Business for Social Responsibility

Internal Alignment: An Essential Step to Establishing Sustainable Supply Chains

A Beyond Monitoring Trends Report

About BSR: A leader in corporate responsibility since 1992, Business for Social Responsibility (BSR) works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With six offices in Asia, Europe and North America, BSR leverages its expertise in environment, human rights, economic development, and transparency and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.

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About This Report

In 2007, Business for Social Responsibility (BSR) launched with its members a work stream to develop more sustainable supply chain solutions. This work is based on a common vision called "Beyond Monitoring," which describes a shift from policing supply chains to developing holistic solutions. The Beyond Monitoring vision is based on four key components, which must work together to drive real impact:

- Internal alignment between commercial and social objectives of buyers
- Supplier ownership of labor and environmental conditions
- Empowering workers to be informed and participatory constituents
- Public policy frameworks that foster public-private dialogue, partnerships and local solutions

This report focuses on Internal Alignment and is part of a series of publications that explores how companies are working toward the Beyond Monitoring vision and the successes and challenges they encounter along the way. To access these publications, and to learn more about the Beyond Monitoring Working Group, which is helping companies put the Beyond Monitoring vision into action, please visit the BSR web site at http://www.bsr.org/beyond-monitoring.

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I. Introduction

For the past decade, the majority of companies have largely focused their corporate social responsibility (CSR) supply chain efforts on monitoring their owned and operated and outsourced facilities to gain visibility around health and safety, labor and environmental conditions. While monitoring has succeeded in uncovering persistent non-compliance issues, there has been limited progress in creating lasting and systemic change, including development of appropriate management systems, particularly in terms of fair payment of wages and working hours.

Increasingly, companies have come to recognize that the current top-down policing model is inherently flawed. In order to truly improve conditions, a far more holistic approach needs to be taken that:

1) Ensures customer behaviors contribute positively to better workplace conditions
2) Requires suppliers to see the business case and take ownership of their own sustainability performance
3) Builds systemic solutions that proactively engage with government and workers

Internal alignment is required within companies to facilitate the three steps above and is the central theme of this paper.

In Section II, we define our vision for internal alignment and key elements to achieving this vision.

In Section III, we explore both challenges and solutions for internal alignment through specific case studies of three companies. For example, in the Starbucks Coffee Company case study, we look at the importance of empowering buyers to make purchasing decisions that support and advance implementation of the companies' sustainability standards. In the Levi Strauss & Co. example, we learn how improving Go-To-Market process discipline can help drive supplier sustainability performance. The Ford Motor Company example outlines an integrated structure that embeds supply chain sustainability professionals both at headquarters and within the multiple purchasing groups located around the world.

In Section IV, we summarize some of the elements that are critical to internal alignment and we conclude with our intention to support more collaboration and best practice sharing in this area.

Additionally, the appendix to this report describes work underway by non-governmental organizations, multi-stakeholder initiatives and industry networks to better define internal alignment best practices. While much has been done within these forums to further understand the disconnect between business and sustainability objectives, there are limited, if any, real-life company examples and solutions available within the public domain. We therefore hope that this Internal Alignment Trends Report, which openly touches upon three companies' actual challenges and inroads, will advance the dialogue around this important topic and highlight best practices for many of our participating Beyond Monitoring companies.

Our end goal is far wider uptake and focus on internal alignment in order to effectively drive better environmental and workplace conditions throughout global supply chains.

II. Vision for Internal Alignment

A first step for any company to achieve internal alignment is to put sustainability at the core of its supply chain strategy. Companies must commit to placing sustainability on an equal footing to furthering commercial objectives.

However, commitment to sustainable supply chain practices is not sufficient. It must be backed by day-to-day business practices that drive better performance of supply chain partners. The discipline of ensuring that business practices incorporate and support sustainability is the essence of internal alignment.

A. Internal Alignment Defined

> ***Internal Alignment*** *is the set of commitments, strategies, policies, procedures, systems and behaviors that support integrated customer decision making based on suppliers' commercial and ethical commitment and performance.*

Internal alignment is important both vertically, i.e. from the CEO level to the factory floor, and horizontally, i.e. across departmental silos.

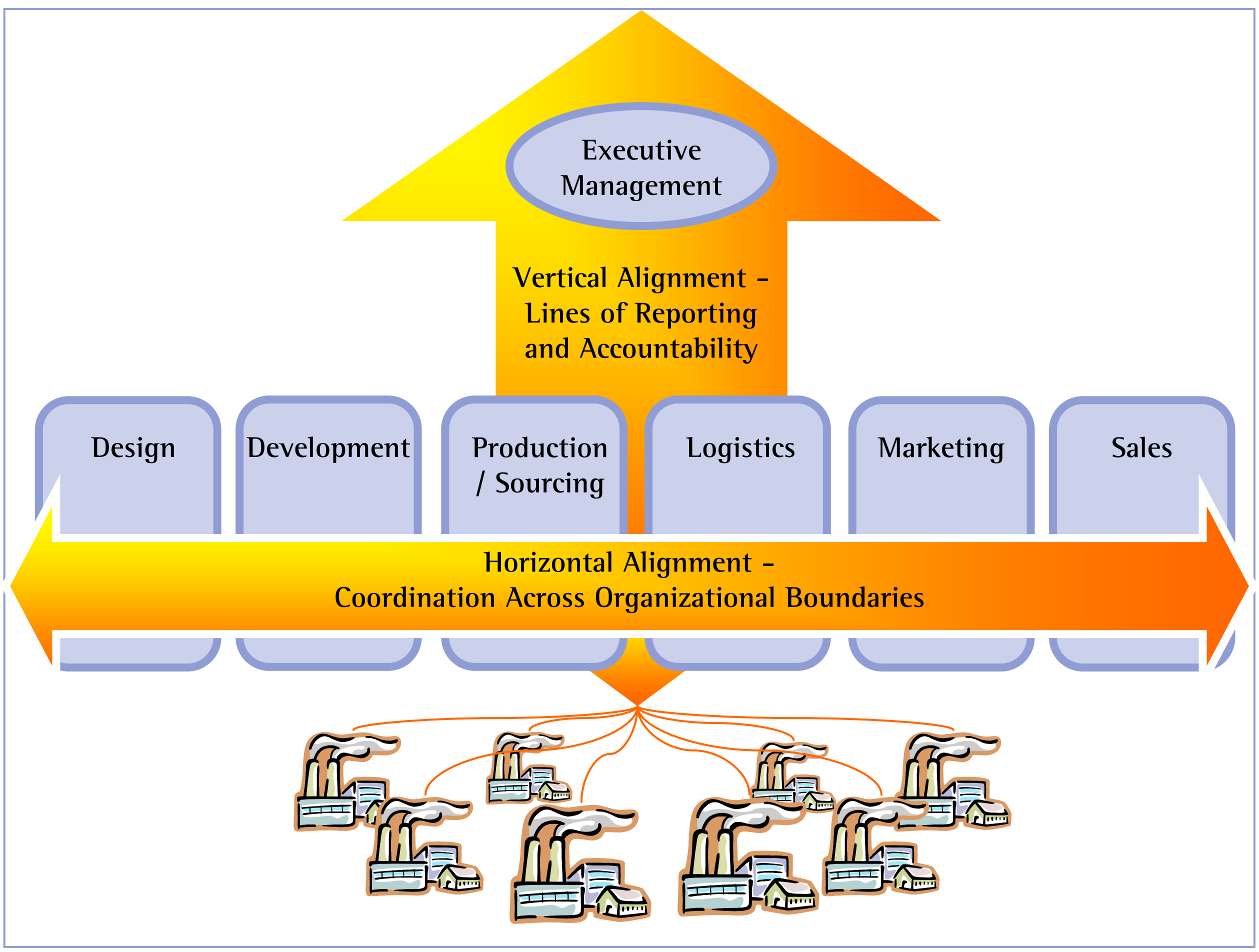

Figure 1: Vertical and Horizontal Alignment

B. Components of Internal Alignment

In this section, we explore five components of internal alignment. Most companies are at the very beginning stages of working toward internal alignment and best practices in these areas are still being defined. The Beyond Monitoring group has created a roadmap that can help companies understand the steps needed to make these improvements, but there are insufficient reference points to help companies determine whether their actions are adequate to drive performance improvements at the factory level. The group aims to address this gap by establishing performance benchmarks on internal alignment within a holistic Beyond Monitoring scorecard.

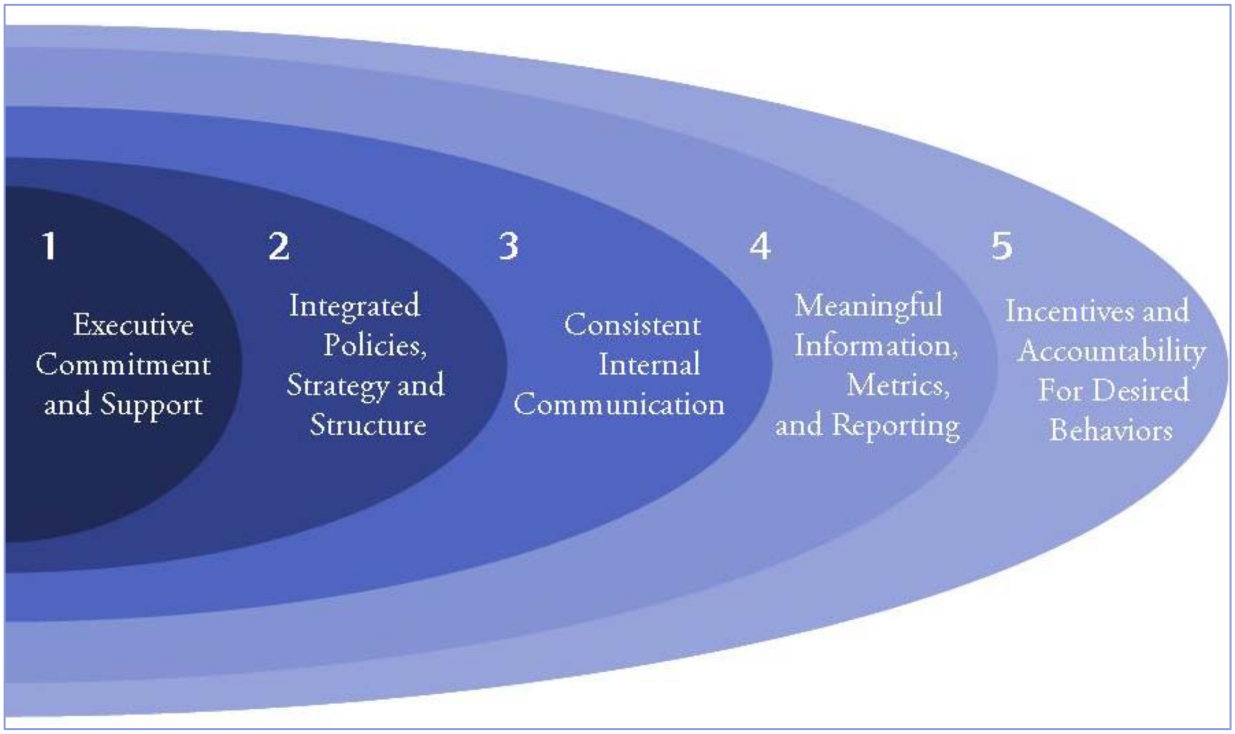

Figure 2: Components of Internal Alignment

1. Executive Commitment and Support

Executive commitment and support is crucial in setting the correct tone and direction for supply chain sustainability. For example, Wal-Mart's CEO has been very vocal about the company's increased focus and energy on supply chain sustainability. This commitment from the very top has enabled buy-in throughout Wal-Mart's large and complex organization.

Best practices:

- Written and oral communication from top executives that emphasizes the importance of sustainability as a way of doing business
- Clear articulation of the vision and approach with concrete milestones and metrics
- Regular internal updates around the company's sustainability priorities, successes and challenges

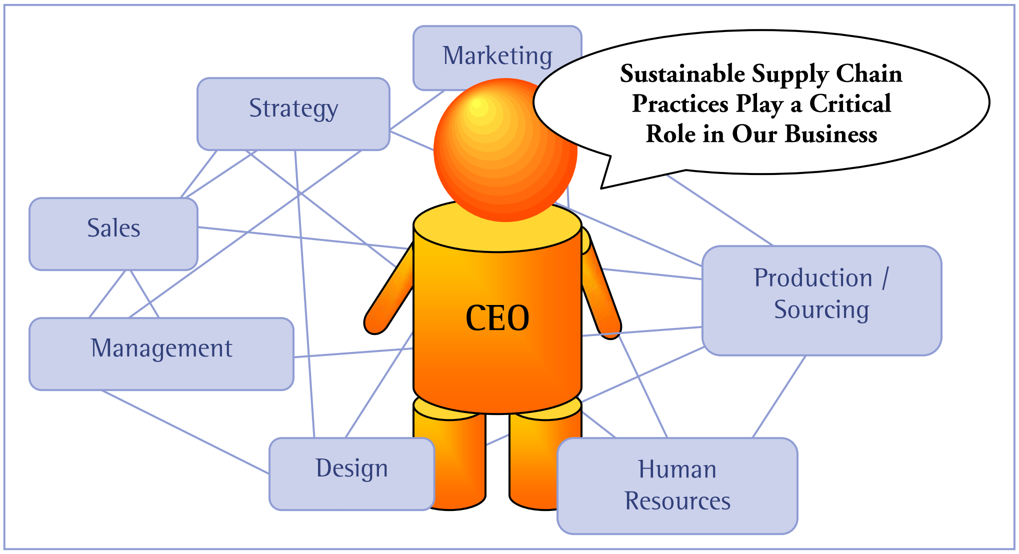

Figure 3: Executive Commitment and Leadership Affect All Functions

Potential pitfalls:

- Limited Follow-up: One common pitfall is a mismatch between stated priorities and the resources devoted to achieving them.
- Pockets of Resistance: In some cases, the top leadership at the CEO and Board of Directors level may be committed, in addition to those responsible for the program; but the management in between can effectively kill efforts by not having the same level of commitment.
- Risk Mitigation: Often sustainability is perceived as a risk management program rather than a proactive business strategy.

2. Integrated Policies, Strategy and Structure

Policies: This includes a clear articulation on how procurement, design, marketing and other key departments must integrate labor and environmental standards into their job functions.

Strategy: For supply chain sustainability and business objectives to be mutually reinforcing, it is critical that sustainability become an input into the strategy planning process. For example, Nike includes the vice president of corporate responsibility in strategic reviews and meetings, emphasizes innovation-driven solutions that demonstrably improve conditions on the factory floor, and measures sustainability performance in concrete areas (such as excessive overtime) against long-term targets and goals.

Structure: Historically, sustainability functions—particularly those with a supply chain focus—often reported into legal departments (which illustrated a risk mitigation standpoint) or into communications departments (which meant a focus on external messaging as opposed to an inward focus). Many companies believed that separating out sourcing and sustainability made good sense and helped prevent a “fox guarding the henhouse” scenario.

Today, leading companies are placing sustainability responsibilities within purchasing (or reporting into or closely linked to purchasing) to ensure integrated decision making and to prevent mixed messages on the factory floor. Some companies have noted the importance of having on-the-ground sustainability and sourcing personnel sharing office space and being in close proximity in order to ensure frequent communication. As discussed in the Levi Strauss & Co. example, virtual teams are used to coordinate across departments. Other best practices include joint goal setting and integrated decision making.

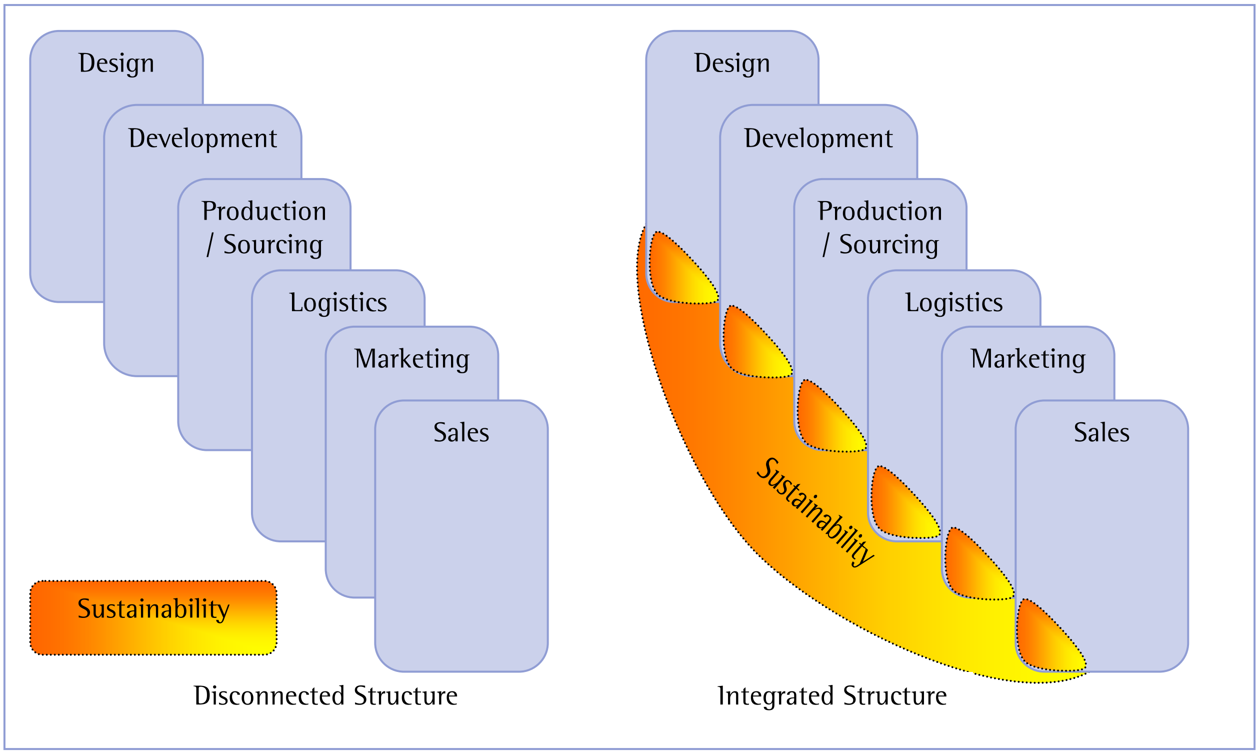

Figure 4: Two Approaches to Structuring Supply Chain Sustainability

Best practices:

- Sustainable supply chain personnel provide input to strategic planning processes
- Sustainability expertise is embedded in every team with an impact on the supply chain
- Sustainability objectives are backed by incentives and consequences

Potential pitfalls

- Insufficient knowledge of sustainability issues within functions that impact suppliers
- Adversarial relationship between sustainability and procurement departments (e.g. “buyers are king” and sustainability priorities take a back-seat to procurement needs)

3. Consistent Internal Communications

Decentralized and geographically diverse operations heighten the need for consistent internal communication. For example, the Ford Supply Chain Sustainability team is credited with consistently communicating its sustainability objectives at the executive and operational levels, which has strengthened the company's position over time.

Wal-Mart employees created a voluntary "Personal Sustainability Projects" (PSP) program to help each other incorporate the principles of sustainability into their daily lives. Through the program, employees develop individual goals to improve their health and wellness and the health of the environment. "Sustainability has become part of the Wal-Mart culture, and PSPs are one way for associates to become involved—in their stores, their communities and their daily lives," said Linda Dillman, executive vice president of risk management, benefits and sustainability.

Best practices:

- Provide consistent messages and status updates
- Create feedback mechanisms/channels for employee input, e.g. annual employee survey
- Foster networks of employees to promote learning and development

Potential pitfalls:

- Inconsistent messages
- Challenge of communicating sustainability's relevance to different internal audiences

4. Meaningful Information, Metrics and Reporting

Centralized, relevant and updated information, metrics and reporting are critical to integrating supplier sustainability performance into business decisions. Sustainability data must be readily available (and of the same level of rigor, quality, detail and relevance as other key criteria, such as price, delivery and quality) in order to be useful.

One of the most significant barriers to internal alignment is inadequate information technology (IT) infrastructure, with systems that either do not talk to one another, are poorly managed or manual in nature. IT systems are important in enabling three interrelated critical success factors: 1) information centralization, 2) measurement of key performance indicators (KPIs), and 3) actionable reports.

Information Centralization: One of the basic challenges is to get a centralized view of all of a company's suppliers and to track the various interactions with them. In some cases, multiple departments or business units interact and place conflicting demands on suppliers. IT investments can connect disparate systems and provide a holistic picture of risk and opportunity across the full universe of a company's supply chain.

Measurement: Performance evaluation at any level requires a defined set of key indicators and metrics. Measurements of internal alignment efforts include:

- Satisfaction with working relationships between departments
- Reciprocal evaluation of performance (for example, production staff evaluating product development staff on smooth handoff of production runs)
- Adherence to company policies (for example, the number of exceptions to a requirement to pre-screen suppliers on sustainability criteria before purchase orders are issued)

Actionable Reports: IT systems can analyze useful information and present it in actionable formats to executives. For example, it is important that a company can understand how buyers are incorporating supplier sustainability information into their decisions. In addition, the buyers themselves should have access to risk profiles of their suppliers to ensure they are consistently reinforcing company policies.

Best practices:

- Capture—on a "live" basis throughout the entire organization—information about interactions with suppliers and impact of buyer behaviors on their performance
- Analyze risk and opportunity across the company's entire factory base to prioritize sustainability monitoring, collaborative efforts and supplier improvement programs
- Provide real-time, quality data about suppliers' sustainability performance to inform business decisions
- Share standardized scorecards/reports that allow for more informed planning, budget and evaluation processes

Potential pitfalls:

- Investing in systems before achieving clarity of business processes and requirements
- Providing an IT tool that isn't integrated with business processes and foundational IT systems

5. Incentives and Accountability for Desired Behaviors and Outcomes

To establish accountability, it is necessary to define what behaviors are expected, to measure the extent to which those behaviors are manifest, and to incorporate measurements into performance evaluations. Additional incentives, such as tying performance evaluations to bonuses, can further motivate desired behaviors. For example, requiring sample runs of product beyond what is truly needed can delay full production runs and cause suppliers to use excessive overtime to meet deadlines. Limiting sample runs to what is actually needed to verify product quality would avoid a potential root-cause of non-compliance.

In addition to specifying desired behaviors, it is important to specify desired outcomes and empower buyers to achieve them. As we will see in the Starbucks case study, it was an empowered buyer that implemented a creative solution—open-book costing to ensure payment of minimum wages—that resulted in remediation of a non-compliance issue.

Best practices:

- Identify potential negative impacts on suppliers' sustainability performance across all departments
- Define desired behaviors and provide cross-departmental training
- Improve business processes for efficient integration of sustainability
- Incorporate supply chain sustainability into performance evaluations for teams and individuals
- Provide incentives for teamwork across functional boundaries

Potential pitfalls:

- Identifying negative impacts without defining better practices or providing incentives for changes in behavior
- Conflicting incentives regarding cost-down objectives and timing of order execution

III. Companies in Focus

In this section, we explore examples of three Beyond Monitoring Working Group member companies that are changing their practices to improve internal alignment. These examples are intended to crystallize the theories presented above and to provide concrete examples of how to make progress on internal alignment. We believe that the challenges and lessons discussed in these three case studies will open the door for honest conversations among companies struggling with achieving better internal alignment.

A. Starbucks Coffee Company

Starbucks maintains relationships with thousands of agricultural, ingredient and manufactured goods suppliers for all products sold and used in corporate/retail operations. While the company initially focused its ethical sourcing activity on coffee and food products, the scope of this program was extended in 2006 to include manufactured goods and services that are sold in Starbucks stores and used in the company's operations.

The company developed Standards for Manufactured Goods and Services and a Supplier Social Responsibility (SSR) program requiring that supplier performance related to the standards be incorporated into purchasing decisions. There are currently no systematic or formal mechanisms for ensuring that supplier sustainability performance is incorporated into purchasing decisions. This case study illustrates the role that buyers can play in finding innovative, effective solutions to improving supplier social performance, and examines the various factors that enable buyer empowerment. It also highlights the challenges in implementing and enforcing accountability throughout the supply chain.

Who Is Involved?

This case study focuses on two individuals at Starbucks: a manufactured goods buyer and an Ethical Sourcing manager.

Starbucks buyers and the Ethical Sourcing team work closely together, and the buyers are responsible for the SSR program implementation and supplier performance. The Ethical Sourcing team provides subject matter expertise and program administration for the SSR program. Buyers are trained on supplier compliance issues and how to address them, and have access to all supplier assessment reports performed for Starbucks. All communication with suppliers comes from buyers, and the Ethical Sourcing team interacts regularly with buyers regarding supplier assessments, and compliance and remediation matters. Training, information access and communication are all coordinated to equip buyers with the tools to incorporate supplier social performance into their purchasing decisions.

Starbucks buyers are located within the Global Procurement organization and merchandising category groups, but maintain responsibility for SSR performance regardless of location. The Ethical Sourcing team sits within the Global Responsibility organization, which works with each business unit to develop joint business initiatives and aligned goals.

What Is the Problem?

The challenge highlighted in this case is related to incorporating an appropriate and effective remediation process into a multi-tier business relationship. In this case, Starbucks purchased a bulk product from a supplier that in turn sourced the product from a third-party manufacturer. The Starbucks compliance policy requires that the social compliance standard is applied at the location of manufacture. Through the factory assessment process, the individual buyer learned that the third-party manufacturer had overtime and minimum wage violations, among other non-compliance issues. The Ethical Sourcing team and buyer reviewed the third-party assessment report and agreed that no orders would be placed until the supplier committed to a mutually agreed upon improvement plan.

Because the primary concern was the minimum wage violation, the buyer directly asked the supplier whether the price Starbucks was paying was sufficient to guarantee that production costs would be covered and workers would receive the legal minimum wage. When the supplier confirmed that the price was insufficient, the buyer invited the supplier to calculate a new price that would allow for payment of minimum wage and remediation of other compliance issues, while allowing the supplier to cover costs and maintain a reasonable profit margin. Under this open-book costing model, the supplier submitted a higher price and provided a transparent cost breakdown with the buyer, enabling the buyer to evaluate and justify the requested price increase. Starbucks agreed to pay the difference and amended the contract to include the supplier’s agreement to guarantee minimum wage payment to workers and remediation of other outstanding non-compliances.

> *"Social responsibility should be just as important as quality and competitive pricing when buyers are selecting a supplier."*
>
> - Alyssa Brock, Senior Procurement Buyer

It is Starbucks' standard practice to tie supplier compliance to continued business and these conditions apply to both new and existing suppliers. Although the purchasing department has always upheld this practice, this marked the first time that it had actually issued a price increase to enable social compliance.

Adjusting the price was necessary to enable the supplier to pay minimum wage and meet social compliance conditions, but increasing cost of goods alone proved to be insufficient to ensure full compliance. Ethical Sourcing staff that visited the supplier's factory raised concerns that the factory had not been making progress. Starbucks then exercised its contractual right to send a third-party auditor to the factory and subsequently verified that the improvements had not been made. It appeared that the supplier had agreed with Starbucks that the factory would make improvements on the payment of minimum wage, but that communication had broken down between the supplier and factory.

To ensure full issuance of back wages, the buyer and an Ethical Sourcing manager went to the factory to witness the event. This was a very powerful moment for both the buyer and Ethical Sourcing manager to see firsthand the positive impact of compliance on the workforce. Their dual presence at the factory also sent the supplier and factory the message that business and social compliance are inextricable for Starbucks.

Proposed Innovative Solutions

Buyer Empowerment

This case illustrates the importance of individual buyer empowerment in identifying and implementing solutions to integrating standards compliance and commercial discussions to improve supplier social performance. It also offers the opportunity to examine the key components and enablers of buyer empowerment.

Requesting that suppliers share their costs with buyers can be a sensitive issue, but it can be an effective solution, provided that buyers have the willingness, latitude and leadership support to change the contract terms—such as in this case. Tying supplier remediation conditions to contract negotiation was an important step in formally integrating supplier social standards performance and business objectives, and attaching mutual accountability. The buyer was proactive in asking the right questions to find an effective solution and empowered in the following important aspects:

- *Training/Information Access:* Buyers work closely with the Ethical Sourcing team and are trained on Ethical Sourcing criteria, issues and remediation. They also have access to all supplier social performance assessment reports from Starbucks' assessments, so they are aware of any major compliance issues.

- *Single Supplier Contact:* Buyers serve as the single point of contact for suppliers, and receive and communicate information regarding supplier assessments, performance and remediation matters from the Ethical Sourcing team. Having this information and communication go through buyers ensures that they are aware of major supplier compliance issues and have the information they need to begin to take action if they see fit. This also helps to ensure suppliers are engaged in sustainability discussions because they are inextricable from other business discussions.

- *Internal Support/Corporate Culture:* Buyers emphasize that Starbucks' standard practice and philosophy are characterized by the connection between ethical values and their daily activities. Although buyers currently lack official incentives or evaluation systems to ensure integration of ethical sourcing criteria into purchasing decisions, they are empowered by Starbucks' commitment to CSR and do not feel pressure to prioritize cost savings over compliance.

> *"Supplier Social Responsibility is a foundational aspect of doing business with Starbucks and will not be compromised during the selection process in spite of a supplier's ability to provide goods at a lower price."*
>
> - Jan Yagi, Vice President of Procurement

Buyers empowered with information, streamlined communication, expertise and leadership support are in better positions to leverage their relationships to propose and execute solutions that align supplier social performance and business objectives. Having both insight into compliance matters and decision-making power over order placement puts the buyer in a unique position to integrate the two into the same negotiation—from both a remediation and business process standpoint.

The question of cost (and whether the price being paid is an impediment to standards compliance) is at the center of any sales negotiation or purchasing decision, and not one that typically gets asked by auditors or compliance staff. In this case, the open-book costing model was an innovative solution put forth by the buyer to ensure that the supplier had sufficient resources to meet Starbucks' standards, pay minimum wage and also receive the information she needed to justify the requested price increase.

Challenges

Creating Incentives and Enforcing Accountability Throughout the Supply Chain: All factories must meet Starbucks' zero-tolerance standards to be considered for business, which ensures that factory conditions impact purchasing decisions at a baseline level. Beyond this baseline, there is the challenge of creating incentives and formal evaluation systems to ensure that buyers award business to the “best” performing factories across a number of criteria, including sustainability. Starbucks is currently working on developing and implementing these systems.

Coordination Across Business Functions: While the buyers and ethical sourcing teams are in constant communication, closely aligned and aware of supplier compliance issues, an ongoing challenge is increasing overall company awareness of how decisions and behavior in different parts of the company affect supplier performance. Departments and employees not involved in sourcing on a daily basis often find it challenging to extrapolate how their decisions impact conditions further down the chain. Without a more holistic, integrated awareness of the role each department and individual plays in affecting suppliers, it is challenging for employees to determine which behaviors they can change (and how) to contribute to a positive impact on supplier performance.

To promote understanding and integrate responsible decision-making practices up the supply chain, Starbucks has engaged in an in-depth project to research the lifecycle and key decision-making points of three products with a focus on risks to labor, ethics and environment inherent to the design, production, use and disposal of that product. The goal of the research is to sensitize and educate Starbucks buyers, merchandisers and product/category managers to the impacts of their decisions, and expand their options and improve their ability to support suppliers as they seek sustainable solutions to Code of Conduct issues.

Negotiations with Suppliers: Although in this case the buyer was able to successfully negotiate with the supplier to include social compliance criteria, addressing such a situation is more difficult when social compliance and purchasing departments and individuals are not aligned. As the Ethical Sourcing team is focused on supplier compliance performance and remediation issues, and the buyer separately negotiates price and delivery terms, the question about whether the buyer’s price is enough to ensure that suppliers are able to pay minimum wage and comply with other social criteria is not usually asked. With updates to the request for proposal process this too will be changing and included in the negotiation process.

> *“Incorporating the social responsibility function into the buyers’ responsibilities has demonstrated to our suppliers that we are ‘walking the walk’ and that ensuring goods are ethically sourced is as important as cost, quality or delivery. This integration empowers everyone to make good decisions and be accountable to Starbucks’ commitment to ethical sourcing.”*
>
> \- Virginia Bergin, Ethical Sourcing Regional Manager

Enablers (e.g. incentives, coordination)

Executive Commitment: Starbucks has made a very strong commitment to ethical sourcing at the corporate/executive level, which has translated into the establishment of both policies and practices in certain areas, and enforcing these sourcing principles in any situation. However, a common challenge is ensuring that commitment translates into action. In this case, the buyer felt comfortable incorporating social compliance into business discussions with the supplier and creatively addressing remediation because of the strong corporate commitment to ethical sourcing.

Commitment to Building Supplier Relationships: Starbucks' commitment to building long-term relationships with suppliers enables it to link social compliance with business incentives. This is a key enabling factor for sharing information that would otherwise be considered sensitive and for entering into difficult conversations.

Lessons Learned

This case study offers the following unique learnings:

- ***Coordination*** - The buyer and ethical sourcing manager maintained distinct, complementary roles that allowed them to coordinate their activities and communication effectively. The buyer was instrumental in ensuring that an appropriate price was being paid (securing financial resources necessary to ensure compliance with social conditions, and managing communications with the supplier), and the ethical sourcing counterpart likewise played an integral role in ensuring that the supplier followed through on the terms of the contract and enforcing the resolution. The Ethical Sourcing team plays a very defined role in providing expertise and guidance on supplier issues, training and empowering buyers, and staying out of compliance situations until it is needed to enforce remediation. This example illustrates the need for communication and alignment between the two parties to effectively attach accountability and incentives to social compliance and business success.

- ***Integration/Root Cause*** - Because the Ethical Sourcing team is not directly involved in commercial discussions or negotiations, and the buyers do not typically address compliance issues in their interactions, the question of whether the price being paid is sufficient to ensure compliance with the customer's supplier social standards does not naturally enter the dialogue unless functions are aligned. Increasing individual capacity with both the commercial and social compliance perspective is crucial in making the connections between non-compliances and how to resolve them effectively. Going forward, Starbucks is updating standard documents to ensure that ethical sourcing is addressed at the outset of a relationship with a supplier.

- ***Transparency*** - Transparency in the assessment process revealed significant gaps in the factory's practices and the Starbucks Standards. A critical lesson learned was that in addition to financial premiums paid, accountabilities need to be in place throughout the supply chain. Including remediation terms in the amended contract proved critical in guaranteeing transparency and supplementing commitment to compliance and effective communication, as willingness to pay additional premiums alone cannot solve non-compliances.

B. Levi Strauss & Company

Levi Strauss & Co. (LS&CO) currently has manufacturing relationships with approximately 900 external suppliers in over 50 countries. It was the first company to launch a comprehensive code of conduct (its Terms of Engagement or TOE) for suppliers in 1991. LS&CO manages supplier relationships and monitors adherence to its TOE through a group within its Global Sourcing Organization called the Supply Chain Social and Environmental Sustainability group. The company has taken proactive steps to internally align departments and production-related activities to minimize mixed messages to its suppliers.

LS&CO has a detailed and specific process for getting product to market (the Go-To-Market or GTM process) that involves several functions in the company. Over time, the GTM calendar and processes compressed and deliverable timelines accelerated. The company's expectation was that suppliers accelerate as well, without compromising quality. When LS&CO staff began to see repeated poor assessment findings that could not be attributed to supplier performance alone, they recognized that there may be a link between LS&CO's business practices and the suppliers' compliance issues. Indeed, feedback the company solicited from suppliers suggested that at times the company's processes contributed to supplier non-compliance. This brief case study examines a "Business Integration" initiative the company undertook to address the challenges faced in ensuring success throughout the GTM process—from planning and design to production through delivery.

Who Is Involved?

The Business Integration initiative at LS&CO involved four primary groups included in the GTM process each season:

- ***Social and Environmental Sustainability (SES):*** The Senior Vice President of the Global Sourcing Organization (GSO) is responsible and accountable for ensuring production is placed with suppliers that meet TOE, and that product is delivered at the right place, time, price and quality. Supplier TOE performance is a key factor in determining the company's source base. Within the GSO, the Vice President of SES works with the heads of product development and sourcing to establish the company's global sourcing strategy.
- ***Product Design and Merchandising:*** Based in San Francisco, this group is part of the commercial brand organization and responsible for translating market research into product design and customer-relevant product assortments.
- ***Product Management (PM):*** Based in San Francisco, PM is part of the GSO and responsible for taking a designed product and mass producing it, while ensuring the integrity of the product design throughout the development and commercialization cycles.
- ***Manufacturing and Operations (MO):*** Based in the country or region where supplier facilities are located, MO is part of the GSO and responsible for quality and delivery and for maintaining supplier relationships. This group also works with the SES team to ensure adherence to the TOE.

Product Design and Merchandising and PM staff work together in virtual teams organized by brand and by product lines, such as Dockers'® men's bottoms, Levi's® women's tops, etc. The virtual teams work with MO to develop product and to approve it for production.

What Is the Problem?

> *"Fabric and sundries are often late due to last-minute changes. We try to understand the changes, but do not get leeway to extend the delivery. Workers are expected to get it done."*
>
> *– Manufacturing and Operations Staff*
>
> *"We know that sometimes the price or delivery we ask for is unreasonable. It doesn't feel good pushing them [contractors]. Are we driving overtime by pushing too hard?"*
>
> *– Product Management Staff, San Francisco*

LS&CO uses a Go-To-Market calendar for ensuring timely and consistent development, commercialization, planning and production processes. However, at times, adherence to the calendar can be inconsistent. The lack of strict adherence to the GTM process and milestones can affect suppliers' abilities to strictly comply with brand requirements, including delivery time, quality or TOE compliance. The most common TOE non-compliance issues found in these circumstances relate to work hours and/or unauthorized subcontracting.

The GTM calendar is a used by the virtual teams and MO teams. For each of the development, commercialization, planning and production phases there are specifically defined milestones. The milestones indicate when each phase must be completed to allow subsequent phases sufficient execution time. By setting expectations upfront about timelines and responsibilities, the shared calendar gives the virtual team and MO groups the ability to monitor their progress and make adjustments as necessary, thereby avoiding last-minute changes, unnecessary rush orders or added expense.

This system was originally designed to define timelines, roles and responsibilities needed to efficiently get product to market. However, without proper and consistent adherence to the GTM by the virtual teams and MO staff, LS&CO suppliers would be challenged in meeting all aspects of the company's Terms of Engagement. This feedback was given to assessors by suppliers as they conducted routine TOE assessments and was the impetus for the development of the Business Integration initiative.

Proposed Innovative Solutions

Business Integration Initiative

The Social and Environmental Sustainability group began an analysis of the effect the GTM process was having on supplier adherence to TOE. The developed approach identified the specific GTM processes that were impacting suppliers' abilities to meet TOE requirements.

The analysis began with interviews with more than 65 PM, Brand and MO staff. After analyzing interview results, it became clear that it was not the GTM system that needed to be revised. Rather, the challenge was in how this process was (or was not) being implemented at key points in the GTM process. Initially, challenges were identified at two stages of the GTM process: development (prototyping) and commercialization (sampling and pre-production). The GTM calendar itself did not provide guidelines for behaviors, which resulted in challenges such as:

- Suppliers not being kept up to date on development requirements
- Product changes being communicated from multiple sources
- Late decisions on components and late or incomplete development packages delivered to suppliers with expectations that suppliers could absorb last-minute directives into original timetables

Although roles and milestones had been clearly delineated, a closer look at staff performance revealed that the behaviors of certain individuals led, in some cases, to challenges at the supplier level, including:

- Product specification changes coming from various departments (product management, design, etc.) rather than solely through the MO contact
- Deviation from prototyping protocol and inattention to established timelines, such as requesting more samples than allowed, which takes more time but is not accounted for in the calendar

Sample Required Behaviors:

- Contractors discuss and review development capacities with San Francisco staff and plan for additional requirements. MO and contractor provide a risk evaluation based on the pre-development work to inform the team prior to on-site work. San Francisco staff is open to listen to the contractor's expertise on risk and develop appropriate back-up plans.
- Product Management utilizes development tracking tool to ensure correct components are staged for development and priorities are clearly communicated. All components arrive on time and any substitute items are clearly identified.

It was determined that the GTM calendar was an excellent tool for delivering product, but that the actual behaviors expected of individuals on the LS&CO staff side needed to be clearly defined, communicated and measured. Subsequently, the best practice behaviors were identified and documented.

For the current development cycle, all virtual teams and MO have received training on these behaviors. A process to identify adherence to these behaviors is also in place. Virtual teams and MO will provide each other with written feedback that will be shared with their respective leaders and used in performance evaluations. Feedback will also be compared to supplier TOE performance to evaluate the impact of the program on supplier ability to meet TOE.

> *"Anytime we deviate from our process there's a potential for TOE violation. But how do we really know the impact? We don't have visibility. We need to see the big picture."*
>
> *– Product Management Staff, San Francisco*
>
> *"We can use this research information to head off potential TOE impacts, if we identify key areas and know what's coming and how to address it."*
>
> *– Manufacturing & Operations Regional Leader*

While the GTM process and calendar address the need to align overall sourcing activities and roles, the Business Integration initiative addresses the need for individual accountability in actually embedding socially responsible business behaviors into their daily ways of working.

Challenges

Honest Feedback: Although initially the feedback was not attributed to the individuals providing it, the results were the basis for open, collaborative discussions. In the future, however, the feedback will be direct. A challenge, then, has been the sensitive task of getting people to speak candidly and honestly about their peers' performance. Providing personal feedback on peers' performance and being receptive to external feedback goes beyond the objective GTM calendar implementation. This initiative, however, reveals the crucial role each individual plays in integrating internal alignment strategy into daily business practices.

Continued Market Pressure: It is increasingly more important to emphasize company values and directives as non-negotiable in a challenging global financial environment.

Keys to Success

Executive Support: An imperative to the launch and success of the Business Integration initiative has been, and continues to be, C-suite support. The Senior Vice President of Global Sourcing oversees the two groups involved and plays an active role in supporting this process and ensuring that its importance is emphasized at the appropriate levels by reiterating such to those who report to him. The regional President, responsible for the brands' design and merchandising teams, has also been an active supporter of the work. The two sent a joint memo to all parties introducing the business integration initiative and new behaviors. The CEO continuously affirms importance of the work to all stakeholders as integral to the company's values-based approach to the business.

Structure: The Supply Chain Social and Environmental Sustainability team is part of the Global Sourcing Organization and has a seat on the GSO Leadership Team. This structure ensures seamless integration and buy-in from PM and MO leaders. Rather than the SES team training the business on this initiative, business owners embrace it, see the business advantage, and undertake the training and implementation themselves.

Knowledge of the Business: The initiative was led by a longtime LS&CO employee who was well-versed in production processes and their challenges and had strong internal relationships with many of the key stakeholders. This allowed her to get honest and candid information about the GTM process and behaviors that impact supplier compliance, which may otherwise had remained invisible.

Lessons Learned

Significant Business Benefits: A significant finding was that, although this began as an investigation intended to improve supplier adherence to TOE, many of the problems unearthed and solutions being implemented are yielding business benefits through reduced overdevelopment costs. Focusing on streamlining internal processes and improving communications efficiency will improve the company's ability to meet deadlines and sell—and to do both more responsibly. These results are squarely in line with LS&CO's vision of evolving toward sustainable business practices that seamlessly promote both sound financial performance and responsible adherence to TOE standards.

C. Ford Motor Company

Ford Motor Company has relationships with over 2,000 production suppliers operating at over 5,500 manufacturing sites that produce 130,000 parts for inclusion in vehicles that the company sells. In addition, Ford purchases other non-production supplies, including services, marketing, construction, computers, industrial materials, health care and machinery from over 9,000 suppliers. Overall, the company spends over $90 billion globally per year on production and non-production purchases.

Ford has a Code of Basic Working Conditions to which it expects all owned and operated sites as well as all suppliers to adhere. The company has established programs to communicate expectations on various levels, provide factory-level training for compliance, and evaluate the performance of suppliers. However, both the size of Ford and the decentralization of the purchasing function pose challenges to internal alignment. This case study discusses the current measures being taken as well as the main challenges to effectively aligning the strategies and activities of the Supply Chain Sustainability group and the regional business units responsible for local purchasing activity.

Who Is Involved?

The Supply Chain Sustainability (SCS) group sits within the Global Purchasing organization and sets Ford's supply chain performance goals, seeks and secures buy-in from leadership, and continues to drive development in regards to social and environmental performance. This group is responsible for providing factory trainings and assessments for global supplier sites, direct engagement at the corporate level with strategic suppliers, and driving industry collaboration on supply chain conditions through participation in the Automotive Industry Action Group (AIAG).

The SCS group includes four full-time staff centrally located at headquarters, and four global leads based within the regional business units. These regional leads are rotating positions assumed by staff with backgrounds based in mainstream Purchasing such as buyers, quality engineers and program managers.

The SCS group engages with suppliers on matters related to human rights, working conditions and capability building, but is not directly involved in the commercial aspect of supplier relations. Purchasing decisions and supplier quality evaluations are conducted by the commercial contacts and supplier quality organization.

What Is the Problem?

The central problem is the division of roles, responsibilities and accountability between the SCS group and the business managers making the purchasing decisions. SCS interacts with and evaluates suppliers on working conditions compliance. However, while they are given opportunities to bring attention to the results of the third-party inspections, they are not currently able to integrate supplier performance against these criteria into routine business reviews and decision-making in an ongoing, globally consistent manner. Currently, SCS is held responsible for performance against objectives, but is limited in its ability to integrate supply chain compliance consistently with other business considerations. Buyers and quality engineers have the most contact with suppliers and are often not engaged in evaluation of a supplier's performance against working conditions expectations. Lack of engagement is due to a variety of factors, including lack of aligned objectives and thus the inability to see the relevance of working conditions performance metrics to the business relationship. The SCS group has identified the need to integrate its objectives into purchasing processes, decision-making and evaluation.

Underlying this problem are several challenges:

- The challenge of a small SCS group providing/assisting in oversight of such a large population of suppliers. Of the 5,500 production suppliers, about 2,000 sites are located in high-risk markets in terms of human rights and working conditions. The Ford SCS group has designated four dedicated staff to manage these sites with a rough ratio of 500 sites per manager. Thus, the group faces internal challenges in capacity, thinly stretched resources and lack of optimal automation of processes. These operating challenges increase the occurrence of management by exception and the need for prioritization, especially in order to draw necessary attention to the most urgent concerns.
- A broader challenge exists of aligned objectives and corresponding activity across functional departments and regional offices within any large, global organization. In this case, these

challenges stem primarily from a misalignment of internal objectives between executive and regional management, which then affects the SCS function and operational purchasing.

Current and Proposed Innovative Solutions

Aligned Business Framework

The Aligned Business Framework (ABF) is the name of Ford's new purchasing business model. Launched in 2005, ABF agreements establish working business models for both Ford and the selected suppliers. The agreements comprehensively and formally spell out business practices designed to increase future collaboration, including phased-in upfront payment of engineering and development costs, extended sourcing and data transparency. As part of the agreement, Ford increases the volume of business with select suppliers. Since its launch, Ford has identified 46 production and 19 non-production ABF suppliers.

"We developed the ABF strategy to find a better way of working with our suppliers," said Tony Brown, Ford group vice president, Global Purchasing. "Over the past year we have continued to expand the number of companies in our ABF family, while at the same time implementing the ABF principles across our entire organization."

The ABF agreement seeks to enable Ford's supplier partners to take greater responsibility in ensuring proper working conditions and environmental management systems throughout their value chain. This "macro" approach of suppliers developing management systems and processes will allow Ford to monitor the supplier's working conditions programs rather than Ford micro-managing supplier performance through conducting training and monitoring at individual supplier sites.

The ABF agreement is an evolutionary step from Ford's previous position of "encouraging" suppliers to adopt and enforce a similar code of practice aligned with Ford's Code of Basic Working Conditions to "expecting" suppliers to adopt a working conditions code (similar to Ford's) and develop training and compliance systems for their internal facilities and supply chains. Each supplier identifies an executive to lead the development of its code and processes. It is the responsibility of the executive lead to report corporate progress to Ford against established metrics. During all phases of supplier development Ford provides assistance, contacts and materials to help the supplier to develop its program.

Through ABF, Ford is making strides in improving its working relationships with suppliers on a global basis. In addition, it has provided an opportunity for alignment regarding working conditions and environmental leadership. This alignment extends into the supply base, but due to the metrics managed by the SCS group and the business relationship owner, it also creates alignment of objectives internally.

Matched Pairs

An approach to achieving greater internal alignment that Ford piloted with its product development and purchasing departments is the Matched Pairs system. In this system, not only are the strategies of the two departments aligned, but members of each department are paired with members of the other so that decisions are made in tandem from the beginning. This approach increases collaboration from product design through procurement, and simplifies communication by reducing the points of contact for each commodity. The alignment of the two departments means that they share a common cost objective and improves interaction with suppliers by allowing them to directly engage at the right level. For example, supplier feedback on difficulties related to manufacturing certain parts or meeting specifications can go directly to the team that made those decisions and which has the ability to adjust them.

The Matched Pairs system has already yielded substantial improvements in internal efficiency and supplier interface for product design, and is effective in managing expectations on both sides while enabling clear, consistent communication. Based on its positive results to date, this approach provides an ideal opportunity to ensure clear consistent messaging to suppliers from all points of contact within Ford. It may also provide an opportunity to align objectives among a wider constituency within Ford.

Reporting and Review

Factory training attendance, performance and feedback, as well as the complete results of third-party audits, are usually reviewed by only the supplier and SCS regional managers. The SCS team does share reports on high-risk issues, specific supplier progress and trends observed with the management in-country, as well as overall executive management on a monthly or as-requested basis. Aggregate regional results are also reviewed by all executive management quarterly at the Global Purchasing Operating Committee review. These established periodic reviews of regional supplier performance are instrumental in generating dialogue and awareness around major supplier social performance issues. Ongoing information sharing and discussion are important in enabling further alignment in identifying cross-functional priorities and setting objectives.

Supplier Scorecard

Amending the supplier quality scorecard to include social criteria is a potential solution to ensure ongoing, consistent integration of SCS and business objectives in supplier performance review and relationship management. All business units regularly evaluate suppliers based on quality, cost and delivery performance. These quality scorecards are reviewed frequently and are instrumental in making future buying decisions. Suppliers are currently evaluated separately on human rights and working conditions performance and this information is used by the SCS team primarily to begin dialogue with suppliers regarding supply chain working conditions.

The proposed solution is to integrate the SCS criteria into the supplier scorecard to ensure that supplier performance in these areas is taken into consideration as purchasing decisions are made. This proposed amendment to the supplier scorecard would send a clear message to suppliers that business and sustainability criteria go hand in hand, as well as reinforce the alignment of SCS and business unit objectives. To further justify inclusion of social performance to a quality scorecard, current studies are being explored to examine the correlation between product quality and working conditions. With a statistical correlation between the two aspects of supplier performance, compliance with Ford's Code of Basic Working Conditions and legal requirements would have a consistent impact on a supplier's ability to do business with Ford.

Challenges

Business Environment

A current challenge to implementing these alignment initiatives is the external business environment and the extreme financial stress that this has placed on both the company and its suppliers. With companies trying to maximize efficiency and minimize costs, supply chain compliance may be perceived as an impediment to doing business, rather than an enabler.

Setting and Incorporating Objectives

An ongoing challenge continues to be building SCS objectives into all relevant business processes. Alignment of decision-making priorities and activities is more difficult when objectives are not aligned across functions. In this case, integrating SCS priorities into company practices might start with aligning the objectives across the entire Purchasing structure and making sure that those objectives translate to the regional business units. Objective-setting is the first step toward determining the roles and impacts that individuals have in fulfilling those objectives and ensuring that these are effectively communicated and incorporated into their daily responsibilities. The supplier scorecard could be a tactical reassurance that these objectives are adhered to on a consistent basis.

Enablers

Important factors that have enabled progress in building the supply chain sustainability program include the following:

Executive Support: Executive buy-in has been crucial in gaining organizational resources, recognition and support contributing to the expansion and success of SCS. Executive management has drawn both internal and external attention to the relevance of SCS activity to the fulfillment of the company's core values. Especially meaningful has been the direct communication from executives to suppliers on this issue during meetings and other engagement opportunities.

Central Supplier Information Management: A central database and consistent metrics for supplier compliance are keys to ensuring the validity and accessibility of data. This reduces potential inefficiency and confusion internally about evaluation criteria, source/legitimacy of data, and ensures that the same lens of scrutiny is being applied across the board. There are, however, challenges in enabling updated, consistent information flow among decentralized business units, which are exacerbated by a lack of optimal IT utilization. Ford has begun the process of central information management and with appropriate resources allocated, it will continue to develop this system internally and integrate to existing supplier information management systems.

Staff Rotation and Expertise Building: Ford Purchasing structure encourages internal staff rotation so that individuals have the opportunity to develop new skills and share their expertise with other departments. The regional SCS and purchasing groups have staff members coming from and moving to different departments, and the regional SCS unit leads are also rotating positions. This internal mobility allows for increased information sharing, communication and collaboration at both the individual and departmental levels. The SCS regional leads benefit from having the perspectives and relationships within the business.

Structure: Having regionally and centrally based SCS staff with reporting lines into the Global Purchasing headquarters ensures that the regional leads have a voice to raise supplier issues. They see both their local presence and their connection to headquarters as essential to their ability to perform their jobs effectively.

Clear and Consistent Communications: The SCS department strives for consistent and clear communication about the program, the issues as they manifest throughout the global supply chain, and overall importance to Ford's strategy. This increases the strength of its message, allowing it to be better heard and received by both internal and external audiences; SCS is always viewed as the expert on the topic. Both management support and possession of a standardized, comprehensive source of information contribute to the organization's position as trusted expert. This applies as well to the training material generated for and cascaded to all global suppliers. The regionally based SCS staff emphasizes the importance of using the same centralized training materials.

Long-Term Supplier Relationships: Ford signs comparatively long-term agreements with ABF suppliers, which lends to increased openness, dialogue and a partnership attitude. Without the fear that a non-compliance could mean the end of Ford's orders, suppliers are more open to discussing challenges and working together toward solutions.

The nature of supplier relationships within the automotive industry in general—and specifically with Ford—gave rise to a program of social compliance based upon training and capability-building. This in turn has avoided development of a "gaming" reaction on the part of suppliers. Assessments are used by Ford on a sampling basis only to better understand conditions on the ground and, although used to ensure compliance on a site basis, are considered to be a part of supplier development. This approach is further enabled by current business efforts to reduce the supply base and develop deep and transparent relationships with a fewer number of suppliers for the long term.

Lessons Learned

Connection Between Working Conditions and Quality: There is preliminary anecdotal evidence that factories with good working conditions also manage other aspects of their business well. Ford is exploring the correlation between quality and working conditions to demonstrate a stronger business case for supply chain sustainability management.

Benefits and Challenges of a Decentralized Program: This case study highlights the tensions and opportunities present in working in a global, decentralized environment. Faced with regional business units operating somewhat autonomously and the challenge of integrating SCS objectives into purchasing decisions, SCS is trying to overcome both geographic and functional barriers through its structure, reporting lines, other internal alignment efforts and evaluation tools.

Regional SCS leads who are well-connected to the central SCS group and fully integrated in their business units offer a unique possibility for ensuring that SCS objectives have a regional champion—and one who can translate those objectives into another department's language and strategy. Likewise, the regional leads feel empowered by their connection to headquarters and reassured that their concerns will not go unheard. The challenge remains, however, of maintaining the optimal balance of activity in two different departments with two different reporting lines and sets of priorities. The regional SCS managers gain a valuable holistic perspective, but are not completely authorized to make the changes for which they see a need.

IV. Conclusion

The examples of Ford Motor Company, Starbucks Coffee Company and Levi Strauss & Co. illustrate different approaches to internal alignment and highlight distinct successes and challenges. This conclusion summarizes some of the critical elements of internal alignment as they appeared in these examples. This is a beginning step to help companies understand the options for pursuing internal alignment and some of the implications of these approaches. It is our hope that these examples help further the discussion about effective methods for achieving internal alignment and that a growing number of companies will embark on this journey.

1. **Executive Commitment and Support**
    - All three companies reported executive commitment as being important to the success of their efforts.
    - In the case of Starbucks, executive commitment and communication surrounding the importance of CSR set the tone of the corporate culture, so that employees make the connection between ethical sourcing and their daily activities, even when it is not explicitly enforced through policies.
    - There is often a gap in ensuring that executive commitment cascades through different management levels and functional departments—a gap between high-level CSR vision and commitment and the ability to put it into action in a consistent, comprehensive manner. Putting policies and accountabilities in place can help to address this, but presenting a compelling business case to executives, particularly those with more resistance or stronger concerns, is often the first step.

2. **Integrated Strategy, Structure and Policies**
    - In all three companies, the sustainability groups were housed within procurement or had very strong ties to procurement.
    - Integrating structure at individual level: one proposed successful solution is structuring small pairs or teams of individuals from different departments involved in getting a product to market, so that they are able to jointly make decisions based on aligned objectives. Examples of this were the Matched Pairs (Ford) and virtual teams (LS&CO).
    - The following are examples of implementing integration and alignment efforts into different processes:
        - *Integration of Objectives:* Alignment of objectives was emphasized by Ford. Attempting to align activities and/or processes will not be as effective when objectives are not first aligned.

- *Shared Calendar:* Levi Strauss & Co.'s GTM calendar and process demonstrates the importance of improved communications and coordination between departments, as well as the need aligning desired behaviors into daily business practices.
- *Integration of Performance Data Review:* The Ford Supplier Scorecard is proposed as a tool to formally integrate business and sustainability performance criteria in a single supplier evaluation tool that is heavily utilized in making purchasing decisions. While this may not be employed as a main driver of integration, it does provide ongoing consistency and accountability once alignment has been achieved at a higher, strategic level.
- *Integration and Issues Training:* Effective coordination between the buyers and Ethical Sourcing teams at Starbucks is enabled by both a high level of cross-training as well as clearly defined role division. Buyers benefit from receiving extensive training on ethical sourcing issues and they can also rely on the Ethical Sourcing teams in weighing options in specific instances.

3. Consistent Internal Communications

- Ford Motor Company benefited from maintaining consistency in communications across boundaries (executive and operational) and cultures (geography).
- Starbucks Coffee Company benefited from the consistent communications about the company's values so that buyers feel empowered to uphold those values as part of the procurement function.

4. Meaningful Information, Metrics and Reporting

- Integrating compliance factors into a supplier scorecard, which Ford Motor Company is exploring, would allow procurement to see a correlation between working conditions and other important buyer criteria, such as quality, delivery and cost.
- Reporting is essential, but worthless unless reports are going to the appropriate channels. The Ford regional leads cited having reporting lines back to headquarters as critical to being heard.
- Full, shared access to information: Starbucks Coffee Company buyers have complete access to all supplier social audits and are now working toward a more formalized evaluation system to ensure consistent utilization.

5. Behaviors

- *Individual Behavior:* The importance of individuals was a theme that emerged in each of the three case studies. Individual behavior involves both awareness and desire to change, and it can be a powerful force for enabling other alignment strategies.
- *Individual Accountability:* Levi Strauss & Co. is planning to collect peer feedback, which is then incorporated into individual performance reviews.

- *Definition and Communication of Best Practice Behaviors:* This is a key component of Levi's Business Integration initiative and also emphasized by Starbucks. Both analysis (to understand negative impacts and desired changes in behavior) and training are essential.
- *Promoting Individual Empowerment:* A corporate culture that truly integrates its corporate responsibility values and priorities into its strategies and day-to-day activities empowers its employees to support its goals.
- *Building Individual Expertise and Capacity:* Ford Motor Company rotated staff to ensure individuals with responsibility for supply chain sustainability had intimate knowledge of procurement-related functions.

Appendix: Collaborative Approaches[1]

This section explores four collaborative approaches that include internal alignment initiatives among their efforts toward furthering sustainability objectives. It provides a brief description of each including how it may be useful to companies interested in improving their purchasing practices.

A. BSR's Beyond Monitoring Working Group

Members

The BSR Beyond Monitoring Working Group is comprised of the following companies: Burberry, C&A, Cadbury, Chico's FAS, Electrolux, Ford Motor Company, Gap Inc., Hallmark, HP, IKEA, Johnson & Johnson, Jones Apparel Group, Levi Strauss & Co., LL Bean, Marks and Spencer, Microsoft, Nike, Nordstrom, Novo Nordisk, Starbucks, The Walt Disney Company, Time Warner, Varner, and Wal-Mart.

Purchasing Practices

Participating companies developed a framework that established a shared understanding of product development phases and created a common terminology for sharing experiences and learning related to buyers' impacts on supplier sustainability performance. Building on this framework, companies benchmarked current business processes, impacts on supplier compliance, and best practices.

The group's vision of an ultimate deliverable for the project is a toolkit that provides a roadmap and associated tools integrating social and environmental aspects into companies' product development cycles to improve overall business performance. Currently, the group is focused on collecting and sharing examples of improvements companies can make, and their associated successes and challenges. Going forward the group will continue to develop content and solutions for the toolkit.

In addition, BSR and the Department of Fashion and Apparel Studies at the University of Delaware (FAS) are partnering in the design and development of curricula for both senior executives and practitioners within various divisions of apparel, textile and footwear companies to learn how their decisions impact the working conditions at their suppliers' workplaces, as well as the steps that they can take to support suppliers in continuously improving such conditions. BSR and FAS will promote this partnership among their respective networks to raise awareness of the availability of this training program.

What BSR's Beyond Monitoring Working Group on Internal Alignment Offers Companies Interested in Improving Their Ethical Sourcing Practices:

- A network of companies grappling with similar issues
- A roadmap for how to begin to align goals and activities across departments and different phases of product lifecycles

[1] Based on information available in the public domain

- Learning from other companies' experiences in:
  - Identifying and implementing opportunities for improving business processes in order to facilitate better supplier compliance
  - Effective methods for building internal support and the business case for incorporating social and environmental considerations into product development processes
  - Tools that can support better internal alignment

B. Fair Labor Association

Members

The Fair Labor Association (FLA) is comprised of companies, suppliers, NGOs, trade unions, and colleges and universities and their licensees. Company membership requires adoption and integration of the FLA Workplace Code of Conduct at all applicable facilities.

Purchasing Practices

FLA is an action-oriented organization focused primarily on social compliance initiatives at the factory level. It recently initiated several initiatives that explore internal alignment factors. Its stakeholder forum in June 2008 included a panel discussion titled, "Purchasing Practices and Their Impact on Labor Standards." It is also in the middle of a survey of buyers and suppliers regarding the conflicts and objectives of purchasing practices.

On the training side, FLA is partnering with BSR and FAS to design and develop curricula for both senior executives and practitioners within various divisions of apparel, textile and footwear companies to learn how their decisions impact the working conditions at their suppliers' workplaces, as well as steps that they can take to support suppliers in continuously improving such conditions. This course will be available in Spring 2009.

What FLA Offers Companies Interested in Improving Their Ethical Sourcing Practices:

- Support for buyers dealing with labor rights compliance issues in factories
- Compliance monitoring and evaluation within factories
- Remediation plan development support and implementation
- FLA 3.0 sustainable supplier operations program that includes identifying root causes of noncompliance and building supplier capacity for compliance
- Network of companies with which to compare experiences with supplier compliance and relationships
- Third-party complaint system for reporting and remediation
- Compliance program that supports the unique needs of university licensees
- Annual Public Report that profiles member companies and their supply chains and offers insight into global labor rights trends
- Transparent reporting of factory compliance audits

- Accreditation of labor compliance programs
- Upcoming: Survey results of buyers and suppliers regarding purchasing practices
- Upcoming: Training for buyers and executives on the effects of purchasing practices

C. Ethical Trading Initiative

ETI Members

Companies (all industries), NGOs and trade unions (trade unions that are members of The Council of Global Unions, The International Trade Union Confederation, or The Trades Union Congress in the UK are all automatically members of ETI). Company membership requires that companies endorse and implement ETI Base Code and support it with sufficient human and financial resources.

Purchasing Practices

In April 2005, ETI launched an experimental project to research the effect of purchasing practices on labor rights. The initiative's aim is to increase members' understanding of the impact of sourcing companies' purchasing practices on conditions for workers and to determine how purchasing practices can better support labor standards.

Individual companies in the group partnered with a trade union and/or NGO to review their purchasing practices, identify aspects that put pressure on suppliers and workers, and work on a specific area together.

The following ETI members are involved:

- Companies: Asda, Debenhams, Gap, Inditex, Marks and Spencer, New Look, Next, WHSmith
- Trade unions: International Textile, Garment and Leather Workers Federation; Prospect; Transport and General Workers Union
- NGOs: CAFOD, Homeworkers Worldwide, OXFAM, Traidcraft, Women Working Worldwide

Lessons Learned

As of the writing of this report, the purchasing practices program was still underway so no final findings have been published, but a few initial lessons are available. The following points were identified as providing a foundation for a company to address purchasing practices effectively:

- The firm commitment of senior managers across the company to start looking at how purchasing practices can support improvements in working conditions is essential.
- A collective approach (working with staff across the business, suppliers, NGOs and trade unions) is requisite to fully understand purchasing impacts on working conditions.
- Since solutions must also be economically viable, there must be a dual focus at an early stage in the project on both ethics and product that requires collaboration between those who procure and those who manage labor standards.

- Project group members are finding that a better understanding of the entire supply chain is necessary toward learning where there might be opportunities to mitigate the effects of purchasing practices at various points in the chain.

At the project group meeting in May 2007, several participants shared resources and techniques such as:

- Delivering presentations about supply chain working conditions, including footage of workers and workplaces, to senior managers and all staff in the buying departments
- Facilitating workshops for buyers, merchandisers and technologists to understand the complexity of the supply chain and the impact of their decisions on producers
- Inviting buyers to volunteer as “Ethical Champions” to develop and promote good purchasing practices in their buying teams
- Facilitating workshops for managers in the compliance and commercial departments to identify areas for collaboration to address purchasing practices

The purchasing practices initiative also provides training tools for companies’ internal use, including hypothetical case studies to address impacts of purchasing practices on working conditions that were discussed at the 2007 members’ meeting. Collective answers were recorded and the document is available for use by companies for internal training.

What ETI Offers Companies Interested in Improving Their Ethical Sourcing Practices:

- Experimental Projects: Opportunities for corporate, trade union and NGO members to work to together to identify and promote good practice in specific aspects of code implementation, often in collaboration with their suppliers and partners
- Research Projects: To fill in gaps in knowledge or understanding of a particular issue
- Monitoring Corporate Performance: Monitoring the progress of members in implementing the ETI Base Code throughout a company’s supply chain
- Building Capacity: Helping to build the capacity of relevant organizations to implement codes effectively
- Training: Focuses on improving the skills of ETI corporate members, their suppliers and other stakeholders in implementing the Base Code
- Multi-stakeholder Initiatives: Opportunities to work specifically on purchasing practices

ETI and Gap, Inc. Case Study

Partners: ETI, Women Working Worldwide (WWW)

Description:

Under the ETI purchasing practices experimental project and in partnership with WWW, Gap, Inc. has been working to study its purchasing practices and their effects on labor standards compliance.

In 2004 and 2005, Gap piloted an integrated sourcing scorecard for factories to help its buying team integrate performance into its decisions on where to place garment orders. Derived from a factory rating tool, the scorecard provides an overall factory rating based on performance on quality, innovation, strategic capability, speed-to-market, cost and labor standards. Such scorecards are only useful when integrated into buying practices.

The 2006 study findings included:

- Unforeseen delays can create situations in which factories do not have enough time to complete production orders (e.g. fabric arriving late, Quality Assurance teams not available in time, delayed approval on sample garments).
- Changes to production orders—ranging from alterations to the design of a garment to the way garments are packaged or shipped—can be difficult for factories to manage when they occur after production has begun.
- The use of flow production as well as the seasonal nature of the garment industry can lead to a sub-optimal utilization of some factories' production capacities and increase incidents of under-payment or non-payment of overtime wages.

Gap subsequently proposed several solutions: disciplined adherence to production calendars, working with factories earlier in the production process to finalize product design, and placing testing labs closer to cut and sew facilities. It also developed a training plan for the Global Production Team, as well as one of the brand's buying staff.

D. Multi-Fiber Agreement (MFA) Forum

Members

The MFA Forum is an open network of over 70 participants representing brands and retailers, trade unions, NGOs and multi-lateral institutions in the garment industry. The MFA Forum Secretariat (AccountAbility) chairs the Executive Committee.

Purchasing Practices

While purchasing practices were a part of the MFA Forum agenda in Toronto in April 2007, discussions were focused on country-level actions and uncertainty was expressed with regards to specific aspects of purchasing that participants were seeking. MFA Forum has not initiated any efforts specific to purchasing practices and internal alignment, but it does have access to information and resources through its relationship with ETI via its Building Capacity and Experimental Projects initiatives.

Findings from 2007 group discussions included:

- Use the findings to influence buyer behavior; look to develop metrics, buyer incentives and balanced scorecards as appropriate
- Buyers need to be involved and a training curriculum for buyers should be developed
- Building in accountability with buyers and designers is key (training is not enough)
- Brand buyers should be at future meetings of this kind

What the Forum Can Offer Companies Looking to Improve Their Ethical Sourcing Practices:

- Garment industry-specific research on workplace standards issues
- Garment industry-specific collaborative initiatives
- Collaborative Framework outlining the principles of working with all stakeholders to address challenges in the global garment industry