

American Home Furnishings Alliance

Responsible Sourcing Manual



**A GUIDE FOR DEVELOPING A CORPORATE
SOCIAL RESPONSIBILITY PROGRAM**

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Table of Contents

INTRODUCTION	3
THE BUSINESS CASE FOR CORPORATE SOCIAL RESPONSIBILITY	4
Defining Corporate Social Responsibility	4
CSR Benefits for the Company	5
CSR Benefits for the Supply Chain	6
The Virtuous Cycle	8
SOCIAL COMPLIANCE PROGRAM COMPONENTS	9
Program Governance	10
Social and Environmental Policies	10
Program Administration	11
Monitoring	12
Key Performance Indicators	12
Risk Assessment	13
Assessment Visit Notifications	14
Assessment Team	14
Conducting the Assessment	14
Assessment Report	14
Remediation	15
Sample Compliance Timeline	15
Social Compliance Model Summarized	16
RESOURCES	17
Sample Letter to Suppliers	17
Sample Supplier Code of Conduct	18
Sample Code of Conduct with Supplier Agreement	20
Links to Additional Codes	22
Sample Vendor Assessment Checklist	22
AHFA Member Advisory on CA SB 657	23
Legal Text of CA SB 657	24
AHFA Member Advisory on Lacey Act	26
Additional Resources	28

Introduction from AHFA

In 2008, the American Home Furnishings Alliance introduced Sustainable by Design, a program to assist its member companies in efforts to extend sustainable business practices throughout their global supply chains. The program recognizes that a company's environmental impacts reach well beyond its direct operations, and it challenges participants to collaborate with their suppliers on measures to improve global environmental performance.

Those measures must extend across four key focus areas, among them operations (reducing environmental footprint), sourcing (maintaining credible documentation of eco-friendly/legally-sourced raw materials) and global climate impact. The fourth focus area – *social responsibility* – received little attention when the Sustainable by Design program was launched. Although the concept has gained considerable awareness over the past decade in other consumer products industries, home furnishings companies are still primarily associating “social responsibility” with an annual charity drive or other philanthropic efforts.

In contrast, this manual presents the social dimension of environmental performance as an outgrowth of global manufacturing and the impact that companies have on the social systems within which they operate. “Corporate social responsibility” encompasses principles such as protecting human rights and international labor standards, as well as promoting positive community relations.

The social responsibility component of AHFA's Sustainable by Design program requires participants to develop policies that:

- ❖ define the company's commitment to human rights and internationally-recognized labor standards;
- ❖ facilitate compliance with existing and emerging legal requirements related to social responsibility;
- ❖ identify the company's potential impact on communities, manage any potential risk; and,
- ❖ address the impact of the company's products on health and/or safety.

This manual is a baseline tool to help home furnishings companies accomplish those social responsibility goals, even if they are not a Sustainable by Design program applicant or participant.

The manual is divided into three sections. The first section describes the concept of corporate social responsibility and how it benefits the supply chain. The second section outlines a comprehensive Social Compliance Program, provides tips on implementation and governance, and outlines the process of risk assessment, monitoring and remediation. The third section provides sample documents, as well as a brief overview of three regulations helping to define the role of social responsibility in corporate America today: the Lacey Act; the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Sec. 1502 on conflict minerals); and the California Transparency in Supply Chains Act.

This manual was produced in conjunction with UL Responsible Sourcing.

About UL RS:

AHFA's Responsible Sourcing Manual was produced in conjunction with UL Responsible Sourcing. UL RS is a leader in the field of responsible sourcing services, specializing in monitoring, education, program development and management. UL RS has developed and implemented supplier monitoring programs for over 60 major brands and retailers plus over 500 manufacturers in various consumer products industries, among them home furnishings, cosmetics, agriculture/food processing and production, electronics, jewelry and toys. For more information on UL RS, please visit www.strquality.com or email RSinfo@ul.com.

The Business Case for Corporate Social Responsibility

Defining Corporate Social Responsibility

Over the last two decades, corporate social responsibility (CSR) programs have become widespread, and many corporations have moved to include CSR strategies in their daily operations. As more and more companies have implemented CSR programs, multiple definitions of “corporate social responsibility” have emerged.

CSR can be interpreted as the obligation of a company to constituent groups in society that extend beyond the obligations established with stockholders and beyond responsibilities prescribed by law. This definition assumes two things: 1) the obligation is voluntarily assumed, and 2) the obligation extends to other societal groups such as customers, employees, suppliers and neighboring communities.¹

CSR also has been described as a pyramid formed by four essential components – economic, legal, ethical and philanthropic – with the economic component at the base, followed by the legal, ethical and philanthropic elements. This definition comes from Archie B. Carroll, professor emeritus in the Terry College of Business at the University of Georgia, who has conducted research on corporate social responsibility for decades. Carroll does not stipulate a sequential order for fulfilling the components but instead emphasizes that they should all be fulfilled at all times.

More recent interpretations of CSR incorporate a company’s impact on the environment and on the countries within which they operate or from which they source. Thus, CSR becomes the alignment of business activities with recognized social and environmental standards, fulfilling legal obligations but voluntarily going further to incorporate additional investment in human capital and the public good, as well as in environmental stewardship. In developing countries, CSR can be taken one step further, involving proactive steps to help alleviate poverty.²

While there is no single way of interpreting CSR, the highly respected International Standards Organization (ISO) proposed this consensus definition in its Guidance on Social Responsibility:

“The responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behavior that: “contributes to sustainable development, including the health and welfare of society;

- ❖ takes into account the expectations of shareholders;
- ❖ is in compliance with applicable law and consistent with international norms of behavior; and
- ❖ is integrated throughout the organization and practiced in its relationships.”

ISO 26000 provides guidance on social responsibility to both business and public sector organizations. It was one of the most eagerly awaited documents from the International Standards Organization (ISO) in recent years. Development of the standard took five years and involved experts from 99 member countries. Introduced in 2010, the standard offers:

- concepts, terms and definitions;
- principles and practices; and,
- guidance on integrating, implementing and promoting socially responsible behavior throughout an organization.

ISO 26000 is available at www.ansi.org for \$556.

¹ Jones, T. M. (1980). Corporate social responsibility revisited, redefined. California Management Review.

² Business for Social Responsibility- BSR. (2010). Public Policies for Responsible Labor and International Competitiveness. San Francisco, CA: BSR.

Effectively, all these concepts translate into tangible company programs aimed at:

- ❖ managing internal employee activities;
- ❖ complying with labor and environmental standards throughout the supply chain;
- ❖ engaging in philanthropic endeavors; and,
- ❖ developing stakeholder engagements to inform both internal and external actors of program goals and progress. Stakeholder engagements also help assess relevant issues and guide future decisions.

In the context of supply chain management, CSR or social compliance programs are designed to assess and monitor social and environmental performance throughout the supply chain.

CSR Benefits for the Company

The benefits of and need for CSR and social compliance programs has been debated since the inception of the CSR movement. Research now shows a number of measurable attributes associated with strong CSR practices. These include:

Avoiding Negative Impact on Public Image. Implementing socially responsible practices may help businesses avoid public image risks, such as bad publicity and damaged reputation. Firms already taking steps to go beyond legal requirements in improving worker and/or community conditions may avoid unwanted regulation. A robust CSR program helps companies stay ahead of legal compliance issues. For example, companies that have been addressing forced labor and human trafficking for many years have only minimal work to comply with the California Transparency in Supply Chains Act (SB 657) – legislation that requires companies operating in California to publicly disclose their efforts to combat human trafficking in their supply chains. On the other hand, companies that have not yet looked at these risks may find themselves in fire-fighting mode to ensure compliance and to avoid any negative impact on their public image.

Businesses with solid community programs, well-monitored labor conditions and accountability all along the supply chain are less vulnerable to social backlashes, consumer boycotts and unwanted media scrutiny.

Brand recognition and consumer loyalty. Society increasingly expects companies to contribute to the communities within which they operate. Studies on brand recognition and consumer loyalty show that consumers are positively influenced by socially responsible initiatives and that, when the level of awareness is high, CSR programs create a point of differentiation among brands.

According to the 2010 Cause Evolution Study by Cone Inc. – a study that explores consumer attitudes and expectations – the alignment of a company’s practices with a cause translates into purchasing and brand differentiation: 41 percent of Americans say they have bought a product because it was associated with a cause



CSR Meltdown

In 2010, four environmental and human rights groups released a report accusing a leading chocolate company of failing to publicly commit to sourcing independently certified cocoa to comply with international labor rights standards. A nationwide *Raise the Bar!* campaign resulted in more than 100,000 people signing petitions to urge the company to adopt Fair Trade practices. The campaign also generated negative publicity for the company for more than a year.

or social/environmental issue in the last year. Eighty percent say they are likely to switch brands (as long as they are about equal in price and quality) in favor of one that supports a cause. Cause also motivates many of these consumers to try new brands (61 percent) or even to switch to a more expensive brand (19 percent).³

A 2009 study conducted by Shelton Group for AHFA echoes these findings. More than one-third of the furniture consumers surveyed said the environmental record and practices of the manufacturer influenced their purchase decisions. These findings showcase the importance of CSR efforts in building brand recognition and attracting customers.

Employee recruitment, satisfaction and turnover: In addition to generating positive external consequences, CSR initiatives also produce important internal benefits for companies. Studies find that CSR programs improve employees' perceptions of the company. When a company undertakes strong CSR initiatives, employees are more proud of and committed to the organization.⁴

CSR initiatives also have been found to have positive effects on staff turnover rates. Salary levels and the number and quality of benefits are important motivational factors for employees, and these internal benefits often are part of the larger CSR umbrella of a corporation. However, beyond these tangible benefits, CSR programs can build stronger relationships between the company and its workforce, thus lowering staff turnover. Companies known to have good CSR programs are also more likely to attract quality, dedicated employees, making the recruitment process an easier one.

Competitive advantage and industry leadership. Strong CSR programs may signal industry leadership and showcase a company's competitive advantage, potentially affecting market positioning and the company's bottom line. `

CSR Benefits for the Supply Chain

CSR initiatives should not be limited to a company's internal processes and philanthropic activities. They should reach all levels of a company's supply chain. Encouraging suppliers to implement labor and environmental practices is not only an ethical decision but also a mechanism to guarantee business stability, as poor labor and environmental conditions are likely to affect other performance indicators of the supply chain.

A strong CSR or social compliance program that encompasses a company's supply chain involves setting social and environmental standards for vendors and drafting activities around these standards to achieve compliance. If done successfully, this type of program may lead to positive returns for the company. These returns are

³ 2010 Cone Cause Evolution Study: <http://www.coneinc.com/2010-cone-cause-evolution-study>

⁴ Stawiski, S., Deal, J., & Gentry, W. (2010). Employee Perceptions of Corporate Social Responsibility. Greensboro, NC: Center for Creative Leadership (CCL).

usually manifested through cost savings for suppliers, which in turn may be translated into cost savings for the brand. Some of the benefits that suppliers could obtain by implementing stronger social and environmental standards include:

Avoiding bad publicity. Factories with poor working conditions and factories that contribute to environmental degradation put themselves at risk of exposure by and pressure from human rights and environmental organizations. By curtailing any infringement of basic labor, human and environmental rights, companies and their vendors may avoid damaging publicity and improve their reputation among stakeholders.

Higher productivity. Good labor conditions typically lead to higher productivity with healthier, better trained and less accident-prone employees. Suppliers that respect labor standards and provide good working conditions are also likely to attract skilled labor, which in itself may lead to higher productivity. This increased output may translate into a lower cost per unit and increased capacity – both additional benefits to the purchasing company.

Lower defects rates. Besides enabling a higher rate of output per labor hour, CSR practices along the supply chain may also reduce defect rates in the manufactured products. Suppliers that prioritize the implementation of robust labor standards and better employee relations also tend to have improved production processes where there are opportunities to identify quality issues and propose alternative production approaches. Additionally, employees who work in safe, sanitary conditions and that receive training to administer production process risks are likely to commit fewer mistakes. These factors lead to higher quality products, reduced delivery times and lower return rates.

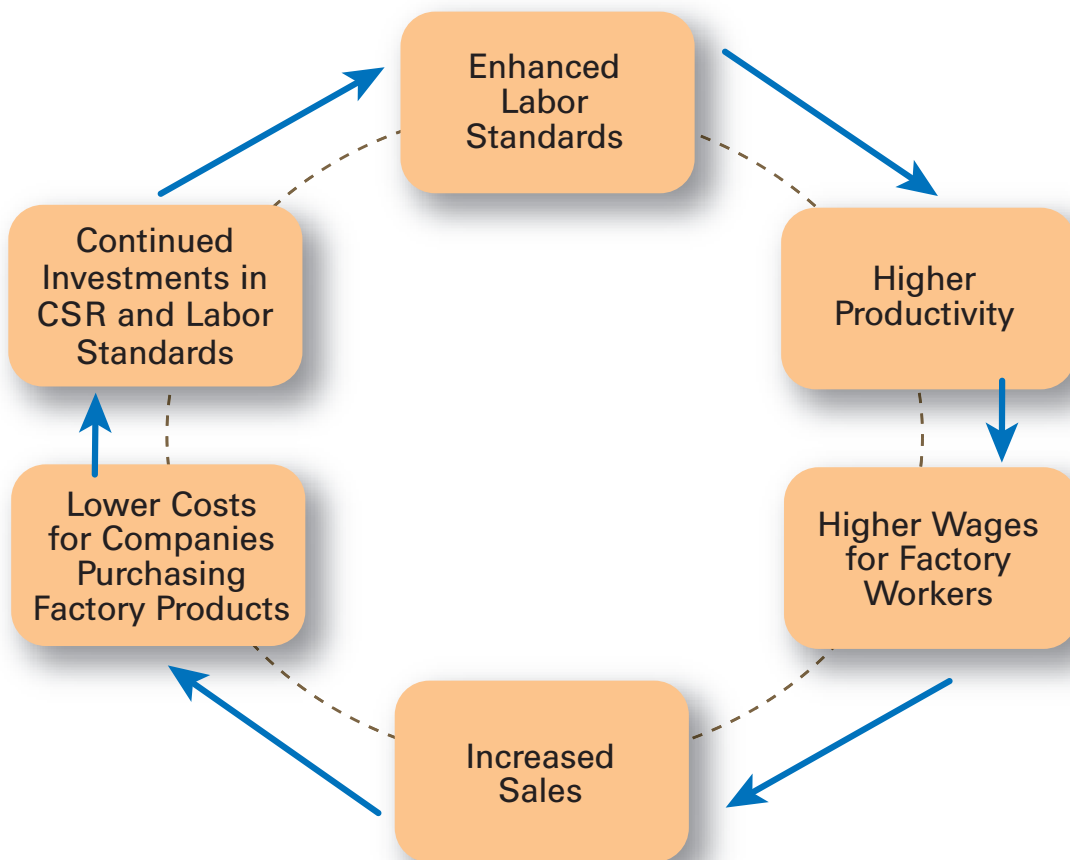
Lower absenteeism and fewer work-related accidents. Factories with enhanced labor standards not only attract more efficient and productive employees, but also better prepare their workforce to avoid workplace accidents. Factories with poor health and safety practices have a higher rate of work-related accidents and consequently higher absenteeism rates. Such companies will also have higher operating costs due to the expense of training replacements for injured employees and lower productivity due to staff shortages. Suppliers facing these challenges will ultimately impact the purchasing company's overall productivity with delayed deliveries and production schedule changes.

Increased employee morale and lower employee turnover: Employees who work in factories with good labor conditions will also be more satisfied with their workplace and less likely to leave their current employer. In economies where factories are competing for workers and labor shortages impact production, as became the case in China beginning in 2009, improved labor conditions can become important tools for retaining workers. By having a stable workforce, factories may avoid product delivery delays and maintain workers who become specialized in the production process due to their seniority.

The Virtuous Cycle

These benefits point to what Richard Feinberg, a professor at the University of California San Diego, defined as a virtuous cycle that exists when enhanced labor and environmental standards are implemented within a company's operations and extended to its supply chain. As companies invest in CSR initiatives throughout their supply chain, higher labor standards on factory floors lead to higher productivity, allowing workers to be paid higher wages and the factories to increase sales and export numbers. This, in turn, leads to lower costs for purchasing firms, and enables further investment in responsible labor and environmental practices.

Figure 1. The Virtuous Cycle⁵



⁵ Adapted from Richard Feinberg (2008). Diagnostic: Strategic Analysis of Responsible Labor in CAFTA-DR Countries. San Francisco: BSR.

Social Compliance Program Components

For the benefits of a robust social compliance program to take hold throughout the supply chain, certain policies, procedures, practices and resources must be in place.

While some benefits will be perceived in the short-run – for example, lower accident rates due to the purchase of personal protective equipment – others will require a greater investment, and the “payoff” may not be realized immediately. (For example, it may take some time for productivity to improve as a result of better and more consistent training.)

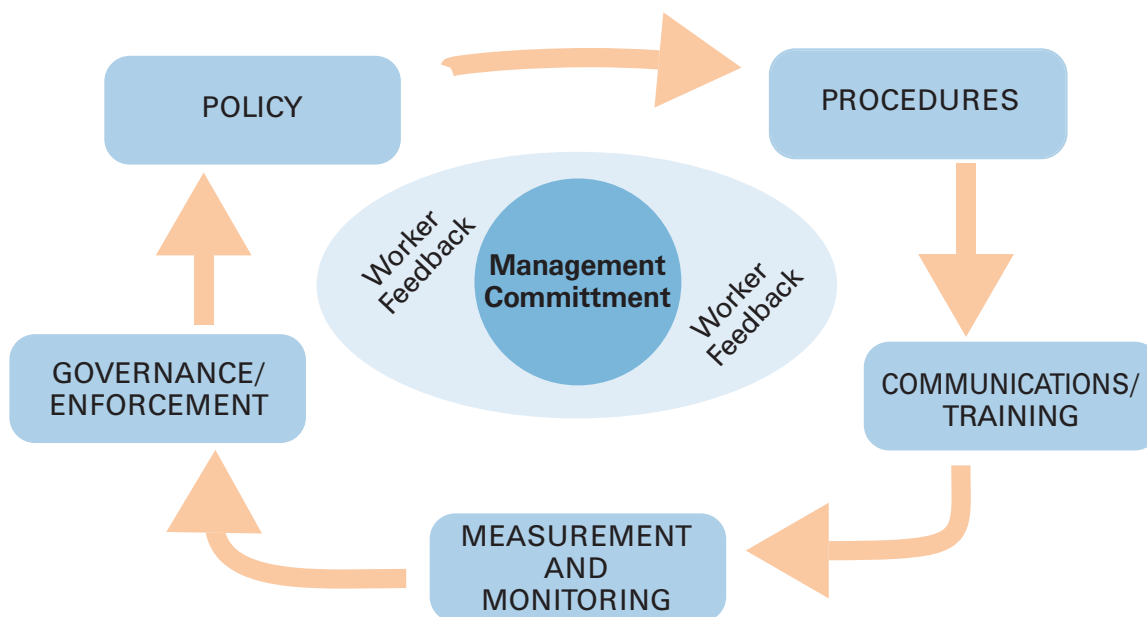
Additionally, suppliers operating in countries with lax legal environments may be less likely to implement more stringent standards. These companies may require a series of positive incentives and enforcement mechanisms to make investment in improved labor and environmental standards feasible and practical.

This section of the manual outlines the main elements that should be present in a company’s social compliance program, providing AHFA members guidance on how to implement this pillar of their CSR efforts. These elements can be grouped into the following three categories:

1. **Program governance**
2. **Supply chain monitoring**
3. **Remediation strategies**

Similar to other management systems, a social compliance program should incorporate an implementation and continuous improvement process.

Figure 2. Continuous Improvement Process for Supply Chain Management



Program Governance

In addition to the controls, policies and procedures to oversee and manage social and environmental compliance within the supply chain, CSR program governance should include the organizational capacity (personnel and resources) required to sustain the program.

Therefore, the two main elements of a program's governance structure that companies should have in place are:

- 1) Social and environmental policies that set expected conditions for the supply chain, and
- 2) Internal staff who can manage the administration of the program.

Social and Environmental Policies

Social and environmental policies set compliance standards for labor, occupational health and safety and environmental criteria. The format that is used to communicate these standards to suppliers is often called a Code of Conduct.

Provisions within the Code of Conduct should relate to an internationally recognized human rights framework such as the Universal Declaration of Human Rights or the International Labor Organization's core conventions. Companies should also be aware of national legislation that governs supply chain issues, such as the California Transparency in Supply Chains Act of 2010.

The Code should also identify the scope of the program, that is, which suppliers must abide by the Code in terms of ownership structure, geographic location, relationship level, products and services.

The Code or its supporting materials should spell out which issues will be considered "zero-tolerance" and explain their selection and consequences.

Internally, the company should determine how the Code will be communicated to its suppliers, how that communication will be verified and how often it will be reviewed.

A sample Code of Conduct and a sample letter of introduction for suppliers, are found in the Resources section beginning on page 17.

Some companies incorporate the requirements for compliance with the Code of Conduct into a Supplier Agreement. The Supplier Agreement states that the supplier must comply with the Code and must allow the company to conduct monitoring visits to assess social and environmental performance. The agreement may also state that the company reserves the right to terminate its relationship with a supplier for non-compliance with specified provisions of the Code. A sample Supplier Agreement also can be found in the Resources section.

Common Elements Within a Supplier Code of Conduct

- Child Labor
- Compensation/Remuneration
- Discipline/Abuse/Harassment
- Discrimination
- Environmental Protection
- Ethics/Corruption
- Forced/Prison Labor
- Human Trafficking
- Freedom of Association/
Collective Bargaining
- Health and Safety
- Hours of Work
- Monitoring/Compliance

Steps for introducing the Code of Conduct into the supply chain should include:

- ❖ Obtain **written agreement** from suppliers to submit to periodic assessments, to remediate instances of non-compliances with the Code, and to inform employees about the Code
- ❖ **Train** managers, supervisors and workers on the Code (training may need to be tailored for each audience)
- ❖ Ensure workers are informed and educated **at regular intervals**
- ❖ Make it part of employee **orientation** (included in employee handbook)
- ❖ Create a **manual/guide** for suppliers explaining the Code provisions and expectations for implementing them
- ❖ Make **flyers/posters** to hang in common areas of facilities with the supply chain
- ❖ Provide a worker communication **toolkit** for suppliers to use.

Program Administration

The social compliance program requires commitment from top company management (board and senior management) and specific personnel, including management representative(s) with clear lines of responsibility and authority for program implementation. A senior level manager should be assigned responsibility for strategic decisions and oversight of the program. Managers at other levels of the organization may be tasked with day-to-day activities related to implementing the program. Staff members involved with the program should have their roles in the program formally defined and incorporated into their job descriptions.

Oversight of the program may include the following activities:⁶

- ❖ Defining the scope of the program
- ❖ Ensuring commitment to the program
- ❖ Setting objectives and targets for the program
- ❖ Allocating appropriate resources to the program
- ❖ Ensuring that appropriate social compliance processes and procedures are established and implemented
- ❖ Communicating procedures to the relevant staff, conducting training, implementing procedures, managing resources
- ❖ Defining the job roles involved in the management of the social compliance program and the responsibilities associated with those job roles
- ❖ Defining and documenting lines of reporting and lines of authority for any job roles involved in the social compliance program
- ❖ Reporting regularly to the highest possible level of management on the performance of the social compliance program
- ❖ Reviewing and evaluating the program on a regular basis

Once the Code of Conduct is in place, the responsibilities for maintaining and improving the program are set, and supply chain partners have been informed about the social compliance program, the company may engage in monitoring activities to ensure that its standards are being respected.

⁶ Adapted from GSCP Draft Reference Tool on Companies' Management Systems: http://www.gscpnet.com/gscpfiles/com/2010-08-17/GSCP_draft_Reference_Tool_Companies_Management_Systems.pdf

Monitoring

Monitoring is the process of assessing supply chain performance at the manufacturing level. It typically includes regular on-site visits to evaluate compliance with local laws and regulations and with the Code of Conduct.

The policy on monitoring should state which suppliers will get assessed (usually determined through a risk assessment), how the assessments will be communicated to the suppliers, the frequency of the assessments, who will conduct them, what information will be gathered (key performance indicators), and how it will be reported.

Key Performance Indicators

Data on compliance, tracking and measurements of improvement should be shared internally. The company should define what quantitative data or key performance indicators will be gathered to measure success or progress, both in terms of supplier performance and also in terms of measuring program effectiveness. It is important to note that key performance indicators take different forms depending on a program's short- and long-term goals. Once a company determines these goals, it can draft targets and key performance indicators around them.

An evaluation of the effectiveness of the program could include:

- ❖ Tracking progress against overall targets and objectives
- ❖ Tracking use of resources
- ❖ Evaluating the impact of the program

Objectives and key performance indicators around the issues mentioned above might include:

Objective	Key Performance Indicator
Monitor all high risk suppliers by 2014	Percentage of high risk suppliers monitored to date
Train 50% of suppliers on Code of Conduct issues within the next three years	Number of suppliers trained per year Percentage of suppliers trained per reporting period Average number of training hours per supplier
Maintain a knowledgeable team to address supply chain compliance and engage with suppliers	Reporting on roles and responsibilities of senior manager and CSR department regarding supply chain management
Ensure that workers within the company's supply chain are aware of their rights and have appropriate grievance mechanisms to report violations with the Code of Conduct	Satisfactory responses from survey administered to workers in the company's supply chain

Risk Assessment

Many companies use a risk assessment process to segment the supply chain and allocate program resources appropriately in terms of communications, training, monitoring frequency and follow-up.

Risk criteria may include the following:

Country of operation. Social, economic, political and labor conditions vary among the world's top furniture-producing countries. These conditions impact both the context of CSR issues and the level of government enforcement and, therefore, labor and environmental law compliance.

Industry or type of product. Within each country of operation, there may be varying degrees of risk depending on the industry or type of product produced. For example, conditions comparable to slave labor can be common in Mexico's agricultural sector. The furniture and wood products sectors, on the other hand, do not typically appear in reports citing specific incidents of forced labor in Mexico.

Processes. A company's risk assessment criteria can also take into account existing processes to manage social and environmental risk. For example, a company or a manufacturing facility may have an internal code of conduct in place, a person responsible for health and safety issues, an official grievance mechanism for employees, training programs, and so on.

Purchasing spend and strategic importance. A company may choose to rank vendors supplying a small share of total products as lower risk than those providing a larger share. A company's risk assessment may give higher priority to vendors or facilities providing specialized products, such as those that are part of a high profile brand collection.

Ownership structure/level of control. The level of control a company has over the manufacturing facility can impact conditions on the ground. This can be due to the factory's ownership structure (whether the company shares ownership of the factory or has a formal partnership agreement), the systems a company has to oversee production and the leverage a company has with the supplier.

Presence or likelihood of subcontracting. A company's ability to monitor and assess a vendor's compliance with provisions of a code of conduct diminishes when the vendor is using subcontractors, especially if the vendor does not disclose its subcontractors.

Workforce size and type of labor. Working conditions may vary for different groups of employees within the same facility. For example, in certain locations, women may be more susceptible to harassment and abuse. Migrant workers, because of their legal status, often receive lower pay and have their liberties restricted. Facilities employing temporary workers may be denying legally mandated benefits to these employees. Depending on the types of workers found in a facility, a company may judge a supplier to be more or less risky.

Self-assessment questionnaire. Companies may require suppliers to provide information on management processes and labor conditions through a self-assessment questionnaire. Responses may help the company assess risk.

Previous assessment results. Companies may require suppliers to provide recent social assessment reports to help determine risk.

Companies often compile their own set of criteria, according to their social and environmental policies, countries of operation and definitions of supply chain risk.

Assessment Visit Notification

Suppliers should be notified of an upcoming assessment, even if the exact date will not be disclosed. Internal or third-party auditors may conduct such assessments and they may be:

- ❖ Announced
- ❖ Announced within a window (typically within 2 weeks)
- ❖ Unannounced

A letter of notification with a request for acknowledgement of receipt will help to ensure that the supplier has the necessary documents and staff available. The notification letter may include an agenda and a list of requested documentation.

Assessment Team

The assessment team should be comprised of capable staff or third parties with the requisite knowledge of the Code of Conduct, local labor laws, international labor standards and the languages of management and workers.

Conducting the Assessment

Assessments generally include the following activities:

- ❖ Opening meeting
- ❖ Inspection of production areas and warehouse, dormitory, canteen, clinic etc.
- ❖ Management and worker interviews
- ❖ Documentation review
- ❖ Assessment team pre-closing meeting
- ❖ Closing meeting, including summary of findings and presentation of a Corrective Action Plan, if necessary
- ❖ Confirmation of timelines for corrective actions

Assessment Report

The report resulting from a monitoring visit should record the following:

- ❖ Auditor name(s)
- ❖ Date of assessment
- ❖ Facility name and address
- ❖ Type of assessment (announced or unannounced; initial or follow-up)
- ❖ Person responsible for the corrective action/remediation at the facility

- ❖ Number of workers interviewed
- ❖ Names and positions of management interviewed
- ❖ Names and positions of opening and closing meeting attendees
- ❖ General narrative and assessment methodology (samples taken, activities undertaken, etc.)
- ❖ Each issue of non-compliance (linked to a Code of Conduct provision)
- ❖ Reason for non-compliance
- ❖ Recommended plan of action and date for verification
- ❖ Additional comments (might include recurring issues and/or patterns of non-compliance)

As a result of monitoring activities, non-compliances with a company’s code of conduct may be found. One home furnishings company reviews its assessment report, then assigns the supplier a “grade” of “low risk,” “medium risk” or “high risk.” A low or medium grade triggers a follow-up internal audit, while a high risk grade signals the need for a third-party, outside audit. A sample of this company’s assessment report is found in the Resources section.

The next section on remediation gives additional recommendations on the steps companies can take to address such instances.

Remediation

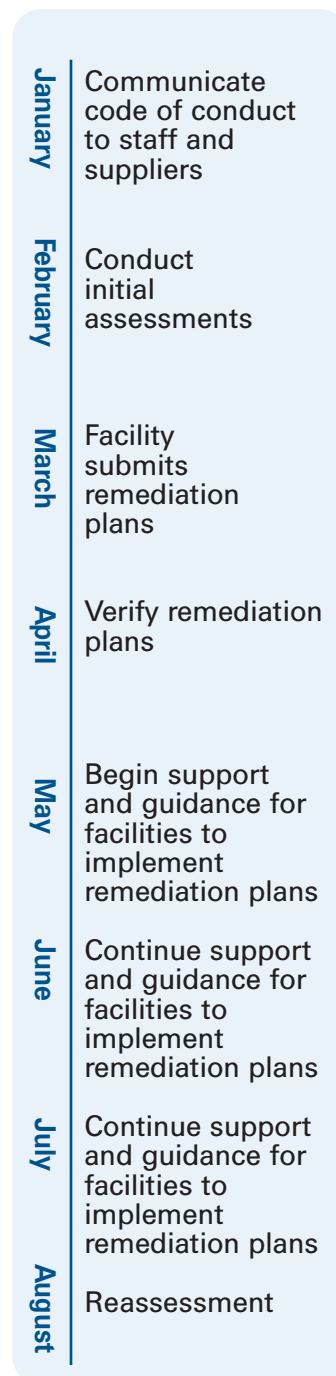
Defining a process for remediation is critical to ensuring continuous improvement in the supply chain. The approach should include both remediation of instances of non-compliance, as well as investment in developing your suppliers’ management capabilities.

Central components of the compliance and remediation processes include positive incentives for good or improving supplier performances (for example, preferred supplier status, front of the line opportunities during bidding processes, etc.) and clearly defined consequences for failing to improve or presenting zero-tolerance issues.⁷

Remediation can include a number of activities:

- ❖ Creating an action plan for achieving compliance in a clearly defined and reasonable time frame
- ❖ Encouraging improvements through regular communications with non-compliant suppliers
- ❖ Encouraging suppliers to include and engage workers in the change process
- ❖ Defining a management plan for gradually increasing standards and expectations
- ❖ Verifying results
- ❖ Terminating supplier relationships when persistent non-conformances or “zero-tolerance” issues are not remedied in spite of repeated notifications

Figure 3.
Sample Compliance
Timeline



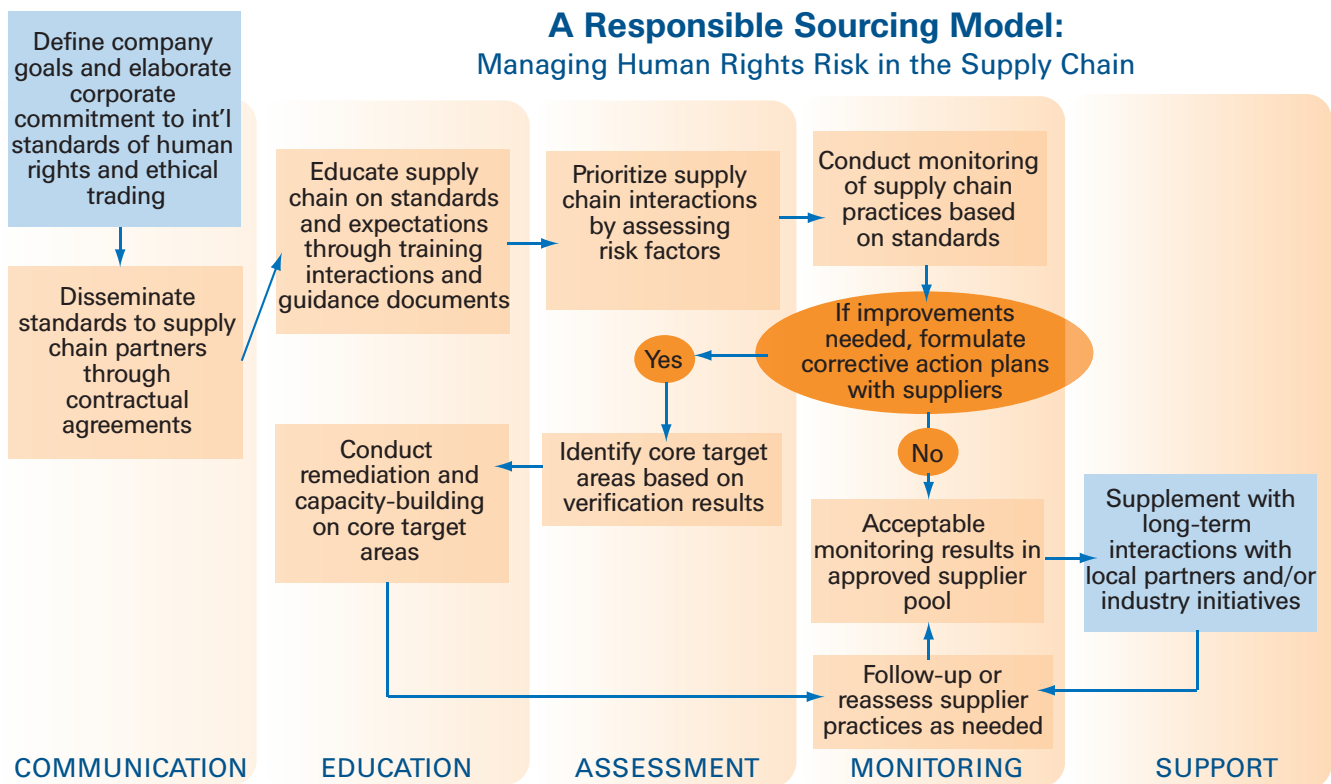
⁷ Adapted from ‘Supply Chain Sustainability: A Practical Guide for Continuous Improvement’: http://www.unglobalcompact.org/docs/news_events/8.1/Supply_Chain_Sustainability.pdf

Companies should explain in advance the process for remediation and the timelines for improvement, including at what point continued non-compliance may result in termination. Figure 3 offers a sample compliance timeline.

In addition to including these main components (governance, supply chain monitoring, and remediation) into their supply chain efforts, companies must ensure that internal company goals are aligned. Often times, if a company disproportionately prioritizes the more standard requirements for suppliers (such as pricing, quality, quick turnaround, etc.) without understanding the effects that these criteria have on compliance with the Code of Conduct, they may jeopardize the standards they set in place themselves.

While it is important to maintain the structures cited in this manual in order to guarantee successful implementation of a supply chain social compliance program, companies must make sure that these efforts fit into their overall corporate sustainability strategy.

Figure 4. Social Compliance Model Summarized



Resources

Sample Letter to Suppliers

Company Logo

Dear Valued Supplier:

[Company Name] recognizes that a large part of our company's long-term success can be attributed to high standards at all levels of our management and manufacturing. [Company Name] management recognizes that our commitment to our employees and our network of vendors is paramount to our success.

By establishing a Supplier Code of Conduct, [Company Name] aspires to demonstrate a new level of commitment to our sustainable business practices. Part of this commitment requires that we hold our vendors to the same high level of social and environmental conduct as we hold ourselves.

Attached you will find [our Company's] Supplier Code of Conduct. It is critical that you review and sign this document to maintain our valued vendor/client relationship. We are requesting all vendors to sign and return the signature page expeditiously. Please return by faxing to _____ or by emailing to _____.

We appreciate your attention to this matter. If you have questions or concerns, please feel free to contact us at _____.

Sincerely,

Vice President of Purchasing (or Operations or Supply Chain)
[Company Name]

Sample Supplier Code of Conduct

The following document details [This Company's] Supplier Code of Conduct. Please review carefully prior to signing. If audited, [our company] reserves the right to present the following document and subsequent signatures as an agreement of good faith.

❖ *Forced or Involuntary Labor*

[Company Name] suppliers will not use forced or involuntary labor of any type.

❖ *Child Labor*

[Company Name] suppliers will not use child labor. The term “child” refers to any person employed under the age of 15 (or 14 where the law of the country permits), or under the age for completing compulsory education, or under the minimum age for employment in the country, whichever is greatest. We support the use of legitimate workplace apprenticeship programs which comply with all laws and regulations applicable to such apprenticeship programs.

❖ *Wages & Benefits*

[Company Name] suppliers will, at a minimum, comply with all applicable wage and hour laws and regulations, including those relating to minimum wages; overtime hours, piece rates and other elements of compensation; and provide legally mandated benefits.

❖ *Working Hours*

[Company Name] suppliers will not exceed prevailing local work hours and will appropriately compensate overtime. Workers shall not be required to work more than 60 hours per week, including overtime, except in extraordinary business circumstances and with their consent. In countries where the maximum work week is less, that standard shall apply. Employees should be allowed at least one day off per seven-day week.

❖ *Nondiscrimination*

[Company Name] suppliers will not discriminate in hiring and employment practices on grounds of race, religion, age, nationality, social or ethnic origin, sexual orientation, gender, gender identity or expression, marital status, pregnancy, political affiliation or disability.

❖ *Respect and Dignity*

[Company Name] suppliers will treat all employees with respect and will not use corporal punishment, threats of violence or other forms of physical coercion or harassment.

❖ *Freedom of Association*

[Company Name] suppliers shall respect the legal rights of employees to join or to refrain from joining worker organizations, including trade unions. Suppliers have the right to establish favorable employment conditions and to maintain effective employee communication programs as a means of promoting positive employee relations that make employees view third-party representation as unnecessary.

❖ *Health and Safety*

[Company Name] suppliers will provide their employees with a safe and healthy workplace in compliance with all applicable laws and regulations. Consistent with these obligations, [Company Name] suppliers must have

and implement effective programs that encompass life safety, incident investigation, chemical safety, ergonomics etc., and provide the same standard of health and safety in any housing that is provided for employees. Suppliers should strive to implement management systems to meet these requirements.

❖ *Protection of the Environment*

[Company Name] suppliers will operate in a manner that is protective of the environment. As a minimum, suppliers must comply with all applicable environmental laws, regulations and standards, such as requirements regarding chemical and waste management and disposal, recycling, industrial wastewater treatment and discharge, air emissions controls, environmental permits and environmental reporting.

Suppliers must also comply with any additional environmental requirements specific to the products or services being provided to [Company Name] as called for in design and product specifications and contract documents. Suppliers should strive to implement management systems to meet these requirements.

❖ *Laws, Including Regulations and other Legal Requirements*

[Company Name] suppliers will comply with all applicable laws and regulations in all locations where they conduct business.

❖ *Ethical Dealings*

[Company Name] expects its suppliers to conduct business in accordance with the highest ethical standards. Suppliers must strictly comply with all laws and regulations on bribery, corruption and prohibited business practices.

❖ *Monitoring/Record Keeping*

Suppliers must maintain documentation necessary to demonstrate compliance with [Company Name's] Supplier Conduct Principles and must provide [Company Name] with access to that documentation upon request.

❖ *Signature*

Suppliers must maintain documentation necessary to demonstrate compliance with [Company Name's] Supplier Code of Conduct and must provide [Company Name] with access to that documentation upon [Company Name's] request. The signature below documents my company's compliance with this Supplier Code of Conduct:

Company Name:

Printed Name:

Signature:

Title:

Date:

Sample Code of Conduct with Supplier Agreement

[Company] endeavors to conduct business in compliance with law and widely accepted norms of fairness and human decency and requires its suppliers to act in a similar manner.

Slavery and human trafficking are crimes under state, federal and international law. The California Transparency in Supply Chains Act of 2010 was enacted to provide consumers information about companies' efforts to eradicate slavery and human trafficking. [Company] is committed to protecting the working rights and safety of the people who produce its products, component parts and merchandise used in production, while also recognizing and respecting the cultural and legal differences found throughout the world.

To these ends,

1. [Company] prohibits illegal child labor, compulsory prison or slave labor, indentured labor, physical abuse of workers, corruption and unfair business practices; and

2. [Company] expects its suppliers to maintain compliance programs and be able to demonstrate a satisfactory record of compliance with the law in the conduct of its business, including compliance programs in the following areas:

- a. humane treatment of employees
- b. safe working conditions
- c. anti-discrimination
- d. legal work hours and pay

3. [Company]'s Supplier Code of Conduct applies to all suppliers who provide component parts and merchandise to [Company]. [Company] will seek to identify and use suppliers who share its commitment, and [Company] reserves the right to conduct, or to have conducted on its behalf, reviews of production facilities and business practices in order to monitor suppliers' commitment to the Code of Conduct. [Company] reserves the right to cease doing business with any supplier who does not share its commitment. This Supplier Code of Conduct may be amended by [Company]; its enforcement and/or interpretation rests solely with [Company]; and it does not confer or create any rights in favor of any party other than [Company].

4. [Company] reserves the right at any time, with or without advance notice and at supplier's expense, to review and/or authorize a third party to review, without any restrictions, any or all facilities (including any of its suppliers or subcontractors). Supplier shall require that the facility's management provide unfettered access to the facility and all of its books and records to allow for a compliance review to be conducted, including an opportunity for confidential and private interviews with facility workers selected by [Company's] representative. No retaliation of any sort shall be taken against any workers. Upon review of any unsatisfactory findings, [Company], in its sole discretion, reserves the right to terminate its relationship with a supplier or facility, cancel a purchase order, return or revoke acceptance of affected goods and/or require corrective action be taken. The supplier shall be liable for all related damages incurred by [Company], including lost profits.

Non-compliance with this Supplier Code of Conduct will be divided into categories: “Zero Tolerance” and “Action Required.”

Zero Tolerance. Verifiable findings of illegal child labor, compulsory prison or slave labor, physical abuse of workers, corruption or unfair business practices.

Action Required. Verifiable findings of failure to comply with national or local labor, safety, and/or environmental laws and regulations.

I have read and fully understand [Company]’s Supplier Code of Conduct and certify that we are in compliance with these terms.

Supplier Company Name: _____

Authorized Supplier Representative: _____

Name (printed): _____

Title: _____

(signature): _____ Date: _____

As a [Company] authorized representative, I have explained the Supplier Code of Conduct as written above to this Supplier Company.

Authorized [Company] Representative

Name (printed): _____

Title: _____

(signature): _____ Date: _____

Links to Additional Codes

Wal-Mart Ethical Sourcing Policies

<http://walmartstores.com/AboutUs/279.aspx>

Crate and Barrel Code of Conduct

<http://www.crateandbarrel.com/assets/Social-Responsibility/Code-of-Conduct.pdf>

IKEA Social Responsibility – IWAY Standard

http://www.ikea.com/ms/en_US/about_ikea/pdf/SCGlobal_IWAYSTDVers4.pdf

Gap Inc. Social Responsibility Policies

http://www.gapinc.com/content/gapinc/html/csr/supply_chain.html

Sample Vendor Assessment Checklist

1. Interview “random sampling” of employees.
 - a. Request age
 - b. Weekly work schedule
 - c. Do they know the company has an environmental policy? Ask if they know where they can find this policy and if it is available for them to review.
 - d. Do they feel their employer is fair and provides them with a good work environment?
2. Inspect the condition of the factory.
 - a. Does the structure of the building appear sound?
 - b. Is there proper heating, ventilation, cooling?
 - c. Were you denied access to any part of the facility?
3. Inspect the operation lines.
 - a. Do the working conditions appear safe for the employees?
 - b. Are there any dangerous applications that should be addressed with the employer?
 - c. Were there any notable issues that may indicate improper use of materials or equipment?
4. Inspector opinion.
 - a. Were there any indications from your interviews or walk-through that the building or production lines were unsafe or a cause for concern for potential harm to employees?
 - b. Did you observe employees being treated fairly & humanely? Did employee interviews consistently report fair and humane treatment?
 - c. Do you have any reason to suspect that any of the company’s employees might be underage, forced or held by contract to provide labor by their management or the factory owners?

AHFA Member Advisory: California Supply Chains Act Takes Effect Jan. 1, 2012

December 8, 2011 – On January 1, 2012, a new regulation goes into effect in the State of California requiring all manufacturers and retailers with annual gross sales of \$100 million or more to disclose specific supply chain details on their corporate website.

The California Transparency in Supply Chains Act (SB 657) applies to your company IF:

- 1) You do business in the state of California, and
- 2) You have global sales of \$100 million or more.

Regardless of your annual sales, you may also need to be prepared to comply with the information requests contained in the regulation IF:

- 1) You sell to a retailer in the state of California, and
- 2) That retailer has global sales of \$100 million or more.

In this case, the retailer may require the specific information from all of its suppliers in order to meet its obligations under the law.

The regulation requires companies to disclose their efforts, if any, to ensure that their product supply chain is free from slavery and human trafficking. Note that the law does not require specific measures to be in place. However, if you have made no efforts to ensure your supply chain is free from slavery and human trafficking, you must disclose that fact.

This disclosure must appear on your corporate website, with a “conspicuous and easily understood link to the required information” located on your home page.

The required information includes, at a minimum, your answers to the following five questions:

1. Does your company have policies in place to evaluate and address risks of human trafficking and slavery?
2. If so, does your company conduct audits of its suppliers to evaluate their compliance with your policies? If so, are those audits conducted by an independent third party? And are the audits unannounced?
3. Does your company require its direct suppliers to certify that materials incorporated into their products come from sources that comply with the laws regarding slavery and human trafficking in whatever countries those sources are located?
4. Does your company maintain internal accountability standards and procedures for employees or contractors who fail to meet your company’s standards regarding slavery and human trafficking?
5. Do you provide employees and management who have direct responsibility for supply chain management training on slavery and human trafficking, particularly with regard to mitigating risks within the supply chain?

Failure to provide the answers to these questions can result in an action brought by the California Attorney General. There are no monetary penalties for failing to comply. However, the consumer advocacy groups that pushed for the legislation are expected to be watching closely and publicizing any failures to comply.

This Member Advisory is not legal advice. There is no guidance from the State of California on this Act. All information provided above comes directly from the language of SB 657 and AHFA’s August 9, 2011, webinar featuring Susanne Gebauer, a corporate social responsibility expert with UL Responsible Sourcing.

Legal Text of CA SB 657

BILL NUMBER: SB 657

FILED WITH SECRETARY OF STATE SEPTEMBER 30, 2010

APPROVED BY GOVERNOR SEPTEMBER 30, 2010

INTRODUCED BY Senator Steinberg

(Principal coauthor: Assembly Member John A. Perez)

(Coauthors: Assembly Members Brownley and Saldana)

An act to add Section 1714.43 to the Civil Code, and to add Section 19547.5 to the Revenue and Taxation Code, relating to human trafficking.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. This act shall be known, and may be cited, as the California Transparency in Supply Chains Act of 2010.

SEC. 2. The Legislature finds and declares the following:

- (a) Slavery and human trafficking are crimes under state, federal, and international law.
- (b) Slavery and human trafficking exist in every country, including the United States, and the State of California.
- (c) As a result of the criminal natures of slavery and human trafficking, these crimes are often hidden from view and are difficult to uncover and track.
- (d) In recent years, significant legislative efforts have been made to capture and punish the perpetrators of these crimes.
- (e) Significant legislative efforts have also been made to ensure that victims are provided with necessary protections and rights.
- (f) Legislative efforts to address the market for goods and products tainted by slavery and trafficking have been lacking, the market being a key impetus for these crimes.
- (g) In September 2009, the United States Department of Labor released a report required by the Trafficking Victims Protection Reauthorization Acts of 2005 and 2008 which named 122 goods from 58 countries that are believed to be produced by forced labor or child labor in violation of international standards.
- (h) Consumers and businesses are inadvertently promoting and sanctioning these crimes through the purchase of goods and products that have been tainted in the supply chain.
- (i) Absent publicly available disclosures, consumers are at a disadvantage in being able to distinguish companies on the merits of their efforts to supply products free from the taint of slavery and trafficking. Consumers are at a disadvantage in being able to force the eradication of slavery and trafficking by way of their purchasing decisions.
- (j) It is the policy of this state to ensure large retailers and manufacturers provide consumers with information regarding their efforts to eradicate slavery and human trafficking from their supply chains, to educate consumers on how to purchase goods produced by companies that responsibly manage their supply chains, and, thereby, to improve the lives of victims of slavery and human trafficking.

SEC. 3. Section 1714.43 is added to the Civil Code, to read:

1714.43. (a) (1) Every retail seller and manufacturer doing business in this state and having annual worldwide gross receipts that exceed one hundred million dollars (\$100,000,000) shall disclose, as set forth in subdivision (c), its efforts to eradicate slavery and human trafficking from its direct supply chain for tangible goods offered for sale.

(2) For the purposes of this section, the following definitions shall apply:

- (A) "Doing business in this state" shall have the same meaning as set forth in Section 23101 of the Revenue and Taxation Code.
- (B) "Gross receipts" shall have the same meaning as set forth in Section 25120 of the Revenue and Taxation Code.
- (C) "Manufacturer" means a business entity with manufacturing as its principal business activity code, as reported on the entity's tax return filed under Part 10.2 (commencing with Section 18401) of Division 2 of the Revenue and Taxation Code.
- (D) "Retail seller" means a business entity with retail trade as its principal business activity code, as reported on the entity's tax return filed under Part 10.2 (commencing with Section 18401) of Division 2 of the Revenue and Taxation Code.
 - (b) The disclosure described in subdivision (a) shall be posted on the retail seller's or manufacturer's Internet Web site with a conspicuous and easily understood link to the required information placed on the business' homepage. In the event the retail seller or manufacturer does not have an Internet Web site, consumers shall be provided the written disclosure within 30 days of receiving a written request for the disclosure from a consumer.
 - (c) The disclosure described in subdivision (a) shall, at a minimum, disclose to what extent, if any, that the retail seller or manufacturer does each of the following:
 - (1) Engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.
 - (2) Conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.
 - (3) Requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.
 - (4) Maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery and trafficking.
 - (5) Provides company employees and management, who have direct responsibility for supply chain management, training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.
 - (d) The exclusive remedy for a violation of this section shall be an action brought by the Attorney General for injunctive relief. Nothing in this section shall limit remedies available for a violation of any other state or federal law.
 - (e) The provisions of this section shall take effect on January 1, 2012.

SEC. 4. Section 19547.5 is added to the Revenue and Taxation Code, to read:

19547.5. (a) (1) Notwithstanding any provision of law, the Franchise Tax Board shall make available to the Attorney General a list of retail sellers and manufacturers required to disclose efforts to eradicate slavery and human trafficking pursuant to Section 1714.43 of the Civil Code. The list shall be based on tax returns filed for taxable years beginning on or after January 1, 2011.

- (2) Each list required by this section shall be submitted annually to the Attorney General by November 30, 2012, and each November 30 thereafter. The list shall be derived from original tax returns received by the Franchise Tax Board on or before December 31, 2011, and each December 31 thereafter.
 - (b) Each annual list required by this section shall include the following information for each retail seller or manufacturer:
 - (1) Entity name.
 - (2) California identification number.

AHFA Member Advisory on Lacey Act

GIBSON RAID GENERATES CONFUSION OVER LACEY ACT REQUIREMENTS

October 2011 – In 2008, the United States amended the Lacey Act to prohibit commerce in illegally sourced plants, including wood products. The changes to the long-standing law require a new level of responsibility all along the forest products supply chain.

AHFA has provided member companies with information about how the Lacey Act impacts furniture companies and offered detailed compliance guidance. But recent Lacey Act enforcement efforts focused on the Gibson Guitar Corporation have generated confusing commentary about the furniture industry's level of responsibility with regard to the Act.

To help clarify several key points, AHFA turns to Vice President of Regulatory Affairs, Bill Perdue, who has been following the proposed rulemaking on implementation of the amended Lacey Act on behalf of the furniture industry.

Q: If my product is not listed on the phase-in schedule (which currently only includes seats with wood frames and some accent items), do I need to worry about the Lacey Act?

A. Yes, you do. The phase-in schedule only applies to the declaration requirement of the Lacey Act, which requires you to fill out something called the Plant and Plant Product Declaration Form (PPQ 505). The underlying ban on illegal wood has been in effect since May 2008. If you are found to have traded illegal material, regardless of whether your product is on the phase-in schedule, you can be prosecuted and/or have your goods confiscated.

Q. What if I don't know the scientific name (genus and species) of the wood in a particular product?

A. This, again, refers to the product declaration. You must be able to identify the genus and the species of the wood and the point of harvest. However, aside from the declaration, scientific names are the only way to obtain accurate information about the wood you are purchasing. If you don't know the scientific name, you cannot be sure you are not violating the Convention of International Trade in Endangered Species (CITES) or other laws that protect endangered species.

If you need help finding out the scientific name, visit <http://www2.fpl.fs.fed.us/CommNames2000.html> operated by the U.S. Forest Service.

Q. Does the Lacey Act only apply when you are using an endangered species, such as the ebony and rosewood being used by Gibson Guitar?

A. No. The Lacey Act makes it illegal to extract and trade wood products in contravention of ANY state, foreign or tribal law. Examples of illegal logging include logging in a national park or protected area; failure to pay concession fees, taxes or tariffs on a shipment; or cutting trees without proper authorization from relevant authorities. The Environmental Investigation Agency (EIA) estimates at least 10 percent of annual wood imports to the United States are from an illegal origin.

Plus, whether or not the trees are legally harvested, under the Lacey Act it is also unlawful to make or submit any false record, account, or label for, or any false identification of any plant. This means that labels, invoices or other statements that intentionally misrepresent a wood product constitute a violation of the law. This is why they describe it as a “fact-based” rather than a “document-based” statute. Documents are part of demonstrating due care and assessing legality, but they are not proof of legality.

Q. So, even if I have paperwork, these guys can come in and start seizing products?

A. The “due care” required by the Lacey Act is, ultimately, not about documents at all, although AHFA recommends that member companies keep records that demonstrate their best efforts to determine the legality of their wood products. What the government expects in terms of “due care” may vary depending on the type of company, the size of company, and how risky the product itself might be. For example, an AHFA member company importing one collection of casual dining furniture out of eucalyptus from a well-known source may not need to conduct site visits. On the other hand, the Environmental Investigation Agency states: “a musical instrument manufacturer importing expensive hardwoods from a tropical country with a history of illegal logging would be wise to exercise strong due care measures no matter how small the company.”

The EIA offers these examples for demonstrating “due care:”

- ❖ Keep complete records of your efforts.
- ❖ Develop a company compliance plan.
- ❖ Document how you follow your compliance plan in business transactions.
- ❖ Know your supply chain and know your suppliers. Visit them.
- ❖ Ask questions, and ask for translations, if necessary.
- ❖ Confirm validity of scientific names.
- ❖ Confirm the license or certification of source companies.
- ❖ Request pertinent plant protection laws from a government official.

And the organization says to watch out for these red flags that something may be amiss in your supply chain:

- ❖ Products priced significantly below the going market rate.
- ❖ Cash-only payments.
- ❖ Offers at a lower price for goods without paperwork.
- ❖ Prices that do not include legal tariffs or duties.
- ❖ Incorrect, inconsistent or imprecise product labeling.
- ❖ Inability or unwillingness to answer questions about the product’s origin.

Additional Resources

Slavery & Human Trafficking: *The California Transparency in Supply Chains Act*

This August 2011 webinar was presented by Susanne Gebauer, a corporate social responsibility expert with Specialized Technology Resources (STR). AHFA was not permitted to record the webinar, but the presentation is available in PDF format. The new reporting requirements within California's Transparency in Supply Chains Act (SB 657) are outlined, and best practices for compliance are provided.

Link to presentation:

<http://university.ahfa.us/webcasts/sb657aug2011.asp>

Proactively Managing Supply Chain Risks Within Furniture Industry Supply Chains

This July 2011 presentation at AHFA's Global Supply Chain Conference outlines the requirements in three pieces of legislation that relate to corporate social responsibility: 1) The California Transparency in Supply Chains Act (SB 657)

2) Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which contains a new reporting requirement for publicly traded companies that use "conflict minerals" in their manufacturing process

3) Lacey Act Amendments

Link to presentation:

<http://university.ahfa.us/webcasts/supplychain711.asp>