



USING MANAGEMENT SYSTEMS FOR SOCIALLY RESPONSIBLE PRACTICES IN SUPPLY CHAINS

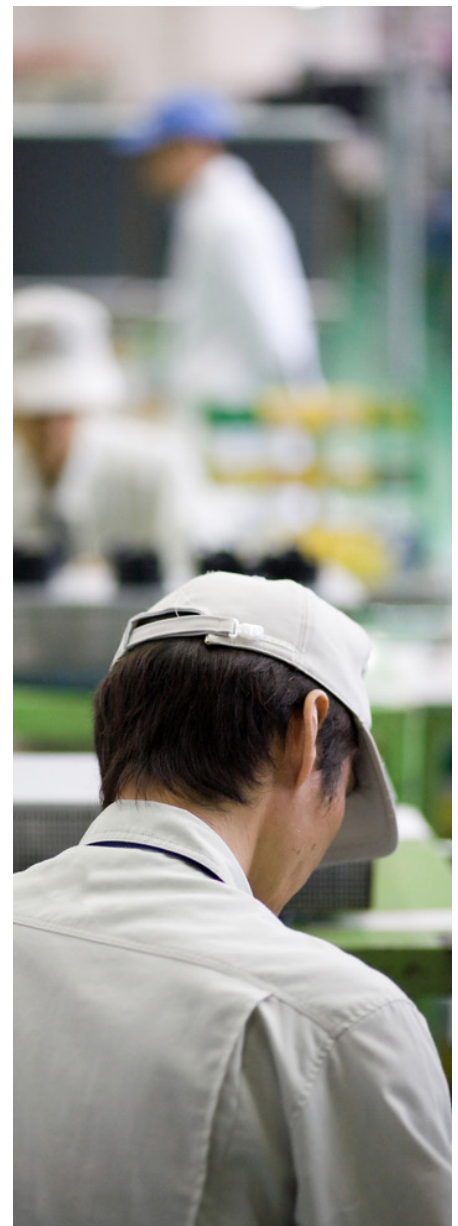


Using Management Systems for Socially Responsible Practices in Supply Chains

Corporate social responsibility programs are an essential aspect in the business model of many global organizations, and are responsible for fundamental societal changes around the world. However, supply chain partners often have inadequate systems and procedures in place to implement and manage the social responsibility requirements of their client organizations. Further, when instances of non-compliance are identified, efforts are often focused on addressing symptoms instead of root cause issues. As a result, instances of non-compliance are likely to continue and overall efforts to meet social responsibility standards can be compromised.

A formal management system describes in detail the policies and procedures that an organization follows in order to meet a specific set of objectives. Initially introduced in the 1970s and 1980s to provide a framework for quality improvement programs, formal management system structures are used today in a wide range of organizations as a foundation for employee health and safety programs, environmental initiatives, energy conservation efforts and, now, social responsibility policies and practices. Effective management systems are an effective capacity building tool that can significantly improve the performance of a supplier's social responsibility program, reduce the risks associated with undesirable practices and make more efficient use of valuable resources.

This UL white paper discusses how the application of a management system framework can help suppliers achieve and maintain the social performance requirements of their customers and client organizations. Beginning with a brief overview of the challenges of achieving social performance objectives throughout an organization's supply chain, the paper then discusses the management system framework and how it can be applied to social responsibility policies and practices. The white paper provides information on the tasks involved in implementing a social performance management system, and concludes with a list of the benefits derived from adopting a management system framework for driving social responsibility performance.



Challenges in Achieving Social Performance Goals in Supply Chains

The ability to develop effective working relationships with suppliers all over the world provides businesses with a number of important advantages in a globally competitive marketplace. Working with global suppliers can support an organization's efforts to maintain quality, control costs, increase production flexibility, and reduce time to market. At the same time, the use of global supply chains introduces a number of complexities and challenges to an organization's business model. Aside from the effort needed to manage a more complex functional structure, global supply chains can also require significant investments of time and money to realize their full potential.

These supply chain challenges are considerably magnified when an organization embraces the concept of corporate social responsibility and seeks to adopt social performance goals across its entire operation, including its global supplier network. Some of the key challenges facing organizations in this transition include:

- **Lack of clarity in social performance goals**—A major reason for supplier non-compliance with social performance goals can be traced to the failure of a client organization to clearly articulate the importance of these goals or their expectations regarding performance. In the absence

of a clear imperative, suppliers can be expected to perform in a manner consistent with their standard practices, which may or may not properly address social responsibility concerns.

- **Lack of adequate oversight of supply chain activities**—Even when social performance goals are clearly presented to a supplier as a requirement for doing business, organizations often fail to adequately monitor supply chain activities for compliance with those goals. The lack of adequate oversight can send a message to suppliers that compliance with stated social performance requirements is optional.
- **Failure to effectively respond to supply chain deficiencies**—Client organizations often facilitate continued non-compliance with social performance goals when they fail to respond consistently and effectively to deficiencies among suppliers. As previously noted, the lack of an effective response by client organizations gives suppliers latitude to ignore social performance goals altogether or to choose only those goals they wish to apply.
- **Failure to identify and assess root causes of non-compliance**—A consistent and timely response to supplier non-compliance can be compromised by focusing only on the symptoms of non-compliance and failing to identify the root

cause issues. Although such an approach may temporarily suffice to address a problem in a crisis, it seldom provides the fundamental fix that permanently prevents that problem from recurring in the future.

- **Divergence of social performance ideals from cultural norms**—Finally, the values embedded in an organization's social performance goals may be dramatically different from those at the heart of the cultural, social or economic context in which a supplier operates. In such cases, the demands of dealing with conflicting values place a supplier in the difficult position of having to choose which values will prevail.

In an effort to address the challenges of implementing social performance goals across supply chains, client organizations and suppliers are increasingly applying the principles and practices embodied in a management systems framework. This framework provides a clear structure for implementing and maintaining an effective corporate social responsibility initiative throughout an entire organization, including supply chain partners. For suppliers, a management systems framework can also be an important capacity building tool that can support compliance with a client organization's social performance goals while strengthening a supplier's overall performance and effectiveness.

The Management Systems Approach

The term “system” is generally used to define an interacting or interdependent group of items that form a unified whole. On this basis, a management system can be understood as the combination of procedures, processes, resources and organizational structure required to effectively support an organization’s effort to achieve its performance objectives in a given area. In organizations today, management systems are an essential tool in managing performance related to product quality, the environment, energy usage, health and safety practices, and socially responsible behavior.

Management systems are generally structured in accordance with the steps identified in the so-called Deming Wheel (see Figure 1), named after the renowned quality consultant Edwards Deming. The Deming Wheel, also known as the PDCA Cycle, consists of the following four steps:

- **Plan**—An organization identifies and defines a specific problem. The planning step also includes the development of a specific plan or process to achieve the desired improvement.
- **Do**—In this step, the plan or process created to address the problem is implemented. Performance data is gathered for later assessment.
- **Check**—Then, performance data is evaluated against the plan to assess the results. In this step, the plan or process may also be evaluated to determine its appropriateness to the stated improvement objective.
- **Act**—In this step, an organization evaluates any gaps between the planned and actual performance, and modifies the plan to close the performance gap. Alternatively, the plan can be modified to further improve performance.

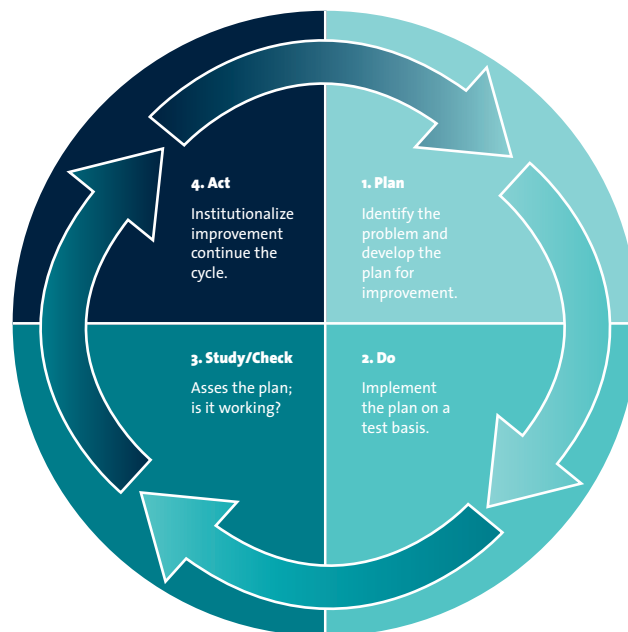


Figure 1: The Deming Wheel (PDCA Cycle)

As the cyclical framework implies, the “plan-do-check-act” (PDCA) sequence can be infinitely repeated. This makes it an effective tool not only for addressing specific performance issues but also for promoting and sustaining continuous improvement efforts.

In addition to the PDCA framework, all effective management systems integrate five key elements, as follows:

- **Policies and procedures**—An effective management system begins with the development of formal policies and procedures that prescribe the activities and behaviors necessary to achieve the desired outcomes.
- **Communication**—Next, policies and procedures must be effectively communicated throughout the organization, so that employees and associates understand their importance and how they apply to their assigned functions.
- **Training**—In most cases, communication must be accompanied by specific training programs and initiatives that enable employees to consistently and satisfactorily execute the activities prescribed by a management system’s policies and procedures.
- **Tracking and measurement**—Actual activity must be systematically tracked and activity performance data recorded to assess whether actual activities comply with the prescribed policies and procedures.

- **Accountability and enforcement**—In cases where actual activity is found to deviate from prescribed policies and procedures, appropriate actions are taken to address noncompliant activities and behaviors.

These key elements in combination with the PDCA framework result in a robust and dynamic system that supports continuous performance improvement.

To support the widespread adoption of the management systems approach, international standards have been developed that detail management systems requirements in a number of key areas. These include quality management (ISO 9000 series), environmental management (ISO 14001 series), occupational health and safety management (ISO 18000 series), and energy management (ISO 50001). The breadth and variety of available management systems standards attests to the effectiveness of the management systems approach in helping organizations promote and sustain performance improvement efforts.

Management Systems for Socially Responsible Practices

The increased interest in corporate social responsibility has spurred the application of a management systems approach to encourage socially responsible practices by organizations and their suppliers. In recent years, a number of social responsibility standards and frameworks incorporating management systems principles have been introduced. Although these standards differ in the

scope of socially responsible practices that they address, they typically cover some or all of the following core areas:

- Human rights, including civil, political, economic, social and cultural rights
- Labor practices, including workplace conditions and worker health and safety issues
- The environment, including the prevention of environmental damage and the use of sustainable resources
- Operating practices, including fair competition, respect for property rights and the avoidance of corrupt business practices
- Consumer issues, including the protection of consumers’ health and safety, and customer service, support and dispute resolution
- Community involvement, including support of the local economy through employment and skills development, as well as education and cultural initiatives

In addition to addressing specific areas of socially responsible practices, each standard or framework takes a different approach to demonstrating compliance. Some standards mandate third-party verification, and maintaining certification may require periodic compliance audits. Other approaches require adherence to a standardized reporting format. Still others simply offer guidance or recommended practices, and do not verify or certify compliance.



Here is a brief summary of some of the social responsibility standards currently in use:

- **ISO 26000**—Released in 2010, ISO 26000—Social Responsibility is intended to provide guidance to organizations and businesses on the key principles of corporate social responsibility, including human rights and labor practices, environmental sustainability, fair operating and marketing practices, and community involvement. Unlike other ISO management systems standards, ISO 26000 does not prescribe requirements, and compliance with its guidance does not result in certification.
- **SA 8000**—SA 8000 was originally published in 2008 by Social Accountability International (www.sa-intl.org), a nongovernment organization committed to the protection and advancement of worker human rights. Its social accountability requirements focus primarily on labor practices, including child labor, forced labor, worker health and safety, work hours, and compensation. Compliance with SA 8000 is verified by independent third-parties, and SA 8000-certified organizations are subject to periodic audits to verify ongoing compliance.
- **Electronic Industry Citizenship Coalition (EICC) Code of Conduct**—The EICC (www.eaic.info) is a coalition of global electronics companies committed to “social, ethical, and environmental

responsibility in the global supply chain.” The EICC’s Code of Conduct offers guidance for socially responsible practices regarding the environment, health and safety, labor practices, ethics, and management systems. Organizations are encouraged to adopt the Code and integrate its principles into their procurement practices, but the Code does not include provisions for compliance verification.

- **Global Social Compliance Programme (GSCP)**—Similar to the EICC, the GSCP (www.gscpnet.com) is a consortium of approximately 40 global companies committed to improving working and environmental conditions in global supply chains. The GSCP offers a suite of reference tools that describe social performance best practices regarding human labor and workplace health and safety across an organization’s entire supply chain. GSCP members and nonmembers are encouraged to use this and other GSCP reference tools, but the GSCP does not audit or monitor compliance.
- **Global Reporting Initiative (GRI)**—The GRI (www.globalreporting.org) provides a standardized sustainability reporting framework covering an organization’s economic, environmental and social performance and impacts. Reporting requirements are detailed in the GRI’s Sustainability Reporting Guidelines (G4), which are generally aligned with other

social responsibility standards and frameworks. The GRI does not audit or monitor sustainability reports for compliance with its Guidelines.

Regardless of the differences in their approach or verification mechanism, these and other social responsibility standards validate the management systems approach as an effective tool for translating social responsibility goals into actionable business practices and processes. By applying a management systems approach, suppliers are better able to meet the corporate social responsibility requirements of client organizations, while strengthening their overall performance.

Management Systems for Social Responsibility in Practice

Two recent UL engagements illustrate the benefits of using a management systems approach in achieving and sustaining socially responsible practices among supply chain partners and suppliers.

In the first engagement, regular social compliance audits of a Cambodian-based supplier for a global retail chain routinely identified violations of the retailer’s age and gender discrimination policy in hiring practices. The repeated violations involved hiring notices posted outside of the facility that stated an upper age limit of 35 for job applicants, a clear violation of the supplier’s policy. Initial efforts to identify the non-compliance pointed to a lack of understanding by production managers of the retailer’s nondiscrimination policy as well as a lack of training for those persons involved in the hiring process. Unfortunately,



even with stepped-up communications efforts and new training initiatives, the discriminatory practices continued to be identified in subsequent social compliance audits.

UL's advisory team conducted an extensive root cause analysis of the nondiscrimination policy violations, evaluating all of the supplier's activities in connection with each of the five key management systems elements. In conducting this analysis, the team discovered that the administrative department responsible for generating hiring requests was continuing to use forms that requested age-related information. As a result, factory job requisitions continued to include applicant age requirements, which ultimately appeared in hiring notices posted outside the supplier's facility.

The UL team's analysis also uncovered a number of critical deficiencies in the implementation of the supplier's nondiscrimination policy, including the absence of procedures to implement the policy (Policies and Procedures) and the lack of an enforcement mechanism to deal with non-compliance (Accountability and Enforcement). Ironically, the analysis showed that the supplier's training and communication efforts (the elements identified in the original diagnosis) consistently supported its nondiscrimination policy,

In a second engagement involving a food packaging plant in California, three separate social responsibility audits conducted over an 18-month period reported findings of verbal harassment of employees by production line leaders.

In each instance, an analysis identified inadequate training at the supervisor level, and poor management oversight by the plant's human resources function. To address the problem, supplier management and production line leaders were given additional training regarding workplace harassment, and efforts were undertaken to strengthen the HR function.

However, when evaluated from a management systems perspective, UL's advisory team determined that the verbal harassment of employees actually stemmed from a more complex set of issues. First, the plant's aging infrastructure created a number of production bottlenecks as well as processing areas where food products were at increased risk of falling on the floor. These issues led to higher levels of food waste. In addition, approximately 70% of the plant's employees were temporary workers, a group subject to high turnover rates. These temporary employees received little training before being assigned to the production line, resulting in frequent mistakes.

These and other factors produced growing frustration among production line leaders, resulting in the high incidence of verbal harassment. The UL advisory team recommended additional training for production line employees, particularly training to handle emergencies that could lead to mistakes, as well as preventative training for production line leaders.

In both of these engagements, non-compliance with social responsibility requirements were the result of

system-related root cause issues, usually involving multiple functions and multiple participants. As such, initial surface-level efforts to address non-compliance proved ineffective. Although addressing root cause issues typically involved additional training, it also required evaluating systems and procedures to identify previously undiscovered problems, and taking steps to minimize or eliminate unintended or unanticipated consequences.

Benefits of the Management System Approach for Promoting Socially Responsible Practices

As these examples illustrate, a management systems approach can be a powerful tool to diagnose the root causes of non-compliance performance, better enabling suppliers to achieve social responsibility performance objectives. The use of management systems for promoting socially responsible practices also provides the following additional benefits:

- **Stronger overall performance—** The use of a management system approach not only strengthens performance in connection with social responsibility goals, but is also an effective capacity building tool that contributes to improved performance in all areas of an organization.
- **Increased accountability—** A successful management system assigns responsibility to individual employees, who are not only accountable for nonperformance but who are also empowered to address performance challenges



and initiate innovative solutions where required.

- **Greater employee productivity, morale and commitment—** Individual accountability can lead to greater employee engagement and commitment to an organization's goals, resulting in improved morale and increase productivity.
- **Improved stakeholder relationships—** Corporate buyers committed to social responsibility goals are more likely to favor suppliers who demonstrate a clear commitment to continuous improvement. Suppliers who implement a management systems approach to achieve social responsibility goals can increase their opportunities with socially conscious buyers.

Although these benefits make a compelling case for the use of a management systems approach to promote socially responsible practices among supply chain partners, it is important to note that a management system for social responsibility may not be an appropriate solution in every case. The implementation and maintenance of an effective management system involves a significant commitment of time and resources. For some suppliers, the level of investment required may

simply be beyond their reach. Further, depending on a supplier's importance in the supply chain, routine audits and other mechanisms for assessing social compliance may be sufficient. Accordingly, management systems should be viewed as one of several options available to help suppliers achieve the goals of corporate social responsibility programs.

Summary and Conclusion

The management systems approach has been successfully used for more than 30 years to support continuous improvement efforts in a wide range of organizational activities. The management systems approach is now being employed to achieve compliance with the social responsibility goals of corporate social responsibility programs, addressing issues such as human rights, labor and operating practices, consumer issues and the environment. Although not appropriate in every circumstance, the management systems approach offers a number of important benefits to suppliers and corporate clients, and represents a viable option in promoting the use of socially responsible practices among suppliers.

UL's Responsible Sourcing group is a leading global provider of responsible sourcing auditing and advisory services. Our mission is to be the global leader in advancing sustainable business practices

within supply chains, worldwide. Drawing from extensive industry knowledge and best practices, UL delivers innovative, customized responsible sourcing solutions through six areas of expertise: Social Responsibility and Accountability, Risk Identification and Management, Environmental Responsibility, Brand Protection and Supply Chain Security, Extractives and Raw Materials Sourcing, and Capacity-Building and Continuous Improvement.

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