, sexual health and safety, and mental health

As of April 2008, the pilot project had progressed to the beginning of Phase 2 with the delivery of assessment findings to the supplier management.

Success Factors

- Supplier management remained committed and supportive throughout the project

- Supplier management perceived this pilot to be linked to business priorities, i.e. there were pre-existing efforts to attract and retain workers, and worker training fit within that framework

- The supplier gave the researchers access to facilities, workers and HR program managers, allowing the researchers to conduct a comprehensive assessment

- An HR program manager was available to assist the researchers

Challenges

- The researchers were concerned that negative findings about the supplier's state of compliance related to the EICC would not be well-received by the supplier. This concern caused the report to be delayed for two months, which frustrated the supplier.

Measurement of Outcomes, Costs and Benefits

Outcomes

This pilot met the intended objectives of Phase 1 by providing an assessment of the factory's training program. As of April 2008, the project is moving into Phase 2.

Phase 1 resulted in a comprehensive report on the types of worker trainings currently offered at the participating supplier's facilities. In addition, the report describes the connection between elements of the EICC, e.g. working hours and the effectiveness of worker training programs.

The supplier expressed some frustration at the missed deadlines for the submission of the interim report. Otherwise, the participants in the project were involved as much as was initially expected. In particular, the active involvement of the human resources manager was noted and appreciated by the academics in their report.

The findings from Phase 1 were presented in both written and presentation format to the factory in May 2008. Phase 2 is currently under discussion.

Capabilities Improvements:

- Phase 1 is an assessment phase, so the capability improvement s are limited to the experience gained by the researchers in performing this type of work and the HR manager in learning from the researchers through the course of the survey and through the assessment report

Participation Outcomes:

- The supplier and the researchers were actively engaged throughout the project. Data for this work was gathered through the participation and support of the factory's HR department.

- Employees of different levels were engaged and data was gathered through document review, discussion, site observation, interviews and questionnaires, among others

Cost-Benefit Analysis

COST DRIVERS

Hard Costs:

- Phase 1: Cost for consultants (time and travel expenses)

Phase One Budget:			
Transportation of trainers	300 x 4times x 4px	RMB 4,800	USD 685[6]
Professional fees of researchers	1000 x 12days x 2px	RMB 24,000	USD 3,426
Professional fees: university staff	1000 x 12days x 2px	RMB 24,000	USD 3,426
Printing		RMB 2,000	USD 285
Miscellaneous		RMB 2,000	USD 285

[6] Using a conversation rate of 1 RMB = 0.142741 USD

Total:	RMB 56,800	USD 8,108

- Phase 2: Cost of consultants (time and travel expenses)

- Phase 2: Cost of external trainers (time and travel expenses)

- Phase 2: Training materials for expanded/revised trainings

Soft Costs:
- Management and oversight costs

- Phase 1: HR manager's time for hosting research visits of consultant

- Phase 2: Internal trainers' time for additional training courses

- Phase 2: Workers' time away from production

- Phase 2: Incentives for worker participation in training (e.g. holiday time compensation)

EXPECTED BENEFITS
- Improved employee knowledge of rights and responsibilities

- Improved employee engagement and productivity

- Increased retention of workers

- Improved management and employee relations

- Phase 1: The supplier now has an independent review of its training program with recommendations on how to improve (if it chooses to implement them)

- Phase 1: The supplier can cite this pilot as an example of responsiveness to customer requests related to CSR

- Phase 2: Training programs meet the EICC requirements

Implications for Future Activities

This pilot could be replicated at other supplier sites provided that an appropriate partner is available to do the work. There are several key considerations for identifying appropriate civil society partners:

- This project requires social researchers who are qualified to conduct worker interviews and surveys, who understand the basic organization of factories, who can analyze their findings in the context of the existing worker training programs, and who can synthesize actionable recommendations

- The researchers should be aware of and understand local and international labor standards, occupational health and safety standards, and other aspects of the EICC. It is often challenging to find experts with deep expertise in both social and EHS issues.

Therefore, partnership or combined teams may be required to provide a more comprehensive set of expertise.

- There may be sensitivities around delivering "bad" news to clients. It is important for researchers and the supplier to establish expectations at the start of the project to ensure an objective and useful assessment that identifies areas to make significant improvements. It should also include action and improvement plans for non-conformances as well as preventive action plans for the future.

The costs are well detailed above. The main benefit to improved worker training programs is thought to be the ability to retain and attract employees. However, the extent of the scale of the impact that worker training has on human resources costs is unclear.

Pilot Metrics

ACHIEVEMENT OF OBJECTIVES:
- The objectives for this project were partially met because an evaluation of worker training programs was conducted; however, improvements to the training programs were not implemented within the scope of the pilot.

CAPABILITIES TO INITIATE LONG-TERM CHANGE:
- As a result of this pilot, the management of the factory is more informed about the effectiveness of its training program and the link to compliance. This may eventually result in improvements in training programs, but this has not yet been demonstrated.

CONTINUATION OF PILOT:
- The supplier agreed with the recommendations and expressed interest in implementing Phase 2.

4. The EHS Committee Pilot

Context and Objectives

In September 2007, a supplier was invited by its customer and agreed to participate in the EHS Committee Pilot project. BSR then contacted the supplier to begin the scoping process. A phone call and a kick-off meeting were held in the same month. However, once the project proposal was drafted, a significant delay ensued at the supplier due to personnel changes. Only after the customer contacted the supplier to reinforce the benefits of the project did the supplier proceed and identify someone to lead on its end. In January 2008, with new contacts identified at the supplier, the project negotiations were close to finalization when the EHS consultant became ill. BSR arranged for alternative staffing and the project scope negotiations were completed.

The intended outcomes of this pilot project were to enhance workplace communication through an EHS worker committee, resulting in improved workplace safety improvements and increased worker management communication.

The project kick-off meeting was held in February and the first assessment visit occurred in March. In May 2008, BSR and the supplier reviewed the findings of the assessment and the proposal for a second phase of work, which focused on creating a "safety culture" at the supplier facility. The supplier will likely continue to work with BSR on the second phase of the project.

Process

The EHS Committee pilot was scoped to include two phases as described below:

Phase 1 – EHS Engagement
On March 14, 2008, the EHS consultant, with additional support from BSR, visited the nominated factory for an EHS evaluation. The purpose of this visit was to take an initial survey of the current factory EHS conditions, systems and standards in order to complete a baseline evaluation and to identify recommendations for improvements. The initial visit included an overview and discussion of the EHS management system with factory staff, a factory tour and review of actual working conditions as related to EHS implementation, and a final review with the factory staff.

An evaluation report, which included an outline for the proposed next steps, was delivered to the factory in May 2008 as the primary deliverable of the first phase of this work. The second phase was proposed at the same meeting (outlined below) and is subject to negotiations and approval by the supplier.

Proposed Phase 2
Based on the findings in Phase 1, a second phase of work was proposed by the EHS consultant focused on building the foundations of a "safety culture" at the supplier. Normally, safety culture is defined as "the way we do things around here." The foundations of a good culture come from having a defined policy and setting standards and expectations, which include leadership, focus on fundamentals, and a continuous improvement process based on workplace observations.

Embedding a safety-based culture involves taking the term "safety" in its broadest sense. At the factory, major steps should be taken to improve and embed a safety culture including, but not limited to: membership in the Safety Committee; behavior-based safety analyses; building multiple layers of safety into design, plant configuration and operation; setting clear company values; application of high standards and expectations for the site; workforce orientation, training, involvement and leadership by example.

In order to embed a good culture, the following elements were proposed as part of Phase 2:

- Set up an EHS communication process between management and all employees

- Redefine the role of the EHS committee and provide training for the members of the committee on EHS management techniques

- Set up a database to measure and analyze risk behavior, unsafe conditions and injuries, as well as costs associated with identified issues

- Set up a reporting and learning share system that enables workers to report risks

- Provide necessary technical and information support during the advisory period

- Training for the EHS committee members on injury management and behavior-based safety analysis

- Training for EHS staff and safety committee participants on how to communicate on EHS topics appropriately.

As of May 2008, the supplier was evaluating the proposal for Phase 2.

Success Factors:

- The project builds on a strong pre-existing EHS system, including:

  - The supplier has an EHS management system and received ISO 14001/OHSAS 18001 certification

  - Senior management gives necessary support to EHS activities

  - EHS targets and objectives are set up and reviewed annually

- The project was able to continue despite staffing transitions

- The factory does have a basic EHS implementation process including an EHS committee. The factory is implementing 5S, the workshops are clean and neat, top management supports the EHS activities (which are reviewed annually), and basic EHS implementation tools exist (such as signs, training, safety belts, local exhaust ventilation, etc.)

Challenges:

- Multiple transitions in the staffing of this project, both on the supplier side and on the consultant side, delayed the start of the project

- In this project, the supplier was nominated by the brand and the overall perceived value of this work originally stemmed from the supplier/customer relationship instead of the value of the work proposed. This lack of intrinsic motivation, in conjunction with the turnover experienced, was a primary cause of the delay of this project.

- At the start of the project, the management felt that its EHS system was sufficient. However, the system has several gaps, including that it does not count near misses, does not identify all hazards, lacks worker involvement and a safety culture, and has low or ineffective training, an EHS committee without worker participation, and improper EHS targets for injuries.

Measurement of Outcomes, Costs and Benefits

Outcomes

This pilot achieved the objectives that were intended in Phase 1 as evidenced by the assessment report to the supplier on the baseline evaluation and improvement opportunities.

As of May 2008, the supplier and BSR were in discussions about the second phase of work.

Deliverables:
- Site visit report

- Phase 2 proposal: embedding safety culture and improving EHS committee

Further steps are currently being discussed with the supplier regarding the implementation of the above improvements in the EHS management approach in a second phase of work.

Phase 2 outcomes may include:
- The factory implements a more proactive EHS management system

- All significant risks will be identified and controlled

- Injury management practices will be more rational and related to company operations

- Workers will be taking more ownership for discovering and reporting EHS risks

- EHS committee will be the core platform for internal communication

- Workers will be proactive in voicing their concerns and suggestions

- The factory uses the EHS committee to efficiently consider and implement suggestions

- Good EHS culture will help guarantee consistency and continuous improvement in the long-term operations

- If the factory can achieve tighter injury rate under Phase 2 project support, for assumption as 50% of 2007 benchmark, the total injury case per 1,000 people per year will be decreased from 1.46 to 0.73, and total injury cases will be decreased from 131 to 65 per year in total.

Capabilities Improvements:
- The supplier now has improved knowledge of good practice in EHS committees, management systems and culture

Participation Outcomes:
- The pilot involved the supplier, an EHS consultant and BSR

Cost-Benefit Analysis

COST DRIVERS

Hard Costs:
- Cost for EHS consultants (time and travel expenses)
  - Phase 1: USD $2,700
  - Phase 2: USD $10,600

- Phase 2: Capital cost (investment in database and record gathering technology)

- Phase 2: Appropriate remediation work on identified hazards, as necessary (engineering fixes)

- Phase 2: Training costs for employees

Soft Costs:
- Management and oversight costs

- Phase 1: Two in-person meetings to scope the project and to assess the current state

- Phase 2: Employee time (to participate in EHS committee, to report and investigate EHS incidents)

- Phase 2: Training time for employees

EXPECTED BENEFITS
- Phase 1: Identification of gaps in current EHS committee, systems and culture, and identification of recommendations to improve EHS committee, systems and culture

- Phase 2: Based on an estimate of approximately RMB 3,000 per injury (in direct medical costs only) for the light manufacturing industry, a 50% reduction in injuries (based on a baseline of 131 injuries per year at a cost of approximately 393,000 RMB per year) would result in savings of approximately RMB 196,500 per year.

- Phase 2: In addition, other quantifiable benefits may include:
  - Improved employee morale with positive impact on employee retention and productivity
  - Improved productivity through reduced downtime
  - Reduced absenteeism due to injury and illness
  - Reduced government fines
  - Reduced health expenditures

Implications for Future Activities

This pilot could be replicated through the use of qualified EHS experts to identify gaps in suppliers' programs and to make recommendations for improvement. A list that identifies qualified consultants could assist suppliers in the first step of this pilot.

The Phase 2 description provides an example of what any company can do to embed a good EHS committee and system. The lessons from companies that do this well could be shared to provide peer learning opportunities. In addition, the recommended implementation plan can be augmented with concrete examples, particularly with detail on the business case for improving EHS committees.

Pilot Metrics

ACHIEVEMENT OF OBJECTIVES:
- The objectives for the pilot were partially met because the EHS committee evaluation was completed, but recommendations have not yet been implemented.

CAPABILITIES TO INITIATE LONG-TERM CHANGE:
- The EHS committee evaluation was very well received by the supplier and resulted in increased knowledge of EHS management systems and targets.

CONTINUATION OF PILOT:
- Participants in the pilot are currently seeking management approval for the next phase of work.

5. The CSR Strategy Pilot

Context and Objectives

In 2006, a supplier for the mobile communications sector was targeted in a high-profile NGO report for worker poisoning due to repeated exposure to hazardous chemicals. This caused significant issues between the supplier and one of its key customers, which significantly reduced its orders.

Based on the findings by the NGO, the supplier instituted changes focusing on workers' health, environment and occupational health and safety improvements (including ISO 14000 certification) and facilities upgrades. However, the supplier's initial efforts did not result in a return of orders. Subsequently, the supplier was interviewed as part of the initial research interviews of the FIAS ICT Capability-Building Strategy. As a result of that experience, the supplier learned more about CSR and customer expectations. The supplier decided to engage with BSR to help it establish lines of communication with its key stakeholders around the topic of CSR and to create a CSR strategy to improve its CSR performance in a way that would be transparent, measurable and credible.

Process

The project was conducted using a three-phase process to: (1) assess current performance; (2) understand stakeholder needs in order to inform the strategy; and (3) design and communicate the supplier's CSR strategy.

Phase 1: Initial Assessment
During this step, BSR helped the supplier to conduct an assessment of its systems and facilities. The assessment included:

- Outreach to customers

- Evaluation of internal processes and systems focusing on occupational health and safety and human resources

- Worker, supervisor and executive management involvement in the visioning and evaluation process

Phase 2: Strategy Formulation
BSR worked with the supplier's senior team to draft a high-level strategy for its CSR program. The strategy was based on the assessment results and included a focus on:

- Creating a shared vision among the senior management of the supplier's future based on the benchmarking work

- Specific goals, improvement targets, measurable objectives and key performance indicators to drive continuous improvement to the achieve the supplier's vision

- Facilitation of a communication platform for the supplier's ongoing work to enable a robust, fact-based and transparent communication process with customers

Phase 3: Customer Engagement
BSR facilitated a meeting between the supplier and its key customer(s) in order to introduce the supplier's new CSR strategy. The purpose of the meeting was to:

- Build alignment between the supplier and the customer(s) to ensure that the CSR approach was satisfactory for both

- Discuss and agree on a process for communicating CSR information to key supplier clients and stakeholders

- Determine if there are opportunities for partnership around CSR issues between supplier and its customers (i.e. knowledge transfer, creating a system, piloting a process, etc.)

At the close of the project, the supplier had created an open line of communication with its customers and had a well-developed CSR strategy that aligned with customer and company needs.

Success Factors:

- Supplier management perceived a clear link between CSR performance and business opportunities, mainly through negative customer actions that followed a damaging report by an NGO. The supplier therefore strongly believed that by implementing CSR management systems, it would see a direct impact on its business, which was proved true by a return of customer orders following this project.

- The owner of the supplier initiated and sponsored the project and was involved throughout the process ensuring that managers were engaged in the project and empowered to make changes.

Challenges:

- This project illustrates that there are costs to compliance and these costs can be significant. Some of the costs may be offset by other benefits, such as increased orders or price, improved productivity or employee retention. Where the costs are outweighed by the benefits, a shift from the "cost mindset" to an "investment mindset" is required.

Measurement of Outcomes, Costs and Benefits

Outcomes

This project met the intended objectives of opening lines of communication about compliance issues between the supplier and its current and potential customers, as well as implementing a CSR strategy that was transparent, measurable and credible. Deliverables completed as part of the project include:

- Customer input on customer needs and requirements

- Assessment findings

- Development of strategy and implementation plan for human resources, occupational health and safety, and worker engagement

- Public description of the factory's CSR management process, which was shared at the 2007 BSR Conference in San Francisco

Capabilities Improvements:

- The supplier is now able to engage with customers and other stakeholders in productive discussions about the challenges associated with implementing CSR management systems. At a meeting between the factory and representatives from customer and potential customers, the representatives appreciated the supplier's honest tone and willingness to proactively manage CSR performance.

- The supplier now has a strategy for the improved management of human resources, occupational health and safety, and worker engagement.

Participation Outcomes:

- Supplier's management was involved in all phases to ensure senior support of the project. Throughout the project, workers were engaged and involved in creating their own solutions and systems.

- Five global buyer representatives from the telecommunications industry attended a meeting with the supplier to discuss the supplier's CSR strategy.

Costs-Benefit Analysis

COST DRIVERS

Note: The costs for the process described above would vary considerable for a company based on its size, state, what it is producing and the requirements it needs to meet. However, this case illustrates many of the cost drivers that should be considered.

Hard Costs:
- Cost of consultants

- Costs of certifications (in this case ISO 14001)

- Capital costs of changes made

- Materials (personal protective equipment)

- Labor (wages and overtime)

Soft Costs:
- Management and oversight costs

- Implementation time including process, documentation and training

- Business development and communication time to make customers aware of CSR improvements

EXPECTED BENEFITS

- Reduced turnover due to worker loyalty because of the "non-economic compensation" represented by good CSR practices

- Better relationship with government, particularly Local Labor Bureau due to fewer worker complaints

- Less management attention necessary because CSR is being managed throughout the business

- New business opportunities and better relationships with customers

- Securing orders from both current and new customers

Implications for Future Activities

This project was a success from the point of view of both the supplier and the customer because it re-established a business relationship that had been terminated due to compliance issues. The supplier's management is willing to share the learnings more broadly and he hopes to be seen as a CSR leader among his peers.

There are several learnings from this project that have an impact on its replicability. First, projects of this kind need senior-level support. Secondly, the supplier must truly buy in to the process and objectives based on belief in the business benefits. This reinforces the link between supplier motivation and benefits related to customer business. Third, the process was resource intensive in that it required one-to-one external consulting support. Finally, it was also dependent on customers providing support, feedback and a direct link to business. Still, the process for this project is replicable. A standard consulting process was used to assess initial state, to engage with the supplier and customers to solicit feedback on an initial strategy, and to implement management system changes.

Pilot Metrics

ACHIEVEMENT OF OBJECTIVES:
- The objectives of this pilot were fully met because the CSR management system was implemented and a dialogue on CSR was initiated with current and potential customers.

CAPABILITIES TO INITIATE LONG-TERM CHANGE:
- The pilot clearly resulted in better capabilities to manage and communicate about CSR, as evidenced by feedback from a customer panel.

CONTINUATION OF PILOT:
- The management of the supplier now has a system for managing CSR, which will continue to be in place. In addition, the management will continue to discuss CSR topics with new and potential customers.

V. Overall Pilot Metrics

1. Stakeholder Commitment and Participation

Suppliers committed to the project following invitations by their customers. In most cases, suppliers' motivation stemmed from the need to be responsive to customer requests. However, in these cases, their motivation was limited because the customers were no longer involved to reinforce this message and because suppliers did not perceive there to be business benefits to participation that are aligned with their internal values and priorities. The lack of metrics that illustrate the business case for specific capability-building approaches also limited suppliers' motivation, and the lack of metrics is a major reason the pilots were initiated.

	Expected	Actual
Customer	4	4
Suppliers	4	4 + additional supplier for CSR Strategy Project
Civil Society	3	3
Government	0	0
Industry Association	1	1

Total number of different stakeholders actively participating in the pilot projects

Customers invited suppliers to participate and were kept informed of progress. The Customer-Supplier Mentorship Pilot necessarily had more customer involvement, and included the procurement staff in the project; both of these factors were viewed as key reasons for the success of the pilot. In general, more customer involvement, particularly by procurement staff, would increase the likelihood of successful projects.

Government was not involved in the pilot for reasons discussed above.

FIAS was not involved due to staff turnover in the key contact for the project.

During the course of the project, the SEIA conducted training for its members on CSR topics.

2. Benefits to Participation

In most cases, customer involvement was purposefully limited to requesting that suppliers participate and to monitoring the progress of pilot projects. In other words, the pilots tested whether suppliers could take ownership of the process and drive their own improvements with limited hands-on involvement from customers.

Overall, due to the scope of their involvement, customers' learning has been limited to high-level strengths and challenges of each pilot project. However, in the case of the Customer-

Supplier Mentorship Pilot, the customer also learned about the challenges the supplier faced in responding to audit findings due to the approval process required by senior management for all decisions. The customer also stated that it learned about the importance of having the sourcing and CSR staff work closely together to ensure the supplier understands the benefits of CSR.

Tools used will be made available to GeSI and EICC to take forward in the future. The tools will be available through the Learning and Capability Building subgroup of the EICC and GeSI collaboration.

Suppliers are receiving specific deliverables as part of the pilot projects. In several cases, these deliverables are concrete recommendations about how they can better manage CSR issues. Suppliers are also learning about working on CSR issues with NGOs, academics, consultants or customers — and about management systems in general. Suppliers also can demonstrate responsiveness to their customers' requests as a result of participation in the project.

NGOs and academics are learning about how to provide input to suppliers that can result in improved CSR management.

3. Resource Analysis

The table below sets out estimates of costs incurred as a result of the pilot project. The costs are based on an assumption of pilots of one-year duration and they reflect actual costs incurred in executing the pilots, including services provided by BSR, consultants and civil society organizations, and reimbursable expenses. However, because most of the pilots are still in early stages of execution, we have not included the costs borne by suppliers for any capital, human resource or other improvements made. Where available, these costs are described in the individual pilot sections of this report.

The table below does not include implementation of the Worker Hotline Pilot because that work did not occur; however, time spent by BSR in the scoping process for that pilot is included in "Overall Project Management." In addition, the CSR Strategy Pilot was initiated directly by the supplier; therefore the cost of this project is not included in the table above.

Where costs are unknown, and time spent by suppliers or customers in the project are significant cost drivers, estimates of time are included where available.

	Full Time Employee Equivalent	Costs (in USD)

Overall Project Management		$ 74,949[*]
Customer-Supplier Mentorship	Customer 0.0 − 0.25 Supplier ?	$ 860 $ 5,870
Worker Training	Supplier ?	$ 8,108
EHS Committee	Supplier ?	$ 2,700
Total		**$ 95,187**

The EICC/GeSI, BSR and other partners dedicated almost $100,000 USD over the previous year to test four specific approaches. By contrast, training projects that BSR has implemented have reached more than seven times as many suppliers for only double the cost. Therefore, the approaches tested in the pilot should be recognized as more resource intensive than training and as achieving different objectives.

The implications for capability-building approaches in light of the resource implications highlighted above are discussed in the following section.

VI. Recommendations for Replicability and Scalability

Capability building is an emerging approach to enable continuous improvement in the management of international social and environmental requirements. In concert with communications, monitoring and training, capability building is a core component to the ICT industry's approach to improving social and environmental conditions throughout the ICT supply chain.

In this context, the pilots should be seen as an experiment to test effective approaches to capability building. There are a number of challenges related to the scale and scope of capability-building activities. One challenge is funding the work in terms of who pays, what they get and over what timeframe. In addition, there is a clear need for multiple approaches to capability building; however, exactly what these approaches involve is still being explored. In addition, while each stakeholder has a unique contribution to make, there is a need for coordination of efforts to ensure alignment. With these challenges in mind, we provide the following set of recommendations for taking the pilots forward in a scalable manner that builds on the lessons from the pilot projects.

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[*] The cost for Overall Project Management includes the effort required to interview project participants

1. Funding Model

The amount of resources invested in this project over a relatively short period suggests that the approach must be adjusted to be replicable and scalable. In this section, we include recommendations for a funding model that may be more sustainable and examples of what activities could be covered.

1. **Suppliers pay for increased capabilities at the facility level.**

   - Supplier funding for services to improve their capabilities was one of the key elements that this project tested. Overwhelmingly, this project confirmed that supplier funding is a key success factor because supplier funding ensures a minimum level of supplier engagement. Supplier funding creates more supplier ownership of the process, i.e. suppliers have more leeway to initiate and scope projects that meet their specific needs. They also have more invested in the success of the projects.

2. **A wide range of stakeholders fund outreach, convening, dialogue and facilitation.**

   - This project confirmed the need for a process that continually aligns stakeholder expectations related to capability-building activities. This could manifest in a number of specific activities, such as convening, networking and other communications that are described further below.

   - This need is shared across the different stakeholder groups; therefore, a collective funding mechanism for this type of activity makes sense, both in terms of cost effectiveness and in terms of equity of effort.

3. **Segment projects into discrete short-term phases.**

   - Each of the pilots relied on a standard consulting process to assess the initial state, develop a strategy and implement management systems changes. In cases where BSR proposed multiple phases to suppliers, they agreed only to the first phase, while agreeing to consider subsequent phases upon completion of the first. This suggests that suppliers are more likely to commit to multiple-phase projects that run for shorter timeframes, rather than a single sweeping long-term project. This requires service providers to be flexible and to take on the risk of not winning follow-up work.

   - Suppliers are more likely to understand and realize the benefits of a project and make a long-term commitment if they are able make demonstrable progress in an initial phase.

   - Although change requires a timeframe of at least several years, suppliers are more likely to commit to projects that have a shorter timeframe, for example six to 18 months. In addition, funding is less challenging when the up-front commitment is reduced, the cost is spread over time, and the benefits can start to be realized.

   - Challenges with discrete phases of work may involve turnover in staff between phases and the need to review previous work and retrain personnel.

4. **Move from a cost mindset to an investment mindset.**

- As stated in the July 2007 report, the costs of implementing CSR standards are immediate, while potential benefits are long term. Further, most factories do not have the systems in place to track relevant data and measure the costs and benefits of their CSR investments. It is therefore difficult for suppliers to make strategic decisions in this regard.

- Viewing CSR management systems as an investment rather than a cost will require several changes in the management practices related to capability building:

   - The challenge with metrics in the cases of all the pilots is that there was no starting data, so there was no baseline from which to measure. Collecting metrics is the absolute minimum requirement in order to establish a baseline from which to evaluate costs and benefits. In addition, beyond a one-time baseline data collection, systems to collect data on an ongoing basis have to be installed. For example, the supplier participating in the EHS Committee Pilot does not track near misses yet, so there is no way to report on the data.

   - The period of time over which benefits can be expected to materialize is longer than the scope of the pilots to which suppliers committed. In order to justify the effort of participating in pilots, they must be seen as investments. More work is needed to specify the timeframe over which benefits can be expected to materialize.

   - The funding required to fully implement the individual pilot approaches described in this report can likely be financed out of operating budgets at factories. However, significant investments in capital, in labor or services that are on a larger scale (such as construction of wastewater treatment plants), changes in working shift schedules, etc. may require financing mechanisms that currently may not be available.

5. **Identify resources required to execute projects, either internally or externally, and improve them.**

- All the pilot projects could be implemented using internal resources, provided sufficient skills, knowledge, expertise and credibility are available internally. In many cases, a third party may be a more efficient and effective option, but this may not result in sustainable change within the facility.

- The pilot projects resulted in a number of deliverables that will be made available for use in similar projects. For example, the EHS Committee Pilot created a number of deliverables that could be made available to support other projects of this type. These tools will be made available through the Learning and Capability Building subgroup of the EICC and GeSI.

- More case studies are needed to clarify the strengths, challenges and results of pilots of each type in order to allow suppliers to evaluate the appropriateness of each type of pilot for their own businesses. The learnings and tools from pilots could be updated

and communicated through a central resource, such as a web site or local industry networks.

6. **Integrate capability-building approaches with current touchpoints at suppliers.**

- The Customer-Supplier Mentorship Pilot highlights a cost-effective approach to building capability at suppliers. Through ongoing interactions that relied on the existing resources at the customer, namely the procurement and compliance staff, the customer was able to influence the supplier to take definitive steps toward better CSR management systems.

- For customers that have already scaled up their compliance functions, they could modify their approaches to emphasize continuous improvements at the suppliers and internal alignment of compliance and procurement activities at their own companies.

- For customers that don't currently have compliance staff, they could focus on empowering and/or requiring their procurement staff to incorporate compliance and continuous improvement conversations into their existing business relationships. This would require training of procurement staff and additional time managing this aspect of the supplier relationship. In addition, to be sustainable, procurement staff must be held accountable for the outcomes of this activity through, for example, incorporating supplier scores into performance reviews of procurement staff.

2. Multiple Approaches

Suppliers' capabilities to manage CSR can be seen as a continuum beginning with basic awareness and progressing through senior management commitment to management systems implementation and finally to embedded CSR culture. Depending on where a specific supplier is positioned on this continuum, different approaches to capability building will be more effective than others. The approach taken at any specific factory will vary depending on the state of compliance, management awareness and commitment related to CSR, customer pressure or incentives, and external factors affecting the supplier's business.

The pilots considered in this project are most appropriate to suppliers with established commitments and basic systems in place, rather than suppliers that have only basic awareness of CSR requirements. Therefore, it is imperative that multiple approaches are used to build suppliers' capabilities in order to be a truly scalable solution. While standardization is a major driver for monitoring programs, there is a clear need for multiple approaches in order to achieve scale and to use resources most effectively.

The lessons from the pilots confirm that there is no one-size-fits-all approach to capability building, both in terms of the process for making improvements and in terms of the content knowledge and expertise required.

We highlight the main capability-building approaches on the following page. They are arranged in order from most scalable to least scalable.

1. **Integrate learning and capability building into auditing.**

   - Customers' audit processes are an opportunity to investigate root causes of major non-compliance items and to provide guidance and advice to suppliers to improve CSR management systems. As much as possible, capability building should leverage existing compliance activities and knowledge. For example, if audit results and corrective action plans emphasize that improvements are necessary across a number of health and safety issues, the improvement of health and safety management systems should be prioritized. There may be opportunities to integrate the capability-building aspect of audit processes into a standardized industry process.

2. **Provide tools that suppliers can access and use independently.**

   - Suppliers that recognize the need to improve CSR management strategies and that have internal commitment and resources to dedicate to their efforts may benefit from publicly available tools to implement CSR management systems on their own. Tools that promote learning by suppliers in the areas of CSR management systems and techniques — including case studies of costs, benefits, and how to build the organizational capabilities to manage specific CSR issues — would be useful.

3. **Provide standardized group training on major areas of non-compliance.**

   - For common areas of non-compliance, a standardized training curriculum and recurring training program would increase awareness and knowledge of suppliers on key CSR topics. Training can be provided through a variety of channels — for example, onsite, offsite or virtually — and can reach a group of suppliers in a cost-effective way.

4. **Create or support a learning network for suppliers.**

   - Organized learning networks can support individuals that work on CSR by providing a forum to share knowledge and experiences. In particular, peer learning has been proven to be very effective in other capability-building efforts. For example, the customer in the Customer-Supplier Mentorship Pilot brought the supplier to meet and learn from the supplier in the CSR Strategy Pilot. A network of peers focused on building capabilities for CSR management systems has also proved to be an effective forum for suppliers to share and learn from each other. "Peer pressure" is also a motivator for suppliers to improve their performance.

5. **Provide customer-supplier mentorship for continuous improvement.**

   - The Customer-Supplier Mentorship Pilot confirmed that customers can play an effective role in motivating suppliers to establish CSR management systems and in providing hands-on advice and expertise to suppliers as they move through the CSR management systems implementation process. Establishing and maintaining this type of relationship requires an ongoing commitment of time and effort that is not as scalable as other approaches. As such, this approach is most appropriate when there are mutual benefits to partnership between suppliers and customers.

6. **Customize projects.**

- The capability-building approaches that were tested in this project provide a starting point for several aspects of compliance, including worker training, worker-management communication and feedback, EHS committees and CSR management systems generally. Where these needs exist at suppliers, the learning from the pilots could be leveraged.

- The importance of supplier ownership and input to the scoping process for pilots reinforces the need for projects to address each supplier's business context and priorities. However, a customized approach is inherently less scalable than a standard, one-size-fits-all approach.

- Suppliers should drive this type of project, while customers or other stakeholders can help suppliers connect to the individuals or organizations with the skill sets and capabilities to help address specific needs.

- Multiple stakeholders can also continue to test other aspects of CSR — for example, other aspects of worker-management communication and feedback, or specific environmental, health and safety management capability-building approaches — in order to identify the type of projects that provide the most benefit. For instance, environmental issues are gaining significant momentum in China and capability-building efforts could accelerate increased awareness and activity related to the environment. Pilots could facilitate the creation of tools and training curricula that are inherently more scalable.

3. Stakeholder Involvement and Commitment

As described in the July 2007 report and as reiterated in this report, each of the recommendations contained in the capability-building strategy for the ICT sector in China is dependent on the others to be successful. Specifically, for the strategy to be successful, contributions are required from each different type of stakeholder as outlined below.

1. **Suppliers should begin with ensuring senior management commitment to CSR and assessing which CSR management system improvements to make first.**

- Because senior management commitment to CSR is a necessary pre-condition to making CSR improvements, suppliers should prioritize articulating the business case for CSR and establishing buy-in from key executives.

- Suppliers should consider their business priorities as well as customer requirements when prioritizing potential CSR improvements.

- Suppliers should consider joining networks that can support CSR improvements, such as peer networks focused on specific topics, e.g. EHS management systems or human resources management.

2. **Customers should focus on equipping their employees to provide mentoring to suppliers to ensure alignment of compliance and procurement activities.**

- Customers can build suppliers' capabilities through mentoring, coaching and knowledge transfer related to CSR.

- Customers can leverage their existing compliance processes by ensuring that compliance and procurement staff are communicating mutually reinforcing messages. In addition, customers should examine their monitoring activities to ensure they are identifying root causes and supporting improvements in management systems.

- Customers need to accept that until suppliers are genuinely committed to the need for CSR, customers will need to continue to be one of the main drivers, and that this may not always be enough.

3. **Civil society organizations should focus on providing services to factories and providing input on the direction of the industry's capability-building efforts.**

- NGOs and consultants should be involved in pilot projects under specific conditions. Both should be paired with companies to work on pilots when a trusting relationship exists, when they provide a specific skill set that suppliers are lacking, and/or when they are perceived to bring credibility to the project.

- Civil society groups should be involved in multi-stakeholder discussions and be informed of progress. NGOs add credibility to the industry's efforts and they should be invited to discuss issues, challenges and solutions with other stakeholders. They should also receive regular communications on the progress the industry is making toward solutions.

- This pilot has demonstrated the issue of "two-way trust." To participate in industry discussions, NGOs also need to be willing to be transparent, to demonstrate their qualifications and previous successes, and to show mutual respect. NGOs need to be willing to truly partner and to have all participants agree on the rules of engagement.

4. **Government should participate in multi-stakeholder discussions about CSR in the ICT sector and focus on creating an enabling environment for CSR.**

- The involvement of government agencies and leaders is critical to the long-term sustainability of capability-building efforts in China. Government lends legitimacy and credibility to efforts. Communication with MOFCOM, Trade and Development Agencies, the new Ministry of Environment, Local Labor Administrations, and other government bodies helps to legitimize and build support for the efforts of the industry.

- Government can create an enabling environment in a number of ways. One key aspect is financing. Policies that encourage the availability of financing for CSR capability-building improvements could scale up these activities considerably.

- It is challenging, however, to find appropriate ways for the government to be involved. This may be less of a challenge in areas with clear alignment between government policy and CSR objectives.

5. **Industry associations should focus on communicating with their members.**

- The SEIA and other industry and professional associations can communicate within their networks to raise awareness of CSR and to reach a broader audience of manufacturers in China.

6. **Multilateral institutions should focus on convening stakeholders and in particular bringing government to the table.**

- The World Bank and IFC, BSR and other agencies can bring together diverse stakeholders to address long-term goals and provide support to suppliers and others working to improve conditions throughout the ICT supply chain.

4. Conclusion

The pilot projects confirmed a need for ongoing work at the factory level in addition to the need for broader collaboration and dialogue among a wide range of stakeholders.

The impact and cost-effectiveness of capability-building efforts at the factory level should be evaluated and communicated on an ongoing basis. For example, regular communications updates to stakeholders on progress and challenges faced in implementing capability-building approaches will allow for the most effective approaches to become well known.

In addition, the importance of aligning activities among multiple stakeholders cannot be overemphasized. Ongoing collaboration builds trust among stakeholders, identifies the incentives that are necessary for systemic change, and establishes credibility for capability-building efforts. Ongoing discussion, networking and dialogue are necessary to ensure that activities are mutually reinforcing rather than redundant.

In the end, stakeholders need to trust that their own efforts are being complemented and supported by other stakeholders' efforts and that the industry as a whole is moving toward shared objectives.