Creating a Holistic Social Responsibility Supply Chain Risk Management Program

Presented by:
Courtney Foster
Supply Chain Solutions Manager - EMEA
Agenda

• Introduction to BSI Supply Chain Solutions

• Importance of understanding Social Responsibility risks
  • Brand Protection
  • Customer driven importance

• Review government legislation relevant to Social Responsibility practices
  • UK Modern Slavery Act
  • EU Conflict Minerals initiative
  • Anti-Bribery legislation

• Understanding a best practice approach to mitigate ethical risks in supply chains
  • Country risk
  • Supplier-specific risks
  • Auditing practices and reporting
Who is BSI?
Welcome to BSI – Over 100 Years of Innovation

• 1901 - World’s first National Standards Body
• 1947 - Founding member of International Standards Organization (ISO)
• BSI issues over 2,000 standards each year
• Carry out 150,000 assessments each year in over 160 countries

BSI Supply Chain Solutions

• Over 20 years experience assessing global supply chain threats
• Provider of Supply Chain Intelligence to global government and to commercial clients
• Proprietary Risk Modelling relating to supplier compliance and assessment management
• On-site Auditing in 150+ countries annually
A truly global brand and network - trusted and recognized

- Clients in 150 countries
- 61 offices worldwide
- 3 regional hubs in UK, US and Hong Kong
- Global key account management
- Facilitating governance, risk & compliance
- Certifying and verifying global suppliers
- Stimulating international trade
Defining Social Responsibility

Why is it so important?
What is **Corporate Social Responsibility**?

United Nations definition:

“Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.”

Key CSR issues: environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.
Your **REPUTATION** is your **Brand**

87% of Executives say a strong **corporate** brand is just as important as strong **product** brand

60% of a company’s market value is attributable to its **brand reputation**

70% of consumers avoid buying a product if they don’t like or **trust the company** behind the product

Source: Weber Shandwick, *2012 The Company behind the Brand: In Reputation We Trust*
Why is Corporate Social Responsibility Important?

- PwC has found that 88% of millennials choose employers based on strong CSR values, and 86% would consider leaving if the companies’ CSR values no longer met their expectations.

- CSR is responsible for more than 40% of a company’s reputation.

- 30% said that they expect to increase the amount of goods and services they buy from socially-responsible companies.

- 340 million fewer liters of water used in denim production.

42% of a company’s reputation is driven by perceptions of Citizenship, Governance, and Workplace.

Source: Reputation Intelligence Winter 2013
External Suppliers are a Part of Your Business

Take corporate social responsibility policies externally

Many companies implement social responsibility management systems to encourage an ethical workplace at their own internal sites.

It is important to then take these ethical practices and push them outwards to your supplier base. Your suppliers are absolutely critical points for your business.
CSR Risk Management

• Business Ethics
• Conflict Minerals
• Waste Management
• Environmental, Health and Safety
• Human Rights
• Labour Standards
• Wage Rights
• Working Conditions
Government legislation drivers to assessing Social Responsibility supply chain risks
European Union – Conflict Minerals Legislation

European Union’s legislative body has adopted a draft law to ensure conflict minerals are not part of corporations supply chains.

Requirements:
• Importers must certify their supply chains are free from minerals produced in conflict zones.
• European companies perform due diligence to ensure that any of the four minerals tin, tantalum, tungsten, or gold used in their products did not contribute to a military conflict.

Next steps:
• The legislation will now be negotiated by the European Commission, the EU’s executive body, before becoming actual law.
• It remains to be seen if the Commission will grant its approval for the legislation, as the body had previously recommended making the certification measures voluntary.

Magnitude:
• If approved, the law would impact as many as 880,000 companies and about 20 refinery or “smelting” facilities.
• The proposal covers the same minerals as the U.S. Dodd-Frank legislation but applies to mining operations worldwide, rather than just countries in Central Africa.
UK Modern Slavery Act

Part 6 Section 54 – Transparency in the Supply Chain

United Kingdom passed into law a monumental progress step towards eradicating slavery and force labour in supply chains.

**Requirements:**

- Commercial organisations must prepare a slavery and human trafficking statement for each financial year
- Statement has to outline steps org has taken to ensure no slavery in supply chain or in any part of business OR statement has to say that the organisation has taken no steps to ensure a process is in place

**Statement can include:**

- Corporate organisational structure and supply chain
- Corporate polices related to human trafficking
- Due diligence process related to slavery/human trafficking
- Determine the parts of the business where a risk of slavery exists
- Steps that make sure these high risk areas have been assessed and managed that risk
- Level of effectiveness of due diligence process to ensure no slavery
  - Measured against Key Performance Indicators
- Training for staff related to slavery/human trafficking
- Must have high level executive staff sign off

**Image:**

29.8 MILLION ARE IN SLAVERY IN THE WORLD TODAY

*source: Global Slavery Index*
UK Modern Slavery Act

Part 6 Section 54 – Transparency in the Supply Chain

Magnitude

• Applies to any commercial organisation that provides goods or services in the UK
• There is an annual turnover threshold that is intended to set which commercial organisations will be required to report
  • Still not stated what this turnover threshold is
• Statement must be published on corporate website and in a prominent location

Penalties and Repercussions

• Duties can be imposed by Secretary of State and bring organisation to civil proceeding court if failure to comply with legislation
• Corporate brand will be tarnished
• Lack of consumer trust
Anti-Bribery Regulatory Requirements

UK Legislation – Bribery Act 2010


*Key – applies to all suppliers who do business with UK and US companies

The principal way in which companies can approach bribery risks which could be present in a supply chain is by employing the types of anti-bribery procedures:

• risk-based due diligence
• the use of anti-bribery terms and conditions

It is suggested that these processes are used in the relationship with their contractual counterparty (direct supplier), and by requesting that counterparty to adopt a similar approach with the next party in the chain.

Magnitude: Very strict penalties for bribery in the US, UK and elsewhere - requirements are pushed to suppliers
“Stress Test”

Your CEO is at a Shareholder meetings together with stakeholders, media and NGO’s and is going to be asked some questions following some recent supply chain issues which have put a number of Governance, Risk & Compliance issues under the spotlight.
Do you have the answers?

1. How many suppliers do you have?
2. How many are direct vs. indirect?
3. Do you actively verify the living profiles of your suppliers?
4. Have you conducted risk assessments of all your suppliers?
5. How many have you physically visited?
   a. What are the issues and where?
   b. What improvements have you made?
6. Does your supply chain adhere to your corporate values?
7. Can you tell your supply chain story?
What Does Good Look Like?

1. Ensures Corporate values are aligned with Supply Chain, R & D, Procurement, Risk and Compliance. Avoid opposing forces.

2. Keep an active database of living and approved supplier profiles

3. Conducts supplier risk assessments relating to product type, country, private label, critical items, economic or reputational risk issues

4. Categorizes suppliers into risk profiles

5. Allocate your resources, activities to areas of greatest risk

6. Conducts on-site validation of critical or higher risk suppliers to verify profiles and measure if they adhere to corporate values

7. Measures, monitors and improves the performance of suppliers and supports those that adhere to corporate values

Be in a position to articulate, explain and tell your supply chain story:

• What are the issues and where?
• Improvements made or plans to be made?
• How your supply chain aligns with corporate value?
Managing Corporate Social Responsibility Compliance in Your Supply Chain
Progression Towards Maximum Compliance

- Manual Supplier Self-Assessments
- No Geographic Risk Intelligence
- Automated Software for Supplier Self-Assessments
- Supply Chain Geographic Risk Intelligence
- Risk Methodology for On-site Audits
- Corrective And Preventative Action Plans

SUPPLIER PERFORMANCE

Entry Level Layer

Layer 1

Layer 2

Layer 3

INCREASED SUPPLY CHAIN VISIBILITY AND COMPLIANCE
Entry Level Layer

- Manual Supplier Self-Assessments
- No Geographic Risk Intelligence
## Questionnaire Development

### Objectives and Criteria Goals of Questionnaire
- Social Responsibility
- Business Continuity
- Code of Conduct
- Quality

### Questionnaire Functionality Needs
- Attachments needed?
- Additional supporting text needed?
- Weight of questions
- Question scored in risk calculation?

<table>
<thead>
<tr>
<th>Question Category</th>
<th>Question</th>
<th>Required or Recommendation?</th>
<th>Include NAC?</th>
<th>Scored?</th>
<th>Insert Additional Supporting Text</th>
<th>Attachments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Business Partner Requirements</td>
<td>Do you have written verification processes in place for the selection of business partners, manufacturers, product suppliers and vendors?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Business Partner Requirements</td>
<td>Do your business partners participate in any Government Customs’ Supply Chain Security programs? If yes, do you collect any documentation to verify their certification to these programs?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Business Partner Requirements</td>
<td>Do you have a documented risk assessment process in place to review your business partners in your supply chain?</td>
<td>Recommendation</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Container Security</td>
<td>Do you have a process in place which protects container integrity against unauthorized access or stored in a secured area?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Container Security</td>
<td>Do you have documented procedures in place to verify and maintain in the physical container integrity prior to and at the point of unloading?</td>
<td>Recommendation</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Container Security</td>
<td>Do you have designated employees assigned to distribute container seals?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Container Security</td>
<td>Do you ensure that high security seals (ISO/IEC 17712 compliant) are affixed to all outbound containers?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Container Inspection</td>
<td>Do you have written procedures in place for monitoring how seals are to be controlled and affixed to loaded containers?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Container Inspection</td>
<td>Do your procedures include how to recognize and deal with compromised seals/containers?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Container Inspection</td>
<td>Do you have procedures in place for reporting unauthorized entry into your container storage area?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Container Inspection</td>
<td>Do you have procedures in place to prevent unauthorized access into the facility?</td>
<td>Required</td>
<td>N</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Sending Assessments from Personal Email

- Large attachments needed to be sent and received
- Digging through archives for supplier responses
- Inability to have multiple internal representatives send assessments
- Mass communication limitations
- Read receipts difficult to obtain for emails
- Tracking change requests for new supplier email points of contact
- Follow-up emails required - reminders not customized based on status
- Multiple points of contact for supplier
Excel Spreadsheet Tracking Completed Assessments

- Inability to understand where different suppliers are in completion process
- More difficult to filter suppliers based on region, division, product type, SAP number
- Tagging suppliers to specific buyers/agents more difficult
- Hard to track number of reminders, date sent, and the wording of the different emails
Assume suppliers are EQUAL risk based on their compliance scores from a simple checklist

Single-focused self-assessments sent out manually from own email

No geographic risk incorporated

No automation

Unsystematic, single-focused audits
Layer 1

- Manual Supplier Self-Assessments
- Supply Chain Geographic Risk Intelligence
Analyzing the Geographic Threats to Supply Chains– The Minimum Approach

Government Tracking & Alert Websites

Insufficient or incorrect information

• This generic threat information gives an inaccurate assessment for issues related to supply chain
• Much of it is not applicable to supply chain threats
• This information does not assess threats in context to other threats in other areas
• The information is dated and does not provide active monitoring for a changing world

You cannot look at traditional Travel Security or Political Stability risk and apply it to supply chain threats
Supply Chain Geographic Risk Intelligence

Generic Geographic Risk

Travel Security
Guarded Risk

Political Stability
Guarded Risk

Supply Chain Specific Geographic Risk

Human Rights
High Risk

Working Conditions
Severe Risk

Child Labor
Severe Risk

Environment
Elevated Risk

PERU

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bsi.
Country Risk Overview

• Procurement comes to Supply Chain divisions to inquire about country risks in emerging markets and new business ventures
  • If you’re only assessing current source countries, no analysis readily available
  • Manual analysis of country risk prevents the ability to view country risks in a context of a regional view

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Suppliers</th>
<th>BSI Human Rights Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARGENTINA</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>FUTURE</td>
<td>??</td>
</tr>
<tr>
<td>CHILE</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>CHINA</td>
<td>52</td>
<td>5</td>
</tr>
<tr>
<td>COLOMBIA</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>CZECH REPUBLIC</td>
<td>FUTURE</td>
<td>??</td>
</tr>
<tr>
<td>DENMARK</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>FRANCE</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>IRELAND</td>
<td>FUTURE</td>
<td>??</td>
</tr>
<tr>
<td>MEXICO</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>FUTURE</td>
<td>??</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>45</td>
<td>1</td>
</tr>
</tbody>
</table>
Last month, Minister of Manpower in Indonesia has set a goal of eliminating child labour by the year 2022.

- did not specify any new programs designed to help reduce the prevalence of child labour
- stated that the ministry would be working with employers and unions to end the practice.

**BSI Analysis:** Indonesia suffers from an **Elevated** threat of child labour, with an estimated seven percent of five to 14 year olds performing some form of work in the country. Child labour is most prevalent in the agricultural sector, with the palm oil industry being notably problematic. Poverty among many Indonesian families is one of the primary causes leading children to prematurely enter the workforce.

Another government program - the Child Labour Elimination Program - removes child workers from their workplaces while providing remedial education, counselling, and financial assistance to help these children re-enter the education system. Needs more funding to be effective and to contribute to 2022 goal.
Case Study: Threats to Working Conditions in Cambodia

- Working Conditions in Cambodia are rated as **High**.
- Manufacturing in Cambodia presents its own risks to social responsibility
  - First half of 2014- over 7,000 work-related injuries were reported, with over 50 deaths.
  - Law states 48 work week, with no excessive overtime. However, workers in industries such as garment are subject to excessive overtime hours with no government enforcement.
  - Minimum wage in Cambodia is one of the lowest in SE Asia region comparing to other neighboring countries.
Case Study: Forced Labour in Vietnam

BSI rates Vietnam a **Severe** risk for Human Rights Violations

As production has shifted away from commonly known areas of Human Rights violations (i.e Bangladesh)- the uptick of production in Vietnam has been noticed.

Unique scenario of forced labour in Vietnam- most of the instances come from government-run drug detention centres.

- Individuals in these centres are forced to work for little or no pay as a form of punishment or rehabilitation.
- These centres can be found in most major industrial cities in Vietnam
- Whilst the law in Vietnam prohibits the use of forced labour, there is a lack of deterrent-level punishments for violations.
  - Sweat shop owners can be fined, very rarely is there ever jail time served for the discovery of forced labour camps.
Incorporation of Supply Chain Geographic Risk Intelligence into Assessments

<table>
<thead>
<tr>
<th>Supplier Name</th>
<th>Country</th>
<th>Compliance Score- Overall</th>
<th>Geographic Risk - Human Rights</th>
<th>Risk Factor - Annual Value of Spend</th>
<th>Overall Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taipei Machines</td>
<td>Taiwan</td>
<td>70%</td>
<td>Elevated</td>
<td>Tier 1</td>
<td>3</td>
</tr>
<tr>
<td>Manila Parts</td>
<td>Philippines</td>
<td>70%</td>
<td>Low</td>
<td>Tier 2</td>
<td>2</td>
</tr>
<tr>
<td>British Electronics</td>
<td>England</td>
<td>90%</td>
<td>High</td>
<td>Tier 2</td>
<td>2</td>
</tr>
</tbody>
</table>
Many due diligence programs require “evidence of implementation” to show exactly how you approach the supplier risk assessment process.

- Problems manually compiling all of the information gathered on a single supplier
- Formatting of manual reports can be time-consuming
- Number of reports that need to be generated can be overwhelming
- May have to compile many reports on a daily basis if assessments are completed regularly
Layer 2

- Automated Software for Supplier Self-Assessments
- Supply Chain Geographic Intelligence
Automated Business Partner Risk Assessment Process

- Corporate Social Responsibility
- Geographic Risk Intelligence
- Risk Assessment Compliance
- Industry-Specific Risks

Variables Specific to Your Business Relationship with the Business Partner

Dashboarding

Global Mapping

Automatic-Generated Reporting
Macro and Micro Views of Risk - all levels within organisation
Identify and Map Out High Risk Areas of Global Supplier Base
Automation of Communication and Continuous Monitoring

- Eliminating manual sending of communication to suppliers
- Eliminating the manual tracking of completion status
- Automatic reoccurrence of assessment intervals
Layer 3

- Risk Methodology for On-site Audits
- Corrective And Preventative Action Plans
Identifying and Correcting Weaknesses - Corrective And Preventative Action (CAPA)

The CAPA process is designed to identify and correct weaknesses from a completed assessment report.

Biggest fault in risk assessment methodology is forgetting CAPA step.
Analysing and Reviewing Self-Assessment Results

Social/ Ethical weaknesses identified

Deep Dive audit for Social/ Ethical issues

Compliance by Category

Sort By: Compliance % - Descending - Prior Year

- Bonded/Forced Labor Avoidance: 99%
- Child/Young Labor Avoidance: 99%
- Disciplinary Actions: 99%
- Labor Practices: 99%
- Non-Discrimination Policies: 99%
- Ethical Practices: 92%
- Freedom of Association: 59%
- Supplier Due Diligence: 59%
- Wages and Benefits Policies: 59%
- Working Hour Policy: 23%
Risk-Based Methodology Behind On-Site Audit Decisions

See highest-risk business partners and make informed decisions about where to perform on-site audits.
Refine Audit Strategy Using Risk-Based Methodology

Country Risk Intelligence

Self-Assessments

Corrective Actions & On-site Audits

Financial spend

250 Suppliers

100 Suppliers

25 Suppliers

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