

# Measure & Improve Your Labor Standards Performance

PERFORMANCE STANDARD 2 HANDBOOK  
FOR LABOR AND WORKING CONDITIONS



IFC, a member of the World Bank Group, creates opportunities for people to escape poverty and improve their lives. It fosters sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments.

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# Introduction

1



# Welcome

The purpose of this Handbook is to help you understand the issues related to developing a socially responsible company and to improve your performance in relation to the International Finance Corporation's Performance Standard 2: Labor and Working Conditions.

The Handbook is intended to be a practical reference book. It includes tools to help you implement or improve your labor standards policies and performance.

Our goal is to assist you in understanding and implementing the management systems that are necessary for continual improvement in the labor standards performance of your company and your supply chain. This Handbook is applicable to companies in any industry. We have tried to make it useful for senior management, as well as professionals in the human resources, compliance and sourcing departments.

We know that companies are under pressure to perform, or even survive, especially in the current economic climate. We know that workers are being asked to do more and more. We realize that new initiatives are often met with resistance as people struggle to keep up with their day-to-day responsibilities.

Think back to the initial reaction to quality management systems. People complained. "Why do we need to document what we do? I don't have time for this." But now, for many companies, quality management systems are completely integrated into their day-to-day operations. It has become a fundamental part of how they do things. And it is safe to say that the companies that have really taken quality management to heart have gained a competitive advantage and improved their performance.

The same is true for labor standards management systems. As you will see in this book, labor standards performance is shifting from a way to minimize risk to a competitive advantage.

Our hope is that we bring together perspectives and tools that will help you to implement the systems needed to improve labor standards performance in your company as measured against the Performance Standard 2 (PS2). Our hope is that this Handbook will accelerate your journey of continual improvement; a journey that will benefit your company and every link of the global supply chain – from the consumer to the worker.

## What's in Each Section

Here's a quick briefing on what you will find in each section.

### Building the Business Case

We present some recent research and cases looking at the production and marketing benefits of improved labor standards performance.

### The Elements of Labor Standards Performance

We go through each element of PS2 in a consistent way. We look at the guiding principles behind the element, what an auditor would look for to verify your performance, the common problems and potential solutions.

### Labor Standards Performance in Your Company

We focus on helping you understand management systems for labor standards performance, and the drive for continual improvement. This is important background for using the Toolkit to build your own system. We also look at the importance of involving workers and external stakeholders.

### Forming an Effective Internal Labor Standards Performance Team

We provide a practical guide to forming and training the team responsible for managing labor standards performance in your company.

### Labor Standards Performance in Your Supply Chain

We look at how to effectively extend your management systems to your supply chain. We also introduce a supplier rating system to help you get started.

### Management System Tools with Step-by-Step Guide

This is the section to turn to when you're ready to start building your system. We've divided it into two sub-sections:

- For Labor Standards Performance in Your Company
- For Labor Standards Performance in Your Supply Chain

In both cases, there is a step-by-step map that guides you through the process and shows you what tools to use. The tools are sample documents and forms that will help you toward meeting the requirements of PS2. We also provide easy-to-use instructions on how to use each tool to build your own labor standards management system.

## Quick Reference for Using this Handbook

Feel free to jump around. We tried to make the sections self-contained and the Handbook easy to use.



If you see a Toolkit icon, it means there is a relevant document in the Management System Toolkit. The Toolkit is meant to provide you with a big head start.

Look for the "Tips". These give you pointers and shortcuts.

Call-out boxes highlight a key part of the text.

## Acknowledgements

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## About Social Accountability International (SAI)

SAI is a multi-stakeholder, non-profit organization dedicated to improving workplaces and communities by developing and implementing social responsibility standards and assisting brands, retailers and suppliers in meeting labor and human rights objectives. Focused on the human elements of the workplace and the supply chain, SAI developed the world's preeminent social standard – SA8000, which is firmly grounded in ILO and UN conventions.

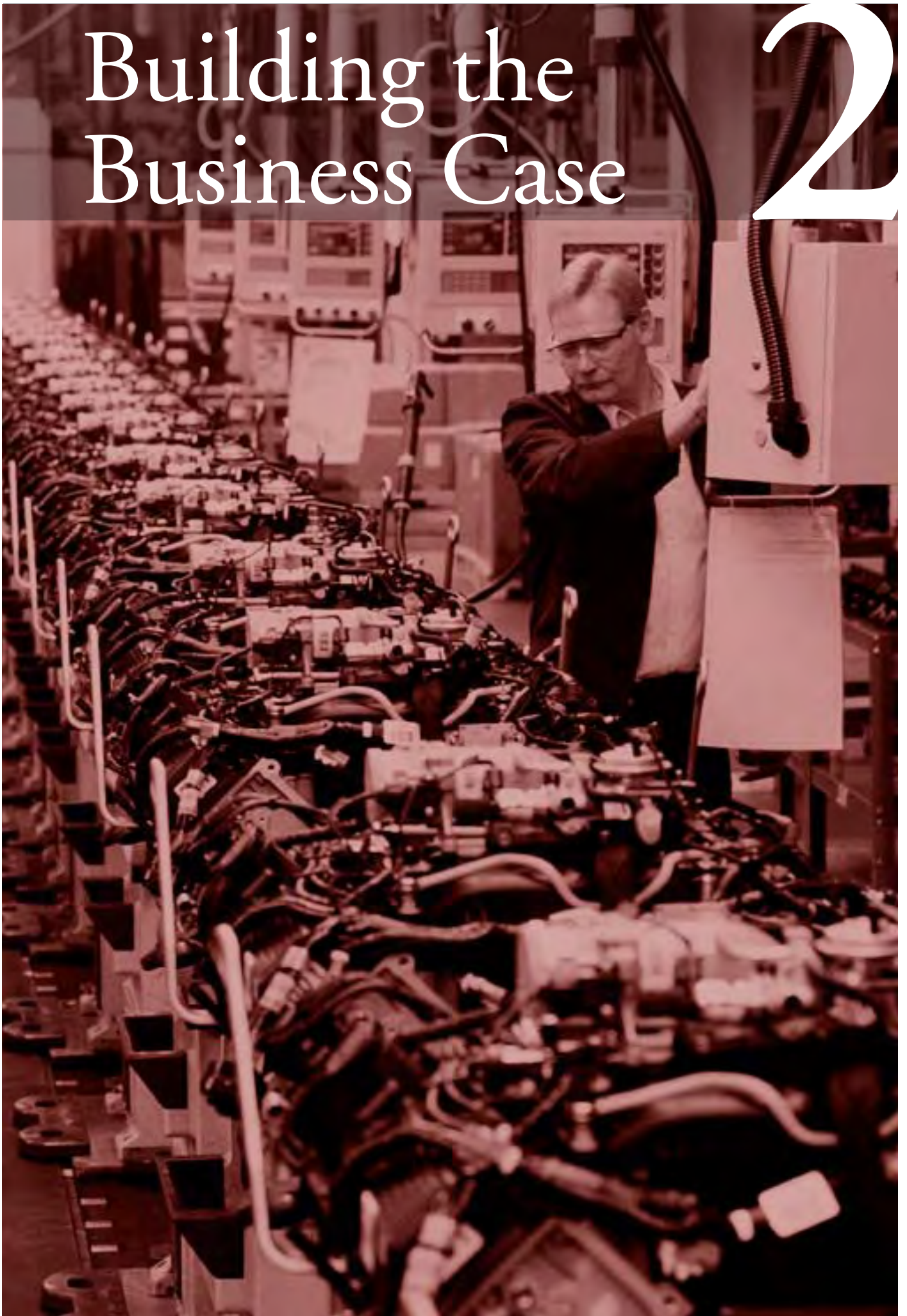
SAI convenes stakeholders – companies, non-governmental organizations (NGOs), trade unions and governments – to conduct research, training and technical assistance programs focused on developing the management systems required to adequately address social compliance issues in a sustainable manner.

SAI works with corporations to use management systems for the continual improvement of social compliance in their companies and in their supply chains. SAI's global training program has trained thousands of people in labor standards performance, including corporate managers, factory managers, workers, auditors, investors and government officials.



# Building the Business Case

# 2





# A Quick Look: Labor Standards Performance Codes and Standards

Did growing this banana expose workers and their community to harmful pesticides? Was this apartment built using forced migrant labor? Were workers at this mine exposed to excessive working hours?

Stakeholders are more demanding than ever. Consumers have high expectations for price, quality, and convenience. And today consumers care just as much about working conditions and the environment. Investors are increasingly looking for similar assurance, knowing that news about child labor or worker mistreatment can be disastrous for a company and the value of its reputation. Investors look at non-financial and reputational risk. As they evaluate a company's performance, they are asking more and more questions: Are all workers covered for medical insurance? Do workers receive a pension when they retire? Does management respect freedom of association and the right to collective bargaining?

The expansion of global trade and investment has meant growth for companies, new opportunities for workers, and a growing range of high-quality, affordable products for consumers. But globalization also brings new risks. Responsible companies risk unknowingly doing business with firms that violate the rights of workers, damage the environment and undermine national labor laws. The global media web means that today's remote factory scandal can instantly become tomorrow's worldwide headline.

The journey in this generation towards improvement in working conditions really began as a risk mitigation strategy by the famous brands and retailers. It started as a means of protecting brand reputation in response to activist and media attention on poor labor conditions in emerging market factories. US and European consumer-goods companies started to really take a look at what was happening in the factories making their products. In many cases, it was ugly. Clearly, they did not want to tarnish their brand image by being associated with images of gross labor violations. So to reduce the risk to their image, the companies that were under attack established and published corporate codes of conduct. Corporate codes vary widely in their rigor and their credibility.

At this point, many US and European companies have a corporate code of conduct. In fact, companies that are suppliers to the large buyers are frustrated with the number of corporate codes they have to deal with, and their differing requirements. A big exporter can have dozens of corporate code audits per year – a wasteful duplication of resources. The resources could be better spent on making improvements on the factory floor that will benefit the workers and the operation of the facility.

Partially in response to the proliferation of corporate codes, industry codes were born. Logical step. Get the big buyers in a given industry to agree on a labor standards performance code and audit suppliers against the industry code. Industry codes have emerged to seek to minimize the duplication of corporate codes. Examples are the International Council of Toy Industries (ICTI) CARE program, the Electronic Industry Code of conduct (EICC), Worldwide Responsible Apparel Production (WRAP) and the Council for Responsible Jewelry Practices. Despite these steps, one factory in India had 98 corporate and industry code compliance visits in one year. This situation is far from unique. Although an extreme case, the situation is pervasive. Many factories undergo dozens of audits a year.

A step in the right direction. Right? Partially right.

There are a couple of key problems. First, from a retailer's perspective it is actually a step backwards. Look at a mass merchandiser that sells apparel, toys, sporting goods, electronics and food. The corporate code was easy for them. It was theirs and they gave it to all of their suppliers to follow. Now they have to deal with five producer industry codes.

The other issue is that industry codes sometimes overlook the areas of labor standards performance that are most difficult for the particular industry to meet. For example, overtime hours at peak production season. So the toy industry code may allow long hours for the Christmas production season. Agricultural codes may similarly allow long hours during planting or harvest season.

In addition to the evolution of corporate and industry codes of conduct, there is a parallel track promoting the use of standards. What's the difference between a code and a standard? Good question. Basically, a code is generated by the entity itself, whether it is a company, in the case of corporate codes, or an association, in the case of industry codes. A standard is issued by an independent party. There are published requirements that standard-setting agencies must follow in developing the standard, such as the ISEAL Alliance's Code of Good Practice for Social and Environmental Standards.

Social Accountability International developed the Social Accountability 8000 (SA8000) labor standard and certification system in 1997. The SA8000 standard is based on international conventions of the United Nations and the International Labor Organization (ILO). It uses an underlying management systems approach, similar to that used by the ISO9000 or ISO14000 systems of the International Organization for Standardization (ISO).

The World Bank's International Finance Corporation (IFC) developed a series of Performance Standards with the goal of creating a comprehensive set of guidelines for the environmental and labor standards of IFC- invested companies. PS2, Labor and Working Conditions, is also based on the ILO conventions, as are most of the credible corporate and industry codes.

Now there is a lot of talk in the corporate responsibility field about the convergence of codes. Everyone is looking to reduce the duplication of audits and focus resources on helping their suppliers to improve their labor standards performance. Retailer-led code initiatives include the Business for Social Compliance Initiative (BSCI) and the Global Social Compliance Program (GSCP).

For you, the most important thing to remember is that management systems are the key to improving labor standards performance. This is true to meet PS2. This is true to meet the requirements of the various corporate and industry codes.

The policies and procedures of the management system help ensure that labor standards performance will be ongoing and that there are systems in place to address problems when they arise. It facilitates auditing by requiring records.

The companies that are considered leaders in corporate social responsibility are coming to a shared conclusion: management systems are the key to continual improvement and ongoing labor standards performance in the supply chain. It is also management systems that serve as the foundation for integrating corporate social responsibility with a company's core business activities.

Clearly, the increasing awareness will lead to an improvement in social policy among corporations over the next five years. However, the challenge will be in implementation. Awareness and good intentions are only the beginning. Policies are an important second step. But ultimately it is effective implementation that will make a difference. The key to effective implementation will be the use of management systems that link social and environmental performance with a company's core business activities. The goal is for all parties to understand the importance of each job and strive to recognize the equal dignity of each person involved in the supply chain – from the worker to the manager to the consumer.

# The Growing Importance Of Labor Standards Performance

The importance to consumers, investors and other stakeholders is growing. Recent surveys show that a large and growing number of people in all areas of business and civil society are influenced in their decisions by a company's social, labor and environmental performance.

Further, there is growing evidence that there is a link between a company's social, labor and environmental performance and its profitability.

As consumers and the media became aware of horrible labor conditions at emerging market factories, famous brands and retailers started to push their suppliers to improve their labor standards performance. Primarily the move was driven to minimize the risk to their brand's reputation. The tool they used with their suppliers was to threaten to withdraw orders. To date, labor standards performance has been largely imposed on suppliers through the use of "the stick."

This is starting to change.

The next decade will see a shift towards the use of "the carrot" for all types of companies to improve their labor standards performance. As companies integrate labor standards performance into their identities, and as consumers, investors and civil society increasingly incorporate CSR into their decisions, companies will see opportunities to generate more revenue through improved labor standards performance. So although the impetus to meet PS2 may have been in response to the "encouragement" (or demands) of IFC, we believe that you can use it as a competitive advantage.

Over the past decade, companies have focused on corporate social responsibility as a risk-management tool. They wanted to avoid the pain and damage of an incident. Companies tended to view labor standards performance as a cost, not an investment.

The next decade will see more mainstream companies start to proactively use their corporate social responsibility as a core element of their value and as a competitive advantage in the marketplace.

We will see companies view labor standards performance as an investment. It will be an investment that generates a measurable return, both through preventing damage to a company's reputation or through improving productivity and sales.

# Reputational Risk

Reputational risk is broadly defined as events that undermine public trust in your company, project or product/service. More formally, the United States Federal Reserve issued the following definition: “Reputation risk is the potential loss that negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions (financial loss).”

Companies and investors are becoming more aware of the critical importance a company’s reputation has on its performance. One large investment fund measures and tracks four types of risk as part of its investment strategy:

- financial risk
- operations risk
- compliance risk
- reputation risk

In part, the increased awareness of reputational risk it because the last decade has seen many cases of companies being destroyed by damage to their reputation.

In one of the more extreme cases, the accounting firm Arthur Anderson fell apart almost entirely due to its destroyed reputation from the Enron scandal in 2002. Arthur Anderson, who’s customer was Enron, had been in business since 1913 and had revenue of \$9.3 billion in the prior year. They were never able to recover from the damage to their reputation.

In the same way, a company’s reputation can be harmed by its suppliers. We’ve already looked at that in relation to the development of corporate and industry codes.

Labor rights and working conditions are important elements in your company’s reputation. Using management systems to meet PS2 will significantly reduce the risk to your reputation from labor problems in your workplace.

Clearly the labor standards in your company and your supply chain is a critical part of managing your reputational risk. Just to reinforce the point, according to Edelman’s 10th Trust Barometer, 77% of respondents in the global survey refuse to buy from companies they distrust.

Just as there are clear dangers to having a bad reputation, there are clear benefits to having a good reputation. According to the Reputation Institute’s 2009 Global Reputation Pulse, “Firms with strong positive

reputations developed from well-articulated reputing strategies are better poised to improve in a number of ways: attract better talent; be perceived as providing more value, which often allows them to charge a premium; have customers who are more loyal and buy broader ranges of products and services; and, because the market believes that such companies will deliver sustained earnings and future growth, have higher market value and lower costs of capital.”

It doesn’t matter whether you start the process of improving your labor standards performance to avoid painful damage to your reputation, to improve the performance of your company, or improve the lives of your workers and the community – the important thing is to just start. Later in this section we hope to convince you that there are bottom-line business benefits to improving labor standards in your company.

**“It takes twenty years to build a reputation and five minutes to destroy it.... If you lose dollars for the firm, I will be understanding. If you lose reputation, I will be ruthless.”**

Warren Buffet,  
Chairman of Berkshire Hathaway

# Importance to Investors

Social and environmental issues are an important, stated condition for investment or lending by the International Finance Corporation (IFC). PS2 is now being used by export credit agencies around the world as a guideline for evaluating the labor standards performance of companies. A growing number of the world's largest private banks have adopted the Equator Principles as a benchmark to manage social and environmental issues in project finance.

The investment community is increasingly seeing that corporations must consider environmental, social and governance issues as key elements of any long-term growth strategy. This belief has spawned the field of socially responsible investing. Originally a boutique part of the business, major multi-national banks and investment firms are now setting up business units to focus on socially responsible investing and/or factoring social responsibility into their investment and lending decisions. There is an estimated US\$5 trillion in these targeted funds.

Of equal importance, the ideas of sustainability and reputational risk are starting to work their way into all investment analysis.

- 80% see the existence of high performing CSR programs as a proxy for how effectively a business is managed
- 74% believe that labor standards performance will add long-term shareholder value
- 82% of European and 59% of North American companies somewhat or fully integrate environmental, social and governance into all corporate project evaluations

*McKinsey Quarterly (Feb. 2009) survey of 238 CFOs, investment professionals and finance executives.*

In a May 2007 interview published by McKinsey Quarterly, David Blood, previously the head of Goldman Sachs Asset Management, and current partner at Generation Investment Management, said, "Sustainability investing is the explicit recognition that social, economic, environmental, and ethical factors directly affect business strategy—for example, how companies attract and retain employees, how they manage the risks and create opportunities from climate change, a company's culture, corporate-governance standards, stakeholder-engagement strategies, philanthropy, reputation, and brand management. These factors are particularly important today given the widening of societal expectations of corporate responsibility."

Lending and investment decisions are based on assessing the risk, and it is clear that a company faces performance risks based on its corporate social responsibility performance. The risks to a corporation's performance are both short-term and long-term. Labor strikes, media exposés, product recalls, serious accidents are all examples of events that can have an immediate negative impact on a company's sales and its related value to shareholders.

There appear to also be long-term risks that can be mitigated through improved corporate social responsibility performance. Better worker-manager relations reduce worker turn-over. Integrated labor standards performance and productivity systems reduce defect rates. The sustainable sourcing management of raw materials helps ensure supply and stabilize prices. Intelligent product design minimizes waste in production and packaging.

Although environmental compliance and sustainability has taken the lead in gaining media and corporate attention, the growing attention is beneficial to labor standards performance. Academic



research is underway seeking to identify links between high-level CSR performance and financial performance. Results from these early studies are likely to cast more of a spotlight on the topic.

Increasingly, the investment research community is interested in the environmental, social, and governance factors that affect the company and how management is adjusting their strategy to account for them. These newer measurements are starting to be incorporated into traditional mainstream financial research. Early results from traditional finance companies are encouraging. In a multi-industry review, Goldman Sachs found that companies that have environmental, social and governance (ESG) policies in place have outperformed the general stock market by 25% from August 2005 – December 2007. As we know, having a policy in place is a pretty low bar, but it is a step in the right direction.

Companies consistently participating in the Corporate Responsibility Index outperformed the FTSE 350 on total shareholder return 2002 – 2007 by between 3.3% and 7.7% per year and demonstrated decreased share volatility, according to an article titled “Now is the Time” published in *Business in the Community*.

# Bottom-line Business Benefits

## Enhancing Business Performance

The message is getting the attention of CEOs and business executives. A recent survey by McKinsey & Company released at the UN Global Compact Leaders Summit found that 90% of surveyed CEOs were doing more on environmental, social, labor and governance issues now than five years ago. The CEOs increasingly see their business' performance linked to their environmental and labor standards, as the CEOs project that consumers will soon become the most influential stakeholder in shaping corporate policy.

Despite a growing awareness of labor standards performance issues, there is still a significant gap between awareness, policy and performance. The McKinsey survey found that only 27% of the companies have a policy that addresses social, labor and environmental performance in their supply chains, despite the fact the 59% of the CEOs said they should.

In another recent survey, Grant Thornton International reported that company executives believe that corporate responsibility programs can positively impact their business and help achieve strategic goals. Of the more than 500 business executives surveyed, 75% believed corporate responsibility could enhance profitability. As a result, 77% said they expected corporate responsibility initiatives to have a major impact on their business strategies over the next several years.

“Corporate responsibility has begun to move from a defensive to an offensive position,” said Jack Katz, managing partner of Grant Thornton’s Financial Services industry practice. “It is not simply about complying with government regulations. It’s about reducing costs, marketing products and services, raising capital, and winning talent.”

### What are the main business benefits to your organization of having a defined corporate-responsibility policy?

Having a better brand reputation	52%
Making decisions that are better for our business long term	41%
Being more attractive to potential and existing workers	38%
Meeting ethical standards required by consumers	35%
Having better relations with regulators and lawmakers	28%
Our revenue is higher than it would be otherwise	7%

*A survey by the Economist Intelligence Unit released in January 2008*

A Grant Thornton survey released in September 2007 found that 75% of respondents said that improved CSR would increase their companies' profits. The survey was of 500 senior executives from large and midsize companies who are members of the Business Week Market Advisory Board.

This is big. This is worth repeating. 75% of surveyed executives said that improved CSR would improve their profitability. Seems like the shift from thinking of CSR as a cost to an investment has started.

The real-world results since that survey have proven them to be right about enhancing profitability. The results are eye-opening.

A 2009 A.T. Kearney study found that in the face of the economic crisis, in 16 of 18 industries, companies committed to sustainability outperformed industry averages including profitability by 15% as compared to peers who maintained or cut back sustainability initiatives.

In the UK, companies that implemented socially responsible employee management systems experienced a return on capital double the national average and pre tax profit margin that is 50% higher, according to “The Business Case for CSR” published by MHC International Ltd.

## Productivity Benefits

It seems to be a widely held perception that when a company improves its labor standards performance, the cost of its operations, products or services goes up. We hear this from a lot of companies. We hear this from senior management. We hear this from finance departments. We hear this from procurement and sourcing departments.

So we set out to find research on this topic. For better or for worse, it is important to know whether or not this is always true, and if so, why? What did we find? Very little. Most of what we found was anecdotal and inconclusive.

You may say, if I pay the workers 15% more and labor is 30% of the direct cost of my operations, the cost of my product/service must go up. Seems logical.

Benefits from Improved Labor Standards Documented examples	
<b>Cambodia</b> ILO Better Factories Project	Product Rejection rate reduced by 44% overall
<b>China</b> Chai Da/Ying Xie	Annual worker turnover decreased from 78 to 32% in three years
<b>Turkey</b> Yesim	37% Decrease in lost time from accidents and sickness
<b>Turkey</b> Topkapi	Receives 2.5% larger discount on insurance premiums for casualty and goods in transit
<b>India</b> Esstee	Worker Turnover reduced from 75% to 35%

But what if I am a manufacturer and the production defect rate goes down from 10% to 2%? What if I am a bank and my customer service representatives can handle 25% more calls per hour? What if I am a farm and the average output per worker hour goes up from 6 crates to 7 crates because experienced workers stay at the farm longer or because workers are not constantly exhausted? What if worker retention improves from 60% per year to 80% per year and you spend less money on recruitment and training?

These are direct cost savings. They may or may not eliminate the impact of paying the workers more money. But they clearly help to offset it. In some cases, they may actually reduce the cost of delivering the product or service.

When quality management systems were first introduced to business, there was resistance. At the time, people said it was a waste of time and money - “why do I need to document what I already do?” But now in a wide range of industries, quality management systems have been completely integrated into day-to-day operations. The management systems that are now considered essential to managing quality can also incorporate

social, labor and environmental standards performance. The table on the left gives examples of how improved labor standards leads to effective human resource management and direct business benefits.

## Business-to-Business Marketing Benefits

Clearly improved labor standards performance is an asset in business-to-business marketing. Multi-national companies have developed supplier codes of conduct. Many companies conduct a pre-audit before they start buying from you. Many supplier contracts now mention adherence to a code of conduct as a requirement. They audit suppliers. They use labor standards performance as a criterion in selecting some as “strategic suppliers,” while eliminating others. Some companies are setting annual targets for improving the aggregated labor standards performance of their supply base. Some retailers are running electronic auctions to purchase certain commodity items – only companies meeting a certain labor standards performance level are allowed to participate.

In 2009, the IBM Institute for Business Value surveyed 224 worldwide business leaders and found that 60% believe corporate social responsibility has increased in importance over the past year (a year with tremendous economic downturns). Only 6% consider it a lower priority.

So it is safe to conclude that improving your labor standards performance is a valuable part of becoming a supplier to multi-national companies. Of course, your labor standards performance by itself won't get you the business, but it helps. It helps now, and it will help more in the future.

The next decade will see an upward spiral of labor standards performance in companies that is business-driven.

There are also some examples of successful business-to-business labels. The Forest Stewardship Council (FSC) has certification programs that include chain of custody requirements. The thrust of the marketing for their FSC certified label has been towards major corporations to change their internal purchasing to use FSC certified paper products. This business-to-business approach has been successful as paper mills, paper converters and printers now offer FSC certified papers. Corporations such as Coca-Cola and Disney, use FSC certified paper in some of their corporate publications.

The Cotton Made-in-Africa program helps African farmers produce cotton in a more sustainable, socially-responsible and profitable way. The program promotes the use of the Cotton Made-in-Africa brand among apparel companies, increasing market access for the farmers in the program. The program has been successful in attracting over 30 companies to use Cotton Made-in-Africa in their products and to feature the label in their marketing communications.

**The next decade will see an upward spiral of labor standards performance in companies that is business-driven.**

# The Elements of Labor Standards Performance

# 3





# Background on Labor Standards Performance & Labor Standards

When we talk about labor standards performance in a company or its supply chain, we are really talking about human rights and labor rights in the workplace. This may be a little simplistic, but most of the social standards, industry codes and corporate codes address the same basic elements. The core concepts defining the elements of labor standards performance come from the International Labor Organization (ILO) and the Universal Declaration of Human Rights (UDHR). The countries ratifying the ILO Conventions must integrate them into their national labor laws.

The ILO was created in 1919 from the Treaty of Versailles and it became the first specialized agency within the United Nations in 1946. Its purpose is to promote social justice and internationally recognized human and labor rights. The ILO has a unique tripartite structure with each country's representation consisting of:

- Government (two delegates)
- Employers' Associations (one delegate)
- Workers' Organizations (one delegate)

Corporate codes of conduct and the resulting industry codes of conduct are largely based on the same ILO and UN conventions. So there is a clear link between the national labor law of many countries and most labor codes or standards.

So don't think of labor codes or standards as just add-ons or additional requirements. Remember that the ILO conventions are integrated into the national laws of ratifying countries. Meeting corporate codes or other labor standards like PS2, which are based on ILO conventions, advances your efforts to comply with local and international law.

It is ILO's tripartite structure that served as a reference point for the creation of what are now called multi-stakeholder initiatives.

# Introduction to Performance Standard 2 (PS2)

Performance Standard 2 (PS2) recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection of the basic rights of workers. For any business the workforce is a valuable asset, and a sound worker-manager relationship is a key ingredient to the sustainability of the enterprise. Failure to establish and foster a sound worker-manager relationship can undermine worker commitment and retention, which can jeopardize the business. Conversely, through a constructive worker-manager relationship and by treating workers fairly and providing them with safe and healthy working conditions, enterprises may see tangible benefits, such as the enhancement of efficiency and productivity.

The requirements set out in PS2 have been in part guided by a number of international conventions negotiated through the International Labor Organization (ILO) and the United Nations (UN).

## The overall objectives of PS2 are to:

Establish, maintain and improve the worker-manager relationship

Promote the fair treatment, non-discrimination and equal opportunity of workers, and compliance with national labor and employment laws

Protect the workforce by addressing child labor and forced labor

Promote safe and healthy working conditions, and to protect and promote the health of workers

“**W**e are using the term ‘Worker’ in the broader sense. It includes all non-management workers, supervisors and managers employed directly by the company or indirectly through contractors or agents.”

IFC Definition of Worker



**International  
Finance Corporation**  
World Bank Group

# Performance Standard 2

## Working Conditions and Management of Worker Relationship

### Human Resources Policy



→ The company will adopt a human resources policy that outlines its approach to managing workers consistent with the requirements of the Performance Standard.

### Working Relationship



→ The company will document and communicate all working conditions and terms of employment to all workers.

### Working Conditions and Terms of Employment



→ Where the company is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected; the company will provide reasonable working conditions and terms of employment that comply with national law.

### Workers' Organizations



→ The company will recognize workers' rights to form or join workers' organizations regardless of the recognition of this right by the national law.

### Non-Discrimination and Equal Opportunity



→ The company will base employment decisions on the principle of equal opportunity and fair treatment.

### Retrenchment



→ The company will develop a plan to mitigate the adverse impacts of retrenchment on workers.

### Grievance Mechanism



→ The company will provide a grievance mechanism for workers to raise reasonable workplace concerns.

## Protecting the Work Force

### Child Labor



→ The company, contractors and suppliers will not employ children.

### Forced Labor



→ The company, contractors and suppliers will not employ forced labor.

## Occupational Health and Safety



→ The company will provide workers with a safe and healthy work environment.

## Non-Employee Workers



→ The company will verify the legitimacy of, as well as adherence to, the standard by contractors.

## Supply Chain



→ The company will address child labor and forced labor in its supply chain.



## ➤ The PS2 Standard

In this column is the actual text from PS2 related to the element.

# Guide to This Section

On the following pages we carefully examine each element of PS2. On these two pages, we are presenting a guide to help you easily navigate this section and get the most out of it.

There are two-pages on each PS2 element. They are all identical in design. On the left column is the actual text from PS2. In this column we provide some insight into the topic. We try to give you a broader perspective on the element and what it means to you. We also try to help you see some of the issues from the workers' point of view.

On the right page, we start with **Guiding Principles**. Here we summarize the text of PS2 to make it as clear as possible. We try to capture the underlying intent.

The far right column has three sections. Here we provide you with insight to see your company from an auditor's point of view. This is particularly helpful for your Internal Labor Standards Performance Team, and should be a useful reference for verification and monitoring.

**Monitoring Resources** are the things an auditor would look for at your company to verify you are following the guidelines for the PS2 element. **Common Non-Conformities** are the problems that occur in companies all over the world. **Potential Solutions** are ideas for addressing the problems. These are based on best practices from around the world.

This section will provide you with an understanding of the management systems and related human resource management procedures to address PS2. It will also help you to assess your current performance with PS2 and determine corrective measures to be implemented.

At the top of this page is a navigational tool that will help you see how the elements fit together in the PS2 categories. The poster on the previous page is also helpful for this.

Additional labor-related publications can be found at:

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_PS2\\_Labor](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_PS2_Labor)

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_LaborStandards](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_LaborStandards)

## ▣ Guiding Principles

- In this column we summarize the guiding principles behind the PS2 element.
  - We try to give you the idea in a simple, clear way.
  - You may want to use this language for communicating the concepts to workers through posters, hand-outs, etc.
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## Monitoring Resources

- Monitoring resources are the things you would look for to see if you are meeting PS2.
- You can use these as a reference for conducting internal audits and to prepare for audits by external groups.

## Common Non-Conformities

- Common non-conformities are the common problems found in companies around the world.
- You can use these as a quick reference to evaluate yourself.

## Potential Solutions

- Potential solutions are suggestions for you to consider.
- These are based on best practices from companies around the world.
- You'll see that having clear policies and procedures and trained people is a solution that spans every element of PS2.





# Human Resources Policy

## Human Resources Policy Standard

The client will adopt a human resources policy appropriate to its size and workforce that sets out its approach to managing workers consistent with the requirements of this Performance Standard.

Under the policy, the client will provide workers with information regarding their rights under national labor and employment law, including their rights related to wages and benefits.

This policy will be clear and understandable to workers and will be explained or made accessible to each worker upon taking employment.

It is clear that management systems have become the key to improving labor standards performance in a company. At the most basic level, management systems consist of policies and procedures. But you need trained, motivated people to make it work.

Put more simply, the policies are the rules, and the procedures are the steps required to consistently follow the rules. People are key to the implementation of your management system; you need people that have the right attitude, skills and knowledge. People that are committed and motivated. Policies and procedures are just the start; effective communication to your organization is crucial to the implementation process. How you decide to communicate to your organization will be up to you, but you ultimately want to send everyone in your company the same understandable message.

The use of management systems can also provide you with operating benefits. Many companies around the world have documented improvements in worker retention as well as lower defect rates as they use management systems to improve labor standards performance.

## ▣ Guiding Principles

- The company will have a documented policy and procedure related to PS2
- The company will inform workers of their rights under PS2, national labor and employment law
- Policy must be clear and understandable to all workers

## Monitoring Resources

- Complete review of all policies and procedures
- Review of management-worker committee meeting minutes
- Communications (memos, letters, etc.) to workers, suppliers, contractors and multi-stakeholder groups
- Interviews with management and workers
- Interviews with external stakeholders
- Budgets related to implementing labor policy
- Training curricula and logs

## Common Non-Conformities

- Policies not complete, up-to-date and centrally maintained
- Policies not implemented at all subsidiaries
- Policies do not conform to all aspects of national labor law and PS2 standard
- Policies not clearly communicated or understandable to workers
- Procedures do not support stated policies
- Job performance measurements do not support stated policies
- Senior management actions do not substantiate stated commitment
- Lack of regular, systematic training

## Potential Solutions

- Centrally organize all policies and procedures; identify and record responsible person and last date modified
- Conduct an annual review of all policies and procedures
- Prominently display policies and procedures in all local languages
- Appoint a person responsible for monitoring policies and procedures related to PS2 and national law
- Implement standardized routine training



PS2

## Working Relationship Standard

The client will document and communicate to all employees and workers directly contracted by the client their working conditions and terms of employment, including their entitlement to wages and any benefits.

# Working Relationship Policy

Imagine you are a worker. You are excited to start a new job. You arrive at your new job and the HR supervisor tells you about the company and how things work. You begin working in your new job, but nobody mentions your contract. A few weeks later, you receive your first paycheck. You were expecting to make more money. You are unsure of how your pay was determined. You don't know who to ask. Your excitement has turned to frustration and distrust.

In just a few weeks your new worker is no longer enthusiastic. Part of creating a productive working environment is creating a shared, clear understanding between you and your workers. All of your workers, from senior executives to hourly production workers, have a right to know their contract terms. Your workers have a right to know how their pay is calculated and what benefits they will earn. They have a right to understand the company's rules about working hours and overtime. They have a right to understand pay deductions.

By making sure they understand this fundamental information, you are creating a positive communication channel between your managers and workers. Your workers are more likely to feel motivated, to develop an attitude of trust and to provide greater benefit to your company.

## ▣ Guiding Principles

- The company will document and communicate working conditions and terms of employment to all workers
- Wages and benefits must be clearly communicated and understood by all workers

## Monitoring Resources

- Contracts for all workers
- Policies and procedures related to worker contracts and wages
- Communication and training on wage calculation, including local laws
- Payroll records, time sheets and pay stubs
- Piece rate or performance pay calculations verified against minimum wage
- Worker interviews
- Engineering studies used to set performance pay quotas and bonuses

## Common Non-Conformities

- All workers do not receive a contract
- Employment contracts are not understandable or provided in workers' language
- Workers do not understand wage, benefit and deductions calculations
- Companies unfairly mix hourly and performance wage calculations
- Overtime is not paid at a premium rate according to local law
- Quotas and performance targets are unrealistic and unattainable

## Potential Solutions

- Provide all workers with a contract in their native language
- Provide documented training on contracts, wages, benefits and deductions for all workers
- Routinely provide workers with a clear record of pay calculations
- Utilize credible engineering studies to set production quotas and performance targets

Working Conditions and Management of Worker Relationship

Protecting the Work Force

Occupational Health and Safety

Non-Employee Workers

Supply Chain



## Working Conditions & Terms of Employment Standard

Where the client is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected. Where such an agreement does not exist, or does not address working conditions and terms of employment (such as wages and benefits, hours of work, overtime arrangements, overtime compensation, and leave for illness, maternity, vacation or holiday) the client will provide reasonable working conditions and terms of employment that, at a minimum, comply with national law.

# Working Conditions & Terms of Employment Policy

As the management in your company, you have the obligation to meet national labor laws. This is the minimum that is acceptable for meeting PS2. This means providing the minimum to every worker in your company. It also means having clearly defined policies and procedures that reflect your commitment to labor standards performance by everyone – at all levels of your company.

If you have negotiated a collective bargaining agreement with your workers, your responsibility is to uphold this agreement and integrate the terms of the agreement into your policies and procedures. All workers should be covered by the collective bargaining agreement. If you are in the process of negotiating a collective bargaining agreement, do so in good faith. Some companies report more orderly and efficient labor relations after collective bargaining agreements are in place.

In some countries, the enforcement of labor laws may be relatively lax. This does not mean that you are excused from meeting the labor laws within your own company. It all ties back to operating your company in a way that treats all workers with dignity and respect.



## ▣ Guiding Principles

- If there is a collective bargaining agreement, the company will respect its terms
  - The company must provide reasonable working conditions and terms of employment, at a minimum complying with the national labor law
- 

## Monitoring Resources

- Collective bargaining agreement (if one exists)
- Worker contracts
- Policies and procedures related to wages, benefits, hours and leave
- Wage calculations as they relate to local laws
- Worker and external stakeholder interviews
- National law as it relates to wage and benefit minimums
- Employment and termination records

## Common Non-Conformities

- Workers hired through a series of short term contracts to avoid paying benefits
- Company does not provide workers with wages and benefits that comply with national labor law
- Contractors not provided with medical or social insurance
- Company only counts base hours, not actual working hours, in pension calculations

## Potential Solutions

- Ongoing internal verification that all workers are receiving wages and benefits as prescribed by law
- Ongoing communication and training on legal labor rights and company personnel policies
- Worker rep meets regularly with HR and company management
- Training on minimum legal benefits for all workers, including contractors, and employment agencies
- Cooperation with local labor ministries



## Workers' Organizations Standard

In countries where national law recognizes workers' rights to form and to join workers' organizations of their choosing without interference and to bargain collectively, the client will comply with national law. Where national law substantially restricts workers' organizations, the client will enable alternative means for workers to express their grievances and protect their rights regarding working conditions and terms of employment.

In either case described in the prior paragraph, and where national law is silent, the client will not discourage workers from forming or joining workers' organizations of their choosing or from bargaining collectively, and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and bargain collectively. Clients will engage with such worker representatives. Worker organizations are expected to fairly represent the workers in the workforce.

# Workers' Organizations

Freedom of association (FOA) and the right to collective bargaining are key and fundamental rights in the workplace. This core element empowers workers and gives them a collective voice. It involves them in the production process and fosters dialogue between workers and managers.

Management that does not allow freedom of association and collective bargaining is not embracing one of the core labor standards. Embracing freedom of association and collective bargaining does not mean promoting unionization. There is a fine but clear line between the two.

Freedom of association can be one of the most challenging labor principles to implement. How do you ensure your workers understand this is one of their principal rights? Beyond this knowledge, how can you tell whether or not your workers feel free to bargain collectively? How can you tell if they really do not want a union or are too intimidated to form one? How do you make sure your workers understand their rights, but you are not seen as influencing their decisions? The situation is complicated.

You may fear that allowing freedom of association in your company will lead to unionization, which can lead to higher costs and workflow interruptions. Your role is both to ensure that workers are educated on their freedom of association rights and to maintain an environment where this is possible.

It is not the purpose of this Handbook to argue the pros and cons of unionization. However, it is worthwhile to repeat:

- Freedom of association (FOA) and the right to collective bargaining are key and fundamental rights in the workplace.
- Embracing freedom of association and collective bargaining does not mean promoting unionization.

Developing trust and credibility with local NGOs and unions is a critical part of understanding the real situation around freedom of association. It is a critical part of any serious effort to improve labor and working conditions.

## **▣ Guiding Principles**

- The company will comply with national law that recognizes workers' rights to form and to join workers' organizations
- If national law restricts the right to organize, the company will enable the means for workers to bargain collectively and organize
- If national law restricts workers' organizations, the company will establish an alternative way for workers to file grievances
- The company cannot interfere with or discriminate against workers who choose to organize
- Worker representatives must have access to management
- Worker organizations are expected to fairly represent the workforce

## **Monitoring Resources**

- Documented policy regarding collective bargaining
- Minutes and records from collective bargaining sessions, reviews or other actions
- Procedure for workers to select worker representative without management interference
- Interviews with workers, NGOs and trade unions
- Worker-manager training curriculum
- Collective bargaining agreements
- Grievance mechanism

## **Common Non-Conformities**

- No clear policy allowing collective bargaining
- Collective bargaining agreement not negotiated or honored in good faith
- Management nominates worker rep or favors one worker organization over another
- Workers or others involved in organizing are fired or harassed
- Management does not clearly inform workers of their legal rights
- Company advises workers that unions will discourage investment

## **Potential Solutions**

- Clear communication to workers on their rights to collective bargaining
- Allow workers to meet to address workplace issues
- Worker rep as in PS2
- Regular training on worker-manager communications
- Regular meetings of management and worker reps
- Periodic documented communication with local unions and NGOs



## Non-Discrimination & Equal Opportunity Standard

The client will not make employment decisions on the basis of personal characteristics unrelated to inherent job requirements. The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to aspects of the employment relationship, including recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, promotion, termination of employment or retirement, and discipline. In countries where national law provides for non-discrimination in employment, the client will comply with national law. When national laws are silent on non-discrimination in employment, the client will meet this Performance Standard. Special measures of protection or assistance to remedy past discrimination or selection for a particular job based on the inherent requirements of the job will not be deemed discrimination.

# Non-Discrimination & Equal Opportunity

Discrimination is an extremely complex issue. Negative discrimination is used to prevent equal opportunity for people. Less commonly, positive discrimination is used to correct the wrongs of past discrimination and provide advantages to those people who are or have been discriminated against or socially excluded.

Realistically, in almost every culture there is some form of deeply ingrained discrimination. Even where discrimination can be easy to spot, it can be an enormous challenge to change. It may be centuries old. It may be woven into the fabric of society.

In some cultures it is religious discrimination. In some cultures it is racial discrimination. In some cultures it is gender discrimination. In some cultures it is age discrimination.

Within a workplace, people should be hired, evaluated and compensated based only on their ability to do a job. Policies and procedures must be clear and understandable to all workers, supervisors and managers. They must be effectively communicated.

It is your responsibility to make sure that discrimination is clearly not tolerated in your policies and procedures. It is also your responsibility to make sure that it is not a problem in your day-to-day operations. Because discrimination can be so ingrained in people, you need to maintain constant vigilance against it appearing in your company.

## ▣ Guiding Principles

- People should be hired, promoted and compensated solely based on their ability to do the job
- All workers should have equal access to training, tools and opportunities for advancement
- All workers should be free from harassment by management or other workers
- Positive discrimination may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities

## Monitoring Resources

- Discrimination policy and related employment policies and procedures
- Company policy and procedure to address and manage discrimination issues when found
- Comparative demographics of workers and managers
- Documentation of handled discrimination cases
- Diversity training curriculum and attendance log
- Interviews with workers and managers, including those who may be likely to be discriminated against
- Interviews with local NGOs and trade unions
- Hiring, promotion and termination records
- National law as it relates to discrimination

## Common Non-Conformities

- Minorities or women denied equal benefits and job opportunities
- Manager distribution not reflective of workplace demographics
- Pregnancy testing to deny women employment or advancement
- Hiring or advancement retribution for union activities
- Workers over a certain age not hired or retained
- Workers hired or advanced based on religion or race
- Ads specifying gender, race, country of origin, etc.

## Potential Solutions

- Clearly define anti-discrimination policy in hiring, training, promotions and compensation
- Regularly review worker and manager demographics
- Develop long term remediation plan to address past discrimination
- Provide regular training to workers and managers
- Establish confidential and secure communication channels for workers to reach managers
- Actively promote a harassment-free workplace



# Retrenchment

## Retrenchment Standard

The client will develop and implement a plan to mitigate the adverse impacts of retrenchment on workers, if it anticipates the elimination of a significant number of jobs or a layoff of a significant number of workers.

The plan will be based on the principle of non-discrimination and will reflect the client's consultation with workers, their organizations and, where appropriate, the government.

Naturally, within any business environment, change is a constant factor. It is impossible for you to control all of the variables that impact your business. What if a big customer of yours were to go out of business? What if raw material costs were to increase, making you less competitive in a key market? What if improved production processes cut your labor requirements? What if a merger required a reduction in your workforce?

All of these things can necessitate dramatic adjustments within your company. Understandably, business survival becomes your number one concern. But you still have a responsibility to those that work for you.

Imagine you are a worker. You live from one paycheck to the next. You hear there will be layoffs. You wonder who will remain employed, and whether or not you will be one of them.

As a manager, you have a responsibility to communicate with the workers and to involve them in the difficult decisions that lay ahead. A decision to reduce your workforce will be a difficult one. You must make your lay-off process fair and transparent. You also need to consider the impact on the community and do what you can to minimize any negative repercussions. At a bare minimum, you need to provide severance that meets national labor laws and company policy.

**Good Practice Note:** Managing Retrenchment:

[http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_GPN\\_Retrenchment](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_GPN_Retrenchment)



## ➤ Guiding Principles

- The company will develop and implement a plan to mitigate the adverse impact of retrenchment if it anticipates a large number of layoffs
- The plan will incorporate non-discrimination principles and include the input of workers, their organizations, where appropriate, the government

## Monitoring Resources

- Policy and procedure related to workforce reduction, severance and transition
- Analysis of alternatives
- Procedures for selecting workers impacted by workforce reduction
- Documentation of prior instances of workforce reductions
- Minutes from management meetings and discussions
- Communications with workers related to workforce reduction
- Communications with external stakeholders and community groups
- Interviews with current and past workers

## Common Non-Conformities

- Company has no plan for retrenchment
- No alternatives have been analyzed
- Workers are suddenly laid off without advance notice or any required severance
- Company does not consult workers or outside parties
- Company uses lay-offs to discriminate or retaliate
- No legal benefits are paid

## Potential Solutions

- Policy and procedure for workforce reduction, including worker selection
- Analysis of alternatives to workforce reduction
- Engage workers in discussions with workers related to workforce reduction as early as possible
- Communication to all workers about why and how the reduction will take place
- Discussions with local NGOs about how the community impact of workforce reduction could be minimized



## Grievance Mechanism Standard

The client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise reasonable workplace concerns. The client will inform the workers of the grievance mechanism at the time of hire, and make it easily accessible to them. The mechanism should involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides feedback to those concerned, without any retribution. The mechanism should not impede access to other judicial or administrative remedies that might be available under law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.

# Grievance Mechanism

Despite all of your efforts, there will be problems in your company. You are dealing with people in a constantly changing environment. Every worker in your company has pressures. Frustrations build. Maybe a worker feels a supervisor discriminates against him or her. You need to make sure that there is a clear, safe channel for the worker to communicate his or her concerns to management. You need to make sure that the worker feels that you heard his or her concerns, took them seriously and acted on them.

Remember, improving labor standards performance is a journey – a process of continual improvement. There will always be problems that arise. The key is to have systems in place so you identify and address the problems early and effectively. Everyone needs to understand the process. Everyone need to think the process is fair and transparent. It needs to be credible.

Providing a grievance mechanism for workers is smart for your company. Without a communication channel workers can feel trapped. It leads to resentment and rumors. It leads to an “us against them” attitude.

You need to create an environment where workers feel safe expressing their concerns. They should be able to file anonymous complaints. They should not fear retaliation. You need to create a system for workers that is simple and secure. The system needs to be responsive and fair.

## ▣ Guiding Principles

- The company will establish a transparent process for workers to express concerns and file grievances
- There will be no retaliation or discrimination against those that express grievances
- Management will treat the grievances seriously and take appropriate action
- The company's grievance mechanism does not replace other channels as defined by law or collective bargaining agreements

## Monitoring Resources

- Documented policy and procedure for worker grievances
- Worker and manager interviews
- Training curriculum and log on grievance handling
- Communications to workers, supervisors and managers
- NGO and trade union interviews
- Records of complaints lodged and actions taken on grievances
- Employment and termination records

## Common Non-Conformities

- Non-existent or incomplete policy and procedure
- Workers are not aware of the grievance mechanism
- Workers distrust the process or fear retaliation
- No action is taken by management based on grievances
- No way to file anonymous complaints

## Potential Solutions

- Establish clear policies and procedures for grievances
- Communicate the grievance process to all workers in a clear, understandable manner
- Provide ongoing training to all workers
- Document all grievances and the resulting actions
- Make worker reps a key part of the process



# Child Labor

## Child Labor Standard

The client will not employ children in a manner that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development.

Where national laws have provisions for the employment of minors, the client will follow those laws applicable to the client. Children below the age of 18 years will not be employed in dangerous work.

On the surface, child labor seems to be an easy issue to combat. It is the marquee issue in international labor standards performance. This is the issue that attracts the media. People around the world have all heard horror stories regarding child labor, and many people equate “no child labor” with labor standards performance.

Many experts in the field of labor standards performance have said that we are past the use of child labor. But it seems that while some of those inside the field have moved onto other issues, the reality on the ground is different. Child labor is still an issue in some sectors and in the supply chain of some products or services. It is still a huge, complex issue. It is still a long way from being solved.

You may feel certain there are no children working at your company. How do you ensure you do not have children working? Can you answer this with certainty? How do you verify with confidence the age of the people you hire? What about children working at your supplier's facility or at a contractor's? Are you as certain about that? There are also nuances within child labor that need to be addressed from country to country.

Young workers are those between the legal age and 18 years of age. Local laws may allow apprentice programs as a way to train young workers. Properly managed apprenticeships can certainly be a valuable part of education; however, many extensive studies has shown there are abuses.

Finally, you must have a remediation plan in place should children be found working in your company, or in a supplier's or contractor's company. You need to be able to instantly tell the media and your external stakeholders exactly what you will do. If you wait to develop the plan until child labor puts you on the front page of the newspaper or in widely read blogs, it is too late.

**Good Practice Note:** Addressing Child Labor in the Workplace and Supply Chain: [http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications\\_GPN\\_ChildLabor](http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_GPN_ChildLabor)

## ▣ Guiding Principles

- The company will not employ workers under the minimum age for employment as defined by national law
  - Workers between the minimum age and 18 will not be employed in dangerous work or work that interferes with their education or development
- 

## Monitoring Resources

- Policies and procedures for age verification in hiring
- Documentation regarding apprentice programs
- Interviews with workers, local children, trade unions and NGOs
- Visual observation
- Pay records, medical records, birth certificates, IDs, school records

## Common Non-Conformities

- Child labor policy not effectively communicated to workers and interested external parties
- Lack of procedures to effectively verify age when hiring
- No remediation plan in place
- No procedures to assure proper use of young workers
- Apprentice programs permitting children to work or improperly using young workers
- No clear policy communicated to contractors and suppliers

## Potential Solutions

- Write clearly defined policies and procedures for age verification – make them publicly available
- Offer an apprentice program designed with the involvement of external stakeholders
- Develop remediation plan for use in cases where children are unknowingly employed despite your No Child Labor policies and procedures (ex: child presents false ID)
- Engage with local stakeholders to develop proactive plans to address child labor issues
- Communicate your child labor policies to your suppliers and contractors – and provide them with the training and tools to address the issue



# Forced Labor

## Forced Labor Standard

The client will not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty.

This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor or similar labor-contracting arrangements.

Like child labor, forced labor presents a nightmarish image in the minds of many people: workers chained to their work tables, prisoners working at manufacturing facilities. However, the reality of forced labor is often far more insidious. It is not always so easy to spot and can be hidden within actual fair labor practices. Your company may have a mix of direct employees and people working at your company through employment agencies or third parties. Do you know the details of those arrangements?

The increase in the use of contracted workers has created new models of forced labor whether you are in the farming, construction or manufacturing industry. Combine this with the increase of cross-border migrant labor and you have even more cases.

Imagine an employment agency that recruits workers for you. The agency may send the workers to you from another country. The agency might hold their passports, allegedly for safekeeping. In some cases, the company may deliver pay to the employment agency instead of the contracted workers. What if the agency charges the workers a recruitment fee? What if the agency deducts money from the workers' paychecks for the recruitment fee? Or dormitory fees? Or tools and safety equipment? These fees may be hidden from you.

You may not be aware that the workers do not have their passports. You may think that the workers are being paid a fair wage for their work. The workers may then be left with no money and no passport; without these things, they become victims of forced labor.

If you are confident you have these issues under control in your company, your work is not done. As part of PS2, you also need to think about these same issues for your suppliers.



## ➤ Guiding Principles

- The company will not employ forced labor
- Workers have the right to retain their personal documents and money
- Workers are free to leave the workplace after work
- Workers have the right to resign

## Monitoring Resources

- Employment contracts in all appropriate languages
- Contracts with employment or recruitment agencies
- Payroll records, timesheets and wage deduction calculations
- List of permanent workers and contracted workers at your facility
- Worker passports or IDs
- Interviews with all workers, employment agencies and external stakeholders
- Interviews with security guards

## Common Non-Conformities

- Company uses employment agencies to avoid paying workers legal wages and benefit
- Workers do not possess their passport or working papers
- Workers do not have a copy of their contract in their language
- Company or agency holds wages as a deposit
- Company or agency requires worker to pay for recruitment, job training, protective equipment, tools or excessive fees for housing
- Company requires worker to sign termination letter as condition of employment

## Potential Solutions

- Clearly define worker's freedom in employment contract, including right to personal documents at all times
- Provide employment contracts to all workers in their language - direct or contracted
- Define and enforce policy regarding use of employment agencies and expectations
- If employment agencies are used, audit relationship between the agency and the workers
- Provide training for all workers to explain their rights
- Pay all job related training and equipment expenses



PS2

## Occupational Health and Safety Standard

The client will provide the workers with a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in the client's work areas, including physical, chemical, biological, and radiological hazards. The client will take steps to prevent accidents, injury, and disease arising from, associated with, or occurring in the course of work by minimizing, so far as reasonably practicable, the causes of hazards. In a manner consistent with good international industry practice, the client will address areas, including: the identification of potential hazards to workers, particularly those that may be life-threatening; provision of preventive and protective measures, including modification, substitution, or elimination of hazardous conditions or substances; training of workers; documentation and reporting of occupational accidents, diseases, and incidents; and emergency prevention, preparedness and response arrangements.

# Occupational Health & Safety

Health and safety can be a challenging issue. There is often misunderstanding about what it takes to properly address it. Companies often tackle health and safety first as it seems like the easiest element to quickly address. However, often the focus is too narrow, on just immediately visible risks. Companies often don't have the technical expertise and management systems to properly assess and mitigate health and safety aspects throughout their operations.

Since it can often provide material evidence, you might think health and safety is easier to audit than issues such as freedom of association or discrimination. But let's look deeper. Within health and safety, some aspects are very straightforward, with visible evidence. Does your facility have the proper number of fire extinguishers? Are there fire escape plans? Are there current and accurate accident and medical treatment logs? Do workers have the appropriate personal protective equipment? However, other aspects are not so easy to spot. For example - adverse effects from workplace chemicals, diseases that develop decades later, abnormalities in children born to workers. You need to be aware of such risks specific to your industry.

Also, even the visible aspects need expertise and attention to handle properly. How can you determine what other fire fighting equipments are necessary? Are the means of egress appropriate? What are the technical characteristics of the smoke detectors? Personal protective equipment is the last option an expert will take to mitigate impacts. So, it is not just a matter of observation, but of appropriate analysis and proactive action. This requires technical expertise and managements systems.

The purpose of PS2 is to provide a system for continually improving health and safety in your company. Implementing management systems is the best way to address systemic problems. Policies, procedures and effective training are imperative for ongoing performance. A good system will prevent injuries. The main problem is often management commitment to dedicate the appropriate resources and time to health and safety issues. Don't overlook health and safety procedures when you are finalizing production targets. Commit to meeting international standards for health and safety performance. Set clear performance targets for each operation. Also, identify, communicate the risks and educate all workers and managers.

## ▣ Guiding Principles

- The company will take all reasonable precaution actions to protect the health and safety of workers
- The company will ensure that workers are not exposed to unnecessary or unreasonable risks at the workplace, dormitories and transport systems
- The company will implement an OHS management system consistent with international standards such as OHSAS 18001 and ILO-OSH 2001
- The company will systematically assess all of the OHS risks, conducting a comprehensive job safety or job hazard analyses.
- The company will implement preventive and protective measures according to the order of priority: Eliminating the hazard, Controlling the hazard at its source, Minimizing the hazard, Providing appropriate personal protective equipment
- The company will document, investigate and report all accidents and occupational diseases.
- The company will investigate and identify the root causes of all accidents with working time loss, and implement appropriate corrective actions

## Monitoring Resources

- Visual observation
- Exposure to hazardous agents monitoring log
- Manager and worker interviews
- Accident and medical treatment logs
- Equipment maintenance logs
- Fire and safety drill logs
- Health and safety risk analysis
- Health and safety inspection logs with test results
- Government health inspection reports
- Training curriculum and logs

## Common Non-Conformities

- Inadequate OHS management capacity
- Inadequate risk assessment or job hazard analyses
- Inadequate plant lay-out and subsequent risk exposure
- Inadequate equipment maintenance and procedures
- Inadequate monitoring and control of workers' exposure to hazardous agents (e.g. noise, vibration, heat/cold, pressure environments, ionizing energy, chemicals and biological agents)
- Inadequate protection equipment measures such as Collective Protection Equipments (PPC) and Personal Protection Equipment (PPE)
- Lack of commitment from production area leaders and managers
- Safety training not reinforced, not updated, not effective
- Policies and procedures not written, not clearly communicated

## Potential Solutions

- Structuring an OHS team and an OHS accountability framework (including production area)
- Conducting a comprehensive job safety or job hazard analyses
- Developing a Corrective OHS Action Plan based on the likelihood and severity of the consequence of exposure to the identified hazards
- Proper equipment design, maintenance and procedures, such as:
  - Designing machines to eliminate trap hazards
  - Turning off, disconnecting, isolating, and de-energizing (Locked Out and Tagged Out) machinery with exposed or guarded moving parts or being serviced
  - Marking and checking all energized electrical devices, cords and lines with warning signs
- Implementing proper monitoring systems of hazardous agents and proper control measures (eliminating risk, PPC, PPE)



# Non-Employee Workers

## Non-Employee Workers Standard

For purpose of this Performance Standard, “non-employee workers” refers to workers who are:

- i. directly contracted by the client, or contracted through contractors or other intermediaries; and
- ii. performing work directly related to core functions essential to the client’s products or services for a substantial duration. When the client contracts non-employee workers directly, the client will use commercially reasonable efforts to apply the requirements of this Performance Standard, except for paragraphs 6, 12, and 18.

With respect to contractors or other intermediaries procuring nonemployee workers, the client will use commercially reasonable efforts to:

- i. ascertain that these contractors or intermediaries are reputable and legitimate enterprises; and
- ii. require that these contractors or intermediaries apply the requirements of this Performance Standard, except for paragraphs 6, 12, and 13.

When you walk around any company or organization, ask yourself the following questions. Which people work directly for this company as full-time employees? Which people are contractors directly to this company? Which people work at this company as employees or as contractors to another company?

In some cases, it may be easy to guess. Security guards and cleaning staff commonly work for outside companies. In today’s economy it is not uncommon for a company to have its engineers physically located at another company. There are now multi-national employment agencies that specialize in managerial and professional staffing. The accountant or programmer is located at your company doing work for your company, but actually employed or contracted by the employment agency.

But what about looking at workers assembling components on a production line or picking produce in a field or teaching at a university or performing maintenance at a hospital? Can you tell who is the direct employee and who is the contractor? As we discussed in the section on Forced Labor, there can be many labor problems that arise with contracted labor.

Companies, especially seasonal businesses, need to carefully monitor fixed costs versus variable costs. There can be a clear business rationale for using contracted labor or for hiring through an employment agency. This is understandable. However, you are still responsible for meeting labor standards. You cannot use contracted labor as a way to avoid labor laws, or to undercut your PS2 responsibilities to workers. Look inside your company. Be honest. Are a lot of your core functions covered by contractors? Do contractors work for you for long periods of time without permanent contracts?

Do you have cases of direct employees and contractors doing the same job for radically different wages and benefits? Would you think it was fair if you were the contracted worker? You need to make sure that all workers, contracted or directly employed, are getting equal wages and benefits for the same job.

## ▣ Guiding Principles

- The company will extend labor standards performance to contractors hired directly or through employment agencies.
- The company will not use contracting as a means of circumventing labor rights and laws.
- Employment and recruitment agencies will be monitored to verify their adherence to labor rights and laws.

## Monitoring Resources

- Contracted labor contracts in all appropriate languages
- Contracts with employment or recruitment agencies
- Payment records, timesheets and wage deduction calculations for contracted workers
- Listing of direct employees and contracted workers at your facility
- Interviews with managers, employment agencies and external stakeholders
- Interviews with contracted workers - directly contracted and through agencies

## Common Non-Conformities

- Company uses employment agencies to avoid paying workers legal wages and benefits
- Contracted workers do not have a copy of their contract in their language
- Company or agency holds wages as a deposit
- Company pays employment agency and has no idea if and how workers are paid
- Company uses series of short term contracts to avoid paying worker benefits

## Potential Solutions

- Provide employment contracts to all workers in their language - direct or contracted
- Define and enforce policy regarding use of employment agencies and expectations
- If employment agencies are used, audit relationship between the agency and the workers
- Provide training for all contracted workers to explain their rights
- Include contracted workers in grievance process access and training





PS2

# Supply Chain

## Supply Chain Standard

The adverse impacts associated with supply chains will be considered where low labor cost is a factor in the competitiveness of the item supplied. The client will inquire about and address child labor and forced labor in its supply chain, consistent with paragraphs 14 and 15 above.

All companies and organizations have a supply chain. Products are bought from other companies for use in your company. They may be components used in making your product. They may be supplies. Services or manufacturing processes are often contracted to outside companies with the work taking place at their location. You are responsible for extending some elements of PS2 to these companies.

In some labor-intensive industries, your direct suppliers may sub-contract production and/or services to reduce costs. In some cases they reduce costs by evading legal obligations to workers. There is evidence that as you move further down the sub-contracting chain there is an increased risk of child labor or forced labor. In many industries, the use of unauthorized sub-contractors is common. You may contract the production of a component to a company – and without your knowledge they sub-contract part of the production to another company.

To implement this element of PS2, you'll need to establish your right to know if one of your suppliers is using sub-contractors. You need to make it clear to your suppliers that you expect them to at least meet the basic requirements of PS2 related to child labor and forced labor.

Just as management systems are critical for labor standards performance in your company, they are also the foundation for driving labor standards performance in your supply chain.



## ▣ Guiding Principles

- The principles of PS2 regarding child labor and forced labor extend from your company to your suppliers.
  - You are responsible for notifying your suppliers of the PS2 requirements concerning child labor and forced labor and trying to minimize its presence.
  - You are responsible for monitoring labor standards performance
- 

## Monitoring Resources

- Policies and procedures for controlling supply chain
- Map of suppliers and sub-contractors, with risk assessment
- Supplier labor standards commitment letter
- Labor standards clause in contracts with suppliers
- Audit reports on suppliers
- Production and shipping records at suppliers
- Contract requiring the disclosure of sub-contractors

## Common Non-Conformities

- Lack of written policies and procedures
- No communications with suppliers related to labor standards
- Use of unauthorized sub-contractors by direct suppliers
- Ignoring high risk areas for child and forced labor
- No monitoring

## Potential Solutions

- Provide suppliers with training and management system tools
- Offer incentives to suppliers for improved labor standards performance or transparency
- Include labor standards clauses in all contracts
- Train your purchasing staff in the basics of labor standards auditing
- Focus attention on high risk production processes

# Labor Standards Performance in Your Company

# 4



# Introduction

PS2 provides you with a standard for labor standards performance in your company. In “The Elements of Labor Standards Performance” section we have carefully examined each element of PS2. We reviewed the typical problems companies face in meeting each element. We looked at the verification sources; the things that auditors will do to determine how your company is doing in its effort to adhere to PS2. If you look back at the verification resources, you’ll see a pattern. There are many references to documents: policies, procedures, training curriculum, accident logs, employment records, etc. All of these documents are pieces of a management system.

Over the past decade it has become clear, and widely accepted, that management systems are the key to improving labor standards performance. As you strive to improve to meet PS2, it is the management systems approach that will provide the foundation. It will be the foundation for getting started and it will be a key element in your continual improvement journey.

Looking to the future, we see management systems being used as a framework for integrating labor and environmental standards with quality systems.

Linking quality, social and environmental management systems will push the integration of labor standards performance further into your business operations. It will also allow you to see more bottom-line business benefits and to shift labor standards performance from a cost to an investment.

The management system is also the foundation that links you with your suppliers and contractors, and them with their suppliers. You need a management system for labor standards and your suppliers need a management system for labor standards.

Change is a constant in any company. It is the underlying management systems that create a framework for sustainability in the ever-changing business environment.

Your company is always balancing risk and control. It is the policies and procedures of the management system that provide continuity.

Over the past decade it has become clear, and widely accepted, that management systems are the key to improving labor standards performance.

→ Labor Standards Performance in Your Company

Internal factors causing change	External factors causing change:
New manager(s)	New laws
New supervisor(s)	New regulations
New worker(s)	New customers – with new requirements
Corporate re-structuring	Social change
New procedures	New competition from countries, companies or technologies
New product introductions	Loss of major customer
New manufacturing processes	Substantial change in business volume
Financial difficulties	Expansion
Workforce reduction or expansion	Merger

But management systems, with policies and procedures, are the beginning, not the end. Continual improvement is a journey and your company, led by its top management, must embrace the journey. A binder full of policies and procedures tied to PS2 but not implemented may give you short-term risk protection. But all of your stakeholders - all workers, investors, supplier, customers, trade unions and NGOs - will see through a hollow commitment.

Remember, it is people that make the system work and come to life. People who are trained. People who are passionate. People who are committed to improving.

# Understanding Management Systems

We've talked a lot about management systems. But what exactly is it? What are the actual components of a labor standards management system? What if your boss or board member or investor asked you to name the components of a management system? Could you do it?

Now you'll be able to do it. It's time to get specific. At the broadest level, a management system begins with policies and procedures - documents. And it is also made up of trained people with specific functional responsibilities.

Policies are the rules. They tell everyone what is allowed and what is not allowed. Basically, your labor standards policies are going to flow directly from PS2. The first element of PS2 is the requirement of having a human resources policy. The Toolkit has instructions and samples to help you get started.

**Policies are the rules.  
Procedures are the “how-to”  
guide to following the rules.**

Procedures are the “how-to” guide to following the rules. You need to say what you are going to do to ensure the rules are followed. And what you will do when the rules are broken. Procedures need to be clearly written. They need to be clearly communicated to workers at all levels of your company – in all of the languages spoken in your company.

Policies are easier to write than procedures. Let us give you two examples. Following PS2, your policy may say that you do not hire anybody under the legal working age. So your policy says no children. But how do you know? How do you verify age? What documents do you require? What do you do if you suspect fake documents? What do you do if an auditor or the media finds children working at your company – or at one of your suppliers?

How about your policy regarding workers' rights to organize and bargain collectively. How do you make sure workers understand their rights? How do you make sure that managers don't discriminate against workers who are in a union?

The Toolkit has sample procedures designed to support PS2 policies. You can use these to get started. Easy to say. Hard to do. Like lots of things in life.

## TIP ↓

### Guiding Principles for Effective Management Systems:

- Senior management must be committed and actively engaged in labor management
- All policies and procedures must be easy to understand and clearly communicated



# Measure and Improve

Companies are run by people. People organized into groups. People following patterns of work.

It can be hard to get people to change. In every culture, in every language, there is a saying about how hard it can be to get people to change.

There is a whole consulting industry built around trying to get people in companies to change their behavior. Whether it is called change management or organizational behavior modification or anything else, it is all aimed at getting individual people and groups of people to change their behavior inside a company.

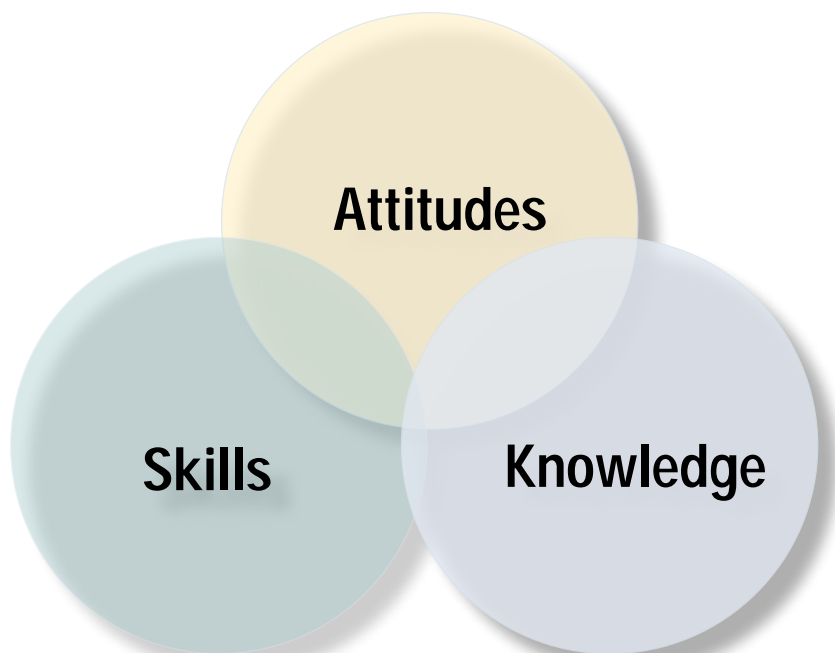
If we break the overall situation down into these three fundamental components – Attitudes, Skills and Knowledge - it is easier to tackle each one and create positive change.

With the idea of continual improvement, we are looking to create change for the better. So how are we going to do that in a simple and effective way? We are going to “Measure and Improve.” As a company, you need to measure where you are now, and set specific targets for your improvement.

Let’s put this in terms everyone can understand. A person says they are going to run a marathon (42 kilometers or 26 miles). They keep saying they are going to run a marathon. They say it dozens of times. They say it year after year. After a while, it is hard to believe them. You think they are all talk, and no action. You must know someone like this. What would make it real? What would make you believe that they were finally going run a marathon?

First they would start running to establish a baseline. They would see how far they could run and how long it took. Then they would set a target for improvement. Maybe they want to be able to run a marathon - no matter how slow the pace - within 6 months. Maybe they want to be able to run a marathon in under 5 hours within 12 months. Whatever - the point is they have set a goal and a timeframe to achieve the goal.

## Fundamentals of Labor Standards



When someone does these things, we know they are serious about running a marathon. They have started to make the transition from talk to action. They realize this will not happen overnight.

Once the goal is set, they would start to run regularly and measure their performance. They may decide to initially focus on measuring and improving their distance. They may decide to initially focus on measuring and improving their time. The key is that they measure and improve against their goal.



**TIP ↓**

- **ATTITUDES** – Do workers have a problem-solving, positive attitude toward improving labor standards?
- **SKILLS** – Do all workers have the skills they need to change their behavior and contribute to improving labor standards?
- **KNOWLEDGE** – Do all workers have the knowledge of PS2 and how it changes their role?

It is a cycle, like the ISO Plan-Do-Check-Act quality management improvement cycle. Same idea with improving labor standards performance in your company. Set a goal. Measure. Improve. Measure again.

Your job is to make sure your workers have the right attitude, develop the skills they need and have access to the necessary knowledge. The Toolkit can help you get started.



## Attitudes

- Cooperative
- Treat people with respect
- Problem-solver
- Pragmatic

## Skills

- Effectively communicating with managers, supervisors and workers
- Improving production processes
- Training managers, workers, contractors and suppliers

## Knowledge

- PS2 elements
- Local labor laws
- Relevant human resource policies and procedures

## Getting Started: The SAI Process-Based Self-Assessment

Once you're convinced of the benefits of improving your labor standards and agree that management systems are the best approach, you're ready to start the Measure and Improve program.



Now for the big question. What do you measure? We've created the SAI Process-Based Rating System for you to use. You can use this in your company and with suppliers and contractors in your supply chain. The SAI Process-Based Rating System evaluates nine categories on a scale of 1 to 5 (5 is highest). It looks at systems and their implementation.

The full system and instructions on using it are included in the Toolkit. We suggest that you turn to it now and familiarize yourself with it.

### SAI Rating System: Overview of Categories & Levels

Rating (5 is highest)	Management Systems	Internal Labor Standards Performance Team	Worker Involvement & Communication
	Level and Type of Non-conformances	Complaint Management & Resolution	Progress on Corrective Actions
	External Verification & Stakeholder Engagement	Training & Capacity Building	Management of Suppliers & Contractors
Each of the nine categories is rated on a scale of 1 to 5 with 5 being the highest. The rating for each of the nine categories is derived from the SAI Process-Based Rating System Self-Assessment. Below, we have indicated the general guidelines for each level.			
<b>5</b>	Mature systems, fully implemented inside and outside the company.		
<b>4</b>	Fully developed systems with improving utilization.		
<b>3</b>	Systems in development with partial implementation.		
<b>2</b>	Limited systems with sporadic implementation.		
<b>1</b>	Little or no awareness, systems or interest.		

The nine categories were selected to focus on the systems and processes that a company has in place for high-level labor standards performance. The SAI Process-Based Rating System provides a useful tool for measuring your current performance and identifying areas for improvement. It provides you with a different perspective. Instead of looking at labor standards performance element-by-element it looks at the processes needed to meet PS2.

### Improving Towards PS2

Look at the nine categories. In many ways these are similar to the processes you would look at to see how well any business function is managed.

The first step is to conduct an honest assessment of your company using the rating system. In the Building Your Internal Labor Standards Performance Team section and in the Toolkit, we provide instructions on doing the self-assessment.

The key is to be honest in the self-assessment. There is no right or wrong answer. The point is to identify any gaps and find areas for improvement. It is a tool to help you measure where you are and make strategic decisions about the best path for improvement. Part of the challenge with labor standards performance is that it is subjective to a degree. As you evaluate your current labor standards performance you will be making judgments. There is no equivalent to a stop watch for measuring time or an odometer for measuring distance. The SAI Rating System tries to reduce the subjectivity, but it is impossible to eliminate. As you improve your performance in each category, you will be progressing towards meeting the requirements of PS2.

It takes performance in every process category to drive sustainable improvement towards meeting each PS2 requirement. For example, meeting PS2's Workers' Organizations requirement is not only measured in the Level & Type of Non-Conformances. Your performance in meeting the PS2 Workers' Organization requirement would be measured to a certain degree in all of the nine categories. Let's take a look.

- **Management Systems** - do the policies and procedures clearly recognize workers' rights to organize as per PS2?
- **Internal Labor Standards Performance Teams** - does the team include a freely elected Worker Rep?
- **Worker Involvement & Communications** - do the workers understand their rights and does management routinely meet with workers?
- **Level & Type of Non-Conformities** - are there violations related to Workers' Organizations?
- **Complaint Management & Resolution** - can workers file anonymous complaints through a workers' organization?
- **Progress on Corrective Actions** - are there documented improvements?
- **External Verification & Stakeholder Engagement** - does management communicate with relevant external organizations?
- **Training & Capacity Building** - do workers receive training so they understand that the company will not interfere with their right to form or join a workers' organization?
- **Management of Suppliers & Contractors** - are contracted workers at your facilities given the same rights?

**TIP ↓**

### Linking PS2 Requirements to Management Processes

Management Systems	These are the human resource policies and procedures meeting PS2
Internal Labor Standards Performance Team	This is the group of trained people that will lead the effort
Worker Involvement & Communications	These are the methods and channels for communicating with workers about the working conditions and the working relationship inside your company
Level & Type of Non-Conformances	This is the severity and frequency of the problems you have in meeting PS2
Complaint Management & Resolution	This is the system for handling and addressing grievances from workers
Progress on Corrective Actions	This is how effective you are in addressing problems and making changes to prevent them from recurring
External Verification & Stakeholder Engagement	This is how you cooperate with outside auditors or involve external stakeholders to enhance your efforts to meet PS2
Training & Capacity Building	This is the system you have for training workers on the attitude, skills and knowledge needed to meet PS2. It also looks at training for suppliers or contractors.
Management of Suppliers and Contractors	This is how you influence your suppliers and contractors to meet PS2

# Top-Management Leadership & Effective Communications

Improving labor standards and working conditions is hard work. There is no quick fix. There are no big shortcuts. Peter Drucker, widely considered to be the father of modern business management, stated, “Company cultures are like country cultures. Never try to change one. Try, instead, to work with what you’ve got.”

“**E**ffective leadership is not about making speeches or being liked; leadership is defined by results not attributes.”

Peter F. Drucker, Founder  
The Drucker Institute at  
Claremont Graduate University

Improving labor standards performance will probably require some change in the behavior of your company, your workers, your contractors and your suppliers. Change management and organizational behavior experts can tell you how challenging this can be.

There are different strategies and different techniques for changing behavior, but it seems that the experts agree that to create lasting change, senior management must lead the effort.

However, the task is more complicated than simply getting senior management to publicly state their commitment to improving labor standards performance and working conditions.

The next job is to effectively shape and communicate the message internally and externally. Think about it. Some CEOs are clearly better than others at motivating their workers, investors, contractors, suppliers and stakeholders.

When you start your journey towards PS2 you will probably meet resistance in your company. “Why do we need to do this?” “It is too much work. I’ve already got enough to do.” “How does this help our bottom-line?” You will hear all of these comments. If workers sense that top management is not committed, the project will stall.

It is the responsibility of top management to lead the effort. You need to send a clear message to all workers, at all levels, that this is a long-term commitment by your company – that PS2 is not going away.

Regular communication from top management is a critical component of leading change in your company. There are a lot of books and articles available on effective communication, but here we provide a few ideas and tips.

## TIP ↓

### Tips for Effective Company Communications

- The message needs to be memorable.
- To be memorable, it needs to be simple.
- It needs to be consistent month after month and to all workers.
- It needs to be concrete, not abstract.
- It needs to build on what workers already know and do.

### Tips for Effective Communication on Labor Standards Performance

- Be Honest
- Be Credible
- Be Transparent
- Be Proactive

# Worker Involvement & Communications

## Globalization and The Worker

Consumers and many companies have clearly benefitted from globalization. But what has it done at the other end of the supply chain? What has the impact been on the workers? Look inside your country and your company.

Globalization and the shift of capital and jobs to developing countries have opened up opportunities for workers, but also heightened pressures on workers as multi-nationals seek to lower the cost of production and services. Countries and companies fight to attract business, in many cases by offering less regulation or lower prices.

The greater mobility of capital and the globalization of sourcing means opportunities for some but the loss of livelihoods for others. Changing regulations, reduced quotas, or currency exchange shifts can quickly eliminate jobs.

For workers, new jobs are often located far from their hometowns. Many countries have established special economic zones or export processing zones along the coasts. Millions of workers travel hundreds of miles to work in companies which become worker campuses – workers depend on these companies not only for their jobs, but for their sole source of housing, sanitation, food, and social support. The increase in migrant labor leaves workers vulnerable – often they are hired through brokers, to whom they give over their passports, vital documents and power over their contracts. Often they do not know the local language

or dialect and cannot negotiate for themselves or navigate well enough in the new locale to exercise their rights. On the job they may face discrimination and abuse from managers and supervisors who do not speak their language or understand their customs.

For workers there is less job security, lower wages, and other risks as the concern for adequate working conditions can get swept away by business pressures. The economic crisis has increased these pressures as companies fight to survive.

Your company can make a positive difference in the lives of your workers and benefit from improved worker involvement and communication. PS2 and this Handbook provide a framework for how to proceed.

Most companies use some combination of rewards (“the carrot”) and punishments (“the stick”) to motivate workers, contractors and suppliers.

### Workers in the Global Economy

Increase in migrant labor as companies seek to keep their labor costs lower

Use of recruitment agencies for factory or farm workers – sometimes unscrupulous

Shorter lead times and just-in-time delivery requirements result in more overtime hours – sometimes forced overtime

Increase in contract workers to keep fixed costs low and deal with production fluctuations caused by lean supply chains and peak selling seasons

A sense that an unlimited global supply of semi-skilled factory workers has commoditized workers in emerging markets

## Benefits of Worker Involvement

Earlier when we looked at some of the business benefits of improving labor standards performance, we started with reputation risk. Minimizing or avoiding negative events can be a big benefit in itself.

The same thing is true with the workplace benefits of improving labor standards performance and worker involvement. Involving workers and creating a dialog between workers and management can help you to avoid a lot of problems.

Conflict in the workplace leads to unreliability. It may be extreme things like worker sabotage, work slowdowns or strikes. But it may also lead to higher worker turnover, as your workers leave the first time they can get a new job.

But there are real positive benefits from involving workers in the operation of your company. Workers can offer you a valuable perspective on production processes. Improving labor standards performance and worker involvement has been shown to lead to greater productivity and quality, higher retention rates, fewer accidents and reduced absenteeism.

Every time a worker leaves, it costs your company money: recruitment, training, lower productivity, loss of corporate know-how.

### Involving Workers

Improves communication in the company

Identifies productivity and labor problems

Creates proactive solutions from the work floor perspective

Addresses problems before crisis-level thus reducing management time

Reduces work floor disruptions

Attracts and retains better workers

Empowers and incentivizes workers

Builds consensus and acceptance for new initiatives



## Worker-Manager Communications & Training

Your workers - whether management or non-management - are the backbone of your company and should all be an integral part of your company's communication channels. Workers must share ownership of labor standards performance, and be empowered to know the laws and labor standards, monitor conditions, exercise their rights and understand their responsibilities.

Establishing an effective worker-manager dialog is a key step in involving workers in your company and in starting to reap the benefits of their involvement.

Workers, regardless of their level, typically look to their immediate supervisor to get the information they need about their job, the developments that are taking place in the organization and the way these will affect them. They look to their peers to gain insight and perspective. Your managers and supervisors need the attitudes, skills and knowledge to effectively act as the primary communicators of your organization's mission, strategy and goals.

Worker surveys consistently show us that organizations missing effective workplace communication practices suffer from poor worker morale. The repercussions of this include not just putting up with disengaged workers. Worker productivity also suffers, along with a range of other business performance indicators.

### **The costs to your business of poor worker communication include:**

- increased worker turnover
- increased absenteeism
- dissatisfied customers from poor service
- higher product defect rates
- lack of focus on business objectives

But without training, the managers and supervisors often do not know how to communicate effectively. Their communication style and attitude may set a bad tone for labor standards in your company. This makes everyone frustrated and angry. It also causes false information to spread through rumors instead.

An effective worker-manager training program drives sustainable improvements in the workplace by building proactive relations between managers and workers. The key is to help managers see the workplace from the workers' point of view. And to help workers see the workplace from the managers' point of view.

Effective training empowers workers and managers to better understand their rights and responsibilities. One "best practice" technique is for workers and managers to separately analyze workplace problems and their root causes. Then they work together to identify solutions and procedures for implementation rooted in management systems for continual improvement. The resulting dialog helps assure a sustainable workplace.

### **Worker-Manager Communication Goals**

- Understand workers' and managers' rights and responsibilities
- Establish or improve upon constructive communication channels between workers and managers
- Develop constructive ways for workers and managers to identify workplace problems and jointly develop solutions

**TIP ↓**

### Tips for Worker-Manager Training

- Make the training participatory – not just a lecture
- Be aware of varying levels of formal education in developing the curriculum
- Use group problem-solving exercises and role-playing
- Mix it up – have workers and managers work together and separately
- Use curriculum that addresses Attitudes, Skills & Knowledge (ASK)

There are some very important elements to effective worker-manager training. In a large company, however, it is not possible to provide extensive worker-manager training to all of the workers and all of the managers. All workers and managers should get some introductory training. Then some workers need to be selected to participate in more in-depth training. Then these workers train their peers. How you do this is very important in laying the foundation for an effective program. Management is responsible for notifying all workers of the upcoming training and informing them that they will be asked to select a few of their peers to participate in the joint training for workers and managers. Methods of notifying the workers include a workers' assembly, distribution of pamphlets or bulletin board notices. You can also make it part of a worker survey.

In the formal training and in the workplace, workers in some cultures often know a lot, but are reluctant to say what they

know. Workers may be shy. They may be fearful. It is your responsibility to encourage workers to communicate, to give them feedback so they know you listen and to take action so they know you value their input.

In order for workers to effectively participate, there need to be clear communication channels. Workers need to know how to use them. Workers need to feel secure in doing so.

#### Worker Communication Methods

Worker Representative

Worker Committees

Meetings and assemblies

Posters & bulletin boards

Suggestion box

Hand-outs & brochures

Printed notices on pay-stubs

Surveys

Newsletters – printed or electronic

Company web-site

Letter from the CEO

Some of the key and best practice procedures to have in place:

- **Complaint procedures** – These should be written procedures clearly communicated to the workers, included in the personnel manual and posted in the facility. The procedures should detail mechanisms for workers to report labor concerns and grievances directly to managers, give a timeframe for investigation and resolution of the complaint, and require the proper reporting of the findings back to the worker and the workplace. You should have a system for recording, investigating and following up on the complaints. This can be time-consuming, but you need to make sure you allot enough staff time and resources.
- **Model anti-retaliation policy** – You should have a whistle-blower protection policy which protects workers who report concerns or grievances. This policy should be clearly communicated to all management, supervisors and workers.
- **Formal worker-manager communication channels.** Even something as simple as the suggestion box can be a useful way for facility workers to direct their inquiries and suggestions to your company – there should be a designated company staff person who addresses these inputs.



Workers must also be provided with a secure, confidential complaint channel. They need to have the ability to communicate their grievances, without fear of discipline or retribution.

The Toolkit has examples of some worker communications – posters, wallet cards, hand-outs – for use in your company and with your contractors and suppliers.

**TIP** ↓

**Workers should seek to choose peers whom they trust to participate with the best interests of all workers in mind and to effectively understand and share what they learned in the training.**

# Involving External Stakeholders

One of the keys to building and sustaining change is to involve multiple stakeholders in the process. Each stakeholder has a different, valuable perspective. Working with them can lead to more sustainable and substantial outcomes than can be achieved by your company alone. This does not mean that you have to engage with every single person or party that reaches out to you or is located in your area. You need to strategically select those which are most credible and can serve as true partners in your labor standards performance program.

## Types of Stakeholders

Workers

Investors

Customers

Suppliers

Contractors

Trade Unions

NGOs

Governments

Getting involved with multi-stakeholder organizations is an efficient and effective way for you to engage a wide range of external stakeholders. They can be a valuable resource. You can take advantage of their experience and expertise in maintaining an active network. Your involvement with multi-stakeholder initiatives can bring credibility to your efforts. Think about getting involved in local projects which purpose is the improvement of labor practices and workers' lives.

Local NGOs and/or trade unions can provide valuable information on local conditions that affect labor standards performance in your area. Often they will have the trust of the workers. International NGOs and trade unions can advise on issues that affect workers on a global scale, and provide support and guidance in engaging and developing local networks.

Government agencies are a key resource. They can provide a wealth of data and information on economic and social indicators. Labor departments and labor inspectors are valuable resources for learning about the regulatory and legal frameworks in which you and your suppliers operate. Governments may be a source of materials and funds for training your workers, contractors or your suppliers.

## How to Implement

We hope you're convinced that you need to talk to a diverse range of external stakeholders about your labor standards performance – from NGOs and trade unions to investors and customers. Now what do you do?

There are three steps you can follow to put your good intentions into action.

1. Select the organizations
2. Build a trusting relationship with them
3. Maintain open communication channels

As with other tasks we've discussed, this is easy to say, but hard to do. Existing multi-stakeholder organizations can be a valuable resource as you proceed. If you work closely with a multi-stakeholder organization, you can take advantage of its ongoing efforts in developing and maintaining an active network. There is a lot of work involved in effectively engaging your relevant multi-stakeholder community. Look for ways that you can benefit from the work of other companies and organizations. The Toolkit has some forms to help get you started.



## Selecting Organizations

The first step is to know the players, so you need to identify the key players where your company operates or sources. It is critical to specifically assign a member of your Internal Labor Standards Performance Team to be in charge of this activity. Some ideas to consider:

- Develop a map and keep a record of NGO, trade union and government contacts
- Develop a brief profile on each relevant group. It doesn't have to be long, but you need to know about the group's mission, history, programs, possible political links, methods of engagement, etc.
- Ask the relevant international groups or religious institutions for help in identifying the appropriate local groups
- Ask your workers about the reputation of local NGOs, trade unions and community initiatives
- Survey local chambers of commerce and industry associations, as well as other companies in the area
- Meet with relevant government agencies to seek information on programs and funding that may be available to assist local companies with training to improve labor standards performance

## Cultivating Relationships

A person on your Internal Labor Standards Performance Team needs to take charge of stakeholder engagement, and needs to devote time to this effort. Making an effort to get involved will help you build a relationship with the selected groups, and it will show all of your stakeholders that you are serious about involving external stakeholders. You will earn credibility because your actions support your words. These are some effective ways to cultivate relationships:

- Meet regularly with local NGOs and/or trade unions to discuss common issues and concerns specific to the region and industry
- Consult with national and international organizations on a regular basis concerning global labor issues and developments that affect the workers
- Consult with a wide range of relevant external stakeholders – be inclusive
- Seek their participation in developing remediation plans, assist in training and monitoring and/or resolving complaints
- Consider how your company might support their existing programs to improve the quality of life for your workers, their families and communities

## Maintaining Communications

Once you have made the effort to develop a relationship with selected stakeholders, it is important to maintain communication with them. This means dialog, not one-way communications from your company to them. It means responsiveness. In fact, we suggest that you maintain some level of communication with all of the external stakeholders you identified in the first step. Some ideas for you to consider:

- Establish a formal procedure for your company to solicit and receive input from NGOs, trade unions and government agencies. These procedures should emphasize transparency and include an explanation of how stakeholders are selected for consultation or other participation.
- Regularly update your stakeholders with company news, labor reports, community initiatives, relevant business plans, programs updates and ongoing reviews of your labor standards performance and monitoring programs. Frequent communication is crucial and should be systematized.
- Respond promptly on the issues and questions raised by your stakeholders. This should include descriptions of the steps taken to address the issues they may raise, and the effectiveness of such measures.



# Forming an Effective Internal Labor Standards Performance Team

# 5





## Why This is Critical

Throughout this Handbook, we have talked about the need for management systems. Policies, procedures and trained people. Attitudes, skills and knowledge. You need to encourage workers to develop the right attitude. You need to help workers develop the skills they need to continually improve labor standards performance. You need to teach them the knowledge they need to do the job.

But who is going to do this? Who is going to get to work each day and think about improving labor standards performance? How will you involve workers from all levels and functions in your company?

You need to build a team that takes responsibility for labor standards performance. Each person on the team needs to realize it is an important part of his or her job at your company. And, like any team – it needs: a leader, a manager, a captain. Think back to the earlier section on change management. Someone needs to drive the change. They need to take responsibility. They need to make it happen.

## Who's on the Team

The diagram shows you the basic minimum structure for your Internal Labor Standards Performance Team. The size of the team can vary depending on the size of your company. It could be as few as 2 people for a small company; for medium and larger companies, between 4-10 people is ideal. If your company or organization has multiple locations, you will probably need to create a team at each location. Be pragmatic in your approach. The point is not to create more committees and bureaucracy. The point is to create a small nimble group that will take responsibility. You do not need to hire new workers. It does not need to be anyone's full-time job, nor a big time burden. But for the team members, the responsibilities do need to be written into their job descriptions.

As you build the Internal Labor Standards Performance Team you need to evaluate the candidates on their attitudes, skills and knowledge. In the beginning, the most important consideration is their attitude. You need to select people that are interested and excited. You need to select people who are passionate about improving labor standards performance and who believe it is good for the company.

The CEO or General Manager must be involved for the project to be taken seriously and for it to succeed. They need to lead by example. They need to show commitment and passion for the journey.

## **The Internal Labor Standards Performance Team**

You need to appoint a team inside the company to take the lead in the company's labor standards. The team becomes the champion for labor standards performance and PS2. It is not a full-time job, but the team must know how to speak the language of labor standards and communicate it effectively to all workers.

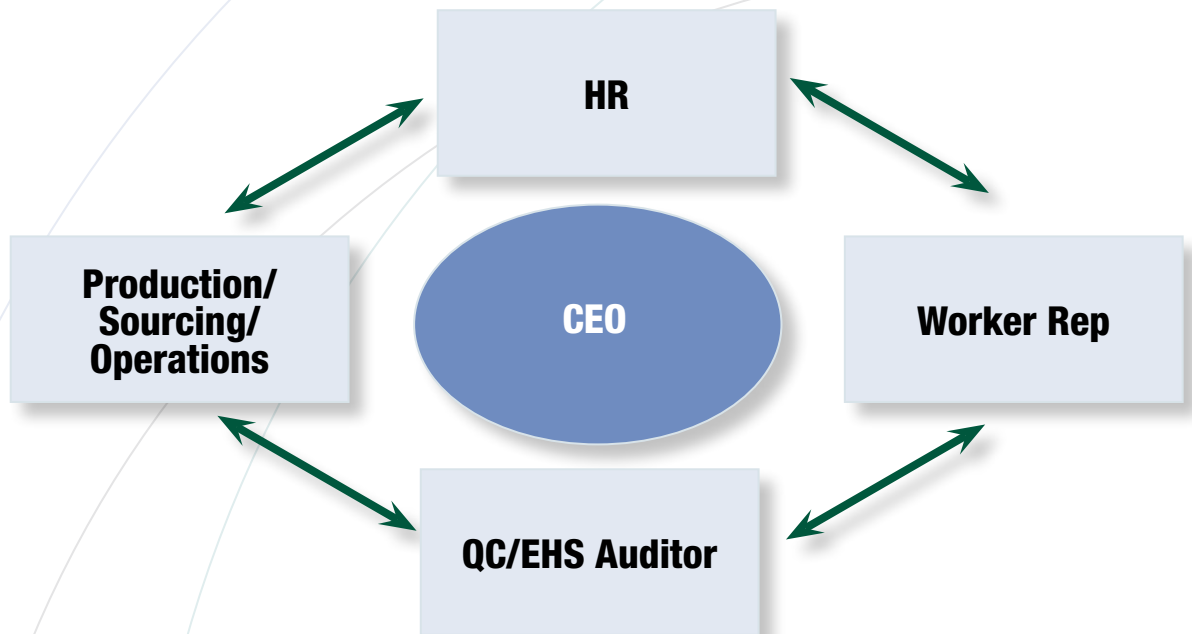
PS2 has a requirement for human resource policies and most of the labor standards performance policies and procedures emanate from the human resources department. So of course, the HR department needs to take an active role in the team. In most cases, the Internal Labor Standards Performance Team Leader will come from the HR department.

Management systems are a key element in the process. In most companies and organizations, management systems are prevalent in the quality control or quality management function of the company. Having someone on the team that has familiarity with implementing management systems is extremely helpful. It also allows for linkage between your existing management systems and the labor standards performance systems. So we recommend that your team include someone from the quality control department or someone that is responsible for this in your company. Alternatively, if you have an established health and safety department, the manager of this department would be an appropriate team member.

Labor standards performance and PS2 extend beyond your company to your supply chain. The companies that are leaders in labor standards performance are integrating labor considerations into all aspects of their operations. For these reasons, your team needs to include someone from other departments, for example, your purchasing or outsourcing departments. They need to become familiar with the issues. They need to become your eyes and ears when visiting suppliers.



One or more worker representatives is an essential part of an effective Internal Labor Standards Performance Team. The voice of the worker must be heard. The worker reps become a communication channel from the workers to management and from management to the workers. Their involvement and this communication channel will enhance what already exists in your company. Check in the Toolkit for details on selecting the worker reps.



Depending on the size of your organization and your organizational structure, you may also consider the following positions for the team: Chief Financial Officer or someone from the finance department, environmental health and safety manager, corporate communications manager, marketing director.

## What the Team Does

No one needs more committees and more meetings. In many cases, the surest way to kill a project is to form a committee to study it or to manage it. No one is responsible. Everyone is busy with his or her day-to-day responsibilities. In the beginning, the committee meets regularly for a few times. Then the meetings are less frequent. They get postponed. The project dies. Workers know the pattern. They know they can wait until the project withers and dies.

But improving labor standards performance towards PS2 is not a project. It is a new way to operate. It is a journey. The Internal Labor Standards Performance Team and its Leader are responsible for leading the company. They are responsible for making sure all of the workers have the attitudes, skills and knowledge to make the journey successful.

When the idea of quality management systems was first introduced, it met resistance. Now it is integrated into the day-to-day operations of many companies or organizations. The same will be true for labor standards performance.

It is important to note that we refer to it as the Internal Labor Standards Performance Team, not the internal audit team. This is a really important distinction. The thrust in the field of social and labor standards is to go beyond auditing. It is clear that companies need to build internal capacity in their company to create sustainable change. Your Internal Labor Standards Performance Team will conduct internal audits, but they will do much more.

### Roles of the Team

Develop and implement policies and procedures based on PS2 and best practices

Conduct internal audits as per ISO management system guidelines

Participate in management review

Conduct management and worker training

Establish worker communication channels

Manage suppliers and contractors

Engage local NGOs, trade unions and government agencies

Coordinate with customers, investors and stakeholders

Connect internal departments such as purchasing, production, marketing and HR

# The Team Leader

The Team Leader is the most important position on the team. He or she will need to spend the most time managing the ongoing process. To a large extent, the ultimate success of the improved labor standards performance journey rests on the shoulders of the Team Leader, with the public support of the CEO.

Team Leaders must have the right attitude. They must be able to overcome resistance inside the company. They must continue to push forward and fight corporate inertia. They must be able to explain to workers at all levels that this is the right thing to do – for the company, for the workers and for the external stakeholders. They must believe in the principles of PS2.

Team Leaders need to be open-minded. They need to have the skills and investigative attitude of a labor standards performance auditor. They need to command the attention and respect of people in the company, at contractors and in the supply chain. They need to not just find problems, but create solutions and build better systems.

## Team Leader Performance

### Team Leader Attitudes

- Non-discriminatory
- Treat all workers at all levels with equal dignity
- Neutral to unions
- Investigative
- Problem-solver
- Pragmatic

### Team Leader Skills

- Developing procedures to meet PS2 policy requirements
- Interview methods and interview techniques (worker interviews, management interviews)
- Effectively communicating with workers
- Developing training curricula
- Training managers, workers and suppliers
- Soliciting and incorporating local NGO and trade union feedback
- Interacting with customers and stakeholders
- Interacting with external auditors

### Team Leader Knowledge

- PS2 elements
- Local labor laws
- Internal auditing procedures based on ISO 19011
- Relevant corporate and industry codes
- Management systems development and implementation
- Common labor problems in the region and industry
- Potential solutions based on international best practices

# Training Requirements

Training is a critical element of the entire system. It is the combination of training, technical assistance and management systems that enables change to occur. This is the combination that builds capacity in your company and in your supply chain. Remember, the goal is to internalize labor standards performance and make it a routine part of doing business.

Organizational change is hard. The best procedures and policies don't matter if they are not used. The challenge is to get people to change how they behave on a daily basis. The challenge is compounded by the fact that you're trying to change the behavior of people both inside and outside of your company. There's no way it will work without training. Training is the heart of capacity building.

Now, just like the term "management system", the term "training" is pretty vague and general. So you put training in your budget and your boss says what kind of training? We'll help you to be able to answer that question.

The best way to break it down is to look at training that takes place inside your company, including contractors (internal training) and training that takes place for companies in your supply chain that helps them better meet your needs (external training). We go over the internal training here, and the external training in the section titled, *Labor standards performance in Your Supply Chain*.

## Training People in Your Company

The overall goal of internal training is to create a common understanding and a common language about labor standards performance. The specifics of the training and the level of detail vary from department to department. But the message must be clear and consistent.

Everyone needs to know what you are doing, why you are doing it, the benefits to the company, that it has top-management support and that it is a journey.

Of course, your human resource people need to have the deepest understanding of every element related to labor standards performance. If you have a labor standards performance department or environmental or health and safety department, they should also get the full training. The social performance team member in your operations department would also benefit from the full training. You need to establish a core group of people that are capable and confident to spread the attitudes, skills and knowledge in your organization. The Internal Labor Standards Performance Team Leader needs the most training, but everyone needs to get involved.

Everyone needs to know what you are doing, why you are doing it, the benefits to the company, that it has top-management support and that it is a journey.

Here we provide a brief outline of the training that should be conducted for each department. Labor standards performance training should be part of the training provided to all new workers. It also needs to be part of the ongoing training program.

These outlines are not meant to be all-inclusive, but to give you an idea. Regarding how much time needs to be devoted to training, it varies depending on many factors. We have put a very rough guideline for the amount of training per year suggested for each department in your company. Everybody should get some training to build awareness and a basic understanding. But not everybody in each department needs the same depth of knowledge.



Remember, there are different ways to deliver training – classrooms with live instructors, training manuals, pre-recorded computer-based training, live webinars, etc. You can break the training into smaller segments. Make it part of other training or communications. Use group discussions. Use role plays where workers and managers change places. Make it interesting.

**The labor standards performance training needs to be done in addition to job performance training and health and safety training.**

**Human Resource and Labor/Environmental Compliance Department** 5 - 10 days per year

- Detailed knowledge of the components that make up an effective labor standards performance management system
- The specific role of the labor standards performance auditor
- Basic auditing techniques and tools
- Common labor standards performance problems in your region
- Basics of business operations related to labor standards performance
- Worker communication techniques and benefits

**Procurement or Sourcing Department** 2 - 4 days per year

- Overview of key issues of labor standards performance and PS2
- Labor standards performance in contractors and suppliers
- Basics of supply chain mapping and risk assessment
- Basics of conducting a labor standards performance assessment as part of new supplier or contractor evaluation
- Purchasing and contracting practices and their impact on labor standards performance

**Production Department** 1 - 5 days per year

- Overview of key issues of labor standards performance and PS2
- Purchasing practices on their impact on labor standards performance in the supply chain
- Production benefits from improved labor standards performance
- Links between quality management, production management and labor standards performance systems

**Senior Management** .5 - 2 days per year

- Overview of key issues of labor standards performance and PS2
- Integrating labor standards performance issues into strategic planning and operations
- Role of the Internal Labor Standards Performance Team and their involvement on the team
- Worker involvement and its benefits
- Communicating the benefits of labor standards performance to investors and external stakeholders

**Communications and/or Marketing Department** .5 - 2 days per year

- Overview of key issues of labor standards performance and PS2
- How labor standards performance affects customer, investor and media relations
- Linking labor standards performance to core business strategy
- Marketing and communications benefits from improved labor standards performance – “how to tell the story”

**Workers** Regular ongoing training every three months

- Overview of key issues of labor standards performance and PS2
- Workers’ rights and responsibilities
- Communicating with management
- Grievance mechanisms

# Labor Standards Performance in Your Supply Chain

# 6



# Introduction

Labor standards in the global supply chain is gaining recognition as an important issue. Consumers are becoming more aware of where their products come from and the conditions under which they were made. Socially responsible investors, both individuals and institutions, are looking more carefully at how a company operates – this extends to their supply chain. PS2 specifically extends some of its labor requirements to your suppliers.

You need to think of your company's place in the supply chain. If you export to the EU or the US, you are probably familiar with one or more codes of conduct. Regardless of what type of organization you are, you have a supply chain. You need to start to think about labor standards in your supply chain. You need to extend your management systems into your supply chain.

The push towards improvement in working conditions in the supply chain mostly began as a risk mitigation strategy by famous brands and retailers. It started as a means of protecting their corporate reputation in response to activist and media attention on poor labor conditions in emerging market factories. US and EU consumer-goods companies started to really take a look at what was happening in the factories making their products. In many cases, it was ugly. Clearly, they did not want their corporate image tarnished by being associated with pictures and stories of gross labor violations. So to reduce risk to their image, brands and retailers started to establish labor codes of conduct for their suppliers.

Over the same time period, consumers also came to expect a lot of today's retailer: a wide selection of products, always available at a competitive price; unique, constantly changing merchandise. And today's leading retailers, whether mass merchandisers, supermarkets or specialty stores, have developed systems to deliver all of this to consumers: global sourcing; integrated logistics systems; mass customization in manufacturing; growth in private label (store brands); sophisticated information technology that stretches from the cash register to the factory floor.

Think about what this does to purchasing practices in the global supply chain. What has this drive to deliver so much to the consumer done to the supply chain? What is the result on the factory floor or in the farm?

As companies and consumers routinely expect instant, 24-hour service, and a wider, constantly changing array of merchandise, factories face less predictable orders – this increases the likelihood that workers will be forced to work overtime to meet shorter delivery times, and cope with last minute product changes. Compounding the overtime issue is the demand for lower and lower prices. Suppliers compete intensely to get orders in today's competitive global economy. Especially in industries with low barriers-to-entry, downward price pressures can lower wages for workers.

As companies struggle to keep pace with delivery and price pressures, they outsource more production to sub-contractors. These sub-contractors might have low labor standards using contract labor, homeworkers and children. Workers hired under these terms face health and safety risks, discrimination, lower wages and a lack of proper contracts outlining their rights. They are often isolated and lack a system by which they can exercise their rights or address their grievances.

It is misguided to isolate any one company and look at its labor practices alone. Every link in the chain is interdependent.

# Mapping Your Supply Chain

## Three Levels to Consider:

1. In your company
2. In your direct suppliers
3. In the suppliers to your direct suppliers

Supply chains can be very complex. They can have many links in the chain. You always need to think of the entire supply chain. You need to think about your place in the chain. You need to think about who supplies your suppliers.

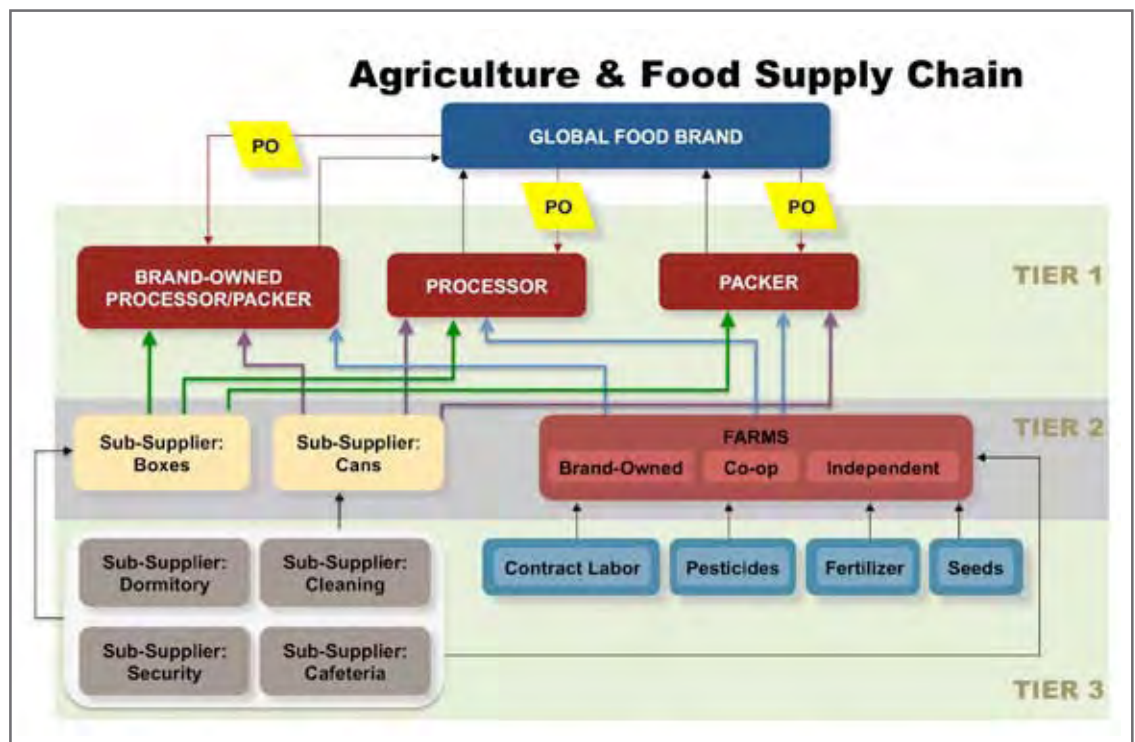
Your supply chain will include companies or people that supply you with products and services. They could be raw materials or components. They could be finished goods that you re-sell or use in your organization.

Here is an example that illustrates just a small part of a company's supply chain. We have added notes to highlight certain aspects of the supply chain for manufacturers and service providers. When

you look at this keep in mind that a large retailer may have 20,000 direct suppliers – each with a web of sub-contractors and sub-suppliers. A brand may have 1,000 or more direct suppliers – each with a web of sub-contractors and sub-suppliers.

The first step towards understanding and controlling your supply chain is to create a map. Don't worry, it doesn't need to be as detailed and multi-tiered as the example here. Start by identifying all of your direct suppliers.

In the Toolkit, we provide instructions and a form for you to use to list each supplier and to start to collect the information you will use to determine how much risk they pose to you.



Controlling your suppliers and contractors is one of the most difficult challenges in building a responsible company. It is common for suppliers to use sub-contractors to perform specific production functions or to provide additional capacity during peak periods. In many cases, the use of sub-contractors by your suppliers may be completely unknown to you. Labor standards in these unauthorized sub-contractors is a major issue.

In some labor-intensive operations, suppliers increasingly use sub-contractors to reduce costs and in some cases to evade legal obligations to the workers. There is evidence that as you move farther down the sub-contracting chain, there is an increased chance that workers receive lower pay, obtain little or no payment of legally required benefits, and have little or no safety and health protection.

The companies that you issue the purchase order to are your direct suppliers.

The same is true on the service side. The employment agency you use may be dealing with recruitment agencies that are withholding payments from workers or holding their identification or passports. The workers are subject to forced labor.

As you create a map of all of your direct suppliers, imagine lots of little boxes coming off each of your suppliers – like on the diagrams. That will start to give you an idea of the

complexity of your supply chain. Your direct supplier may be buying raw materials and components and packaging. These things are probably clear to you and expected. But they may also be sub-contracting for production or labor – in total or in part – to companies you do not know about. It may be for embroidery. It may be for powder-coating metal. It may be for making bricks. It may be for assembling components. It may be for processing and packaging fruit. It may be for recruiting permanent workers or temporary workers.

Your suppliers may be reluctant to tell you about their use of sub-contractors. They are often concerned that you will try to by-pass them and deal directly with their sub-contractor. Suppliers are reluctant to turn down orders based on production capacity limitations, yet they are aware that buyers are concerned about the use of sub-contractors for quality and delivery reasons, as well as for labor standards performance. This also spurs suppliers to hide the use of sub-contractors from buyers.

TIP ↓

### Tips on Terminology

- Tier 1  
A Vendor and a Direct Supplier are the same thing – these can also be called Tier 1 suppliers
- Tier 2  
Tier 2 refers to companies that directly supply Tier 1. Typical usage for Tier 2: Sub-supplier supplies raw materials or service to the Tier 1
- Tier 3  
Tier 3 refers to companies that directly supply Tier 2

The labor standards people in your operations and procurement departments need to be aware of the business issues impacting the use of sub-contractors and the reason suppliers are reluctant to divulge their use. This is one area where your labor standards performance and operations departments often send conflicting messages to suppliers. Today, the vast majority of companies send conflicting messages to their suppliers. We hear this all the time. We hear it from suppliers. We hear it from candid brands and retailers. You may have experienced this yourself.

Your company needs to send a unified message to your suppliers. Open, transparent communication is the key. You also need to look at the situation from your supplier's point of view. This is critical to any meaningful dialog.

You need to make it clear to your suppliers that you expect them to adhere to the relevant requirements of PS2. You should help them to replicate the management systems you have in place for child labor and forced labor. Don't make them invent their own system. Help them. Give them your PS2 policies and procedures for child labor and forced labor.



In the Toolkit we provide instructions and forms for you to use in building your supply chain management system. We also have tools for you to use in building a Supplier Toolkit to give your suppliers.

Unauthorized Sub-Contractors are often the source of labor violations that get wide media coverage.



**“If you want the order, you’ve got to come down on price. No way around it.”**

**“I don’t care how you do it, just make sure you ship on time. I need those products.”**

“I know it was peak season, but there was clearly excessive overtime again. We have to drop your rating.”

## “ Conflicting Messages to Suppliers ”

**“We need to review your piece rate calculations. It seems many workers are not even making minimum wage.”**

“We heard you may be using unauthorized sub-contractors. We need to look at your production records. You know this is a major problem for both of us.”

**“Good news. The re-order quantity is 80% more than expected.... No, I can’t give you extra time.”**

**“Hey, remember which department issues the purchase orders!”**



# Supplier Risk Assessment

Look at the map of your supply chain. Think about the labor standards performance risk that each company may pose. Depending on the nature of your organization, your direct suppliers may include:

- Manufacturers or Processors
- Farms
- Distributors
- Trading Companies
- Importers
- International Brands
- Retailers
- Employment Agencies
- Security Companies
- Foodservice Companies
- Dormitory Operators
- Cleaning Services

## Example Elements of a Supplier Risk Assessment

Region, country and area inside country

Industry or product category

Production process within the product category

Level of attention from activists, consumer groups or the media

Nationality or ethnic background of managers, supervisors and workers

Certification to labor standard or adherence to rigorous corporate or industry labor code

Presence of management systems for internal and supply chain labor standards performance

Estimated number of sub-suppliers and sub-contractors

Percent of their business that you represent

Difficulty of replacing them as a supplier

Labor relations and legal history

From a labor standards performance standpoint, each type of supplier poses different issues and different risks. You need to have a clearly defined plan based on the risk assessment of your supply chain.

To be effective, your supply chain management system must be in sync with the realities of your operations.

For example, if you are a construction company buying materials from 12 suppliers you have to approach your supply chain and supplier relationships differently than if you are a manufacturer issuing annual purchase contracts for 1,000,000 components to 20 companies. Both of these situations are obviously different than if you are an agricultural cooperative or a hospital.

However, the labor standards principles are the same – and the underlying management system components are the same. But to be effective, the scope and implementation of your plan must be adapted to your business realities or your plan will sit on the shelf isolated from the day-to-day activities of the company.

After mapping your supply chain, the next step is to do a Risk Assessment. The Risk Assessment forms the basis of defining the scope of your program and developing an implementation plan. The Toolkit has instructions and a form for doing a Supplier Risk Assessment.



After conducting the Risk Assessment, the next step is to define the scope of your program and draft a plan. The key to an effective plan is to allocate your resources in a way that balances minimizing your risk and pushing for improvement in labor standards among your suppliers.

**After mapping your supply chain, the next step is to do a Risk Assessment. The Risk Assessment forms the basis of defining the scope of your program and developing an implementation plan.**

Once you complete the Risk Assessment for each supplier you need to develop a plan for where to put your resources.

Depending on the number of suppliers that you have, it is unlikely that you can tackle all of them at one time. So you will need to prioritize. The scope needs to be realistic given the nature of your business or organization. You want to focus your resources in a way that mitigates your very highest risks and impacts your largest sourcing areas. You need to be aware of where you have leverage to push for labor standards and change among your suppliers. You need to establish clear criteria for how you prioritize companies.

You need to be pragmatic.

We suggest that your plan have four time frames:

- Current status (where are we now)
- Short-term priority (1-12 months)
- Mid-term expansion (2-5 years)
- Future vision (what do we want this to be in 10 years)

**TIP ↓**

### Developing a Plan and Allocating Resources

- Balance the highest risk areas with those that represent the largest purchasing volume
- Focus on processes that are likely to use sub-contractors and that have extremely high-risk potential even if they represent a small amount of your total volume (embroidery, beading, harvesting, metal finishing, etc.)
- Focus on service providers that deal with recruiting, placing or contracting labor
- Suppliers with a rigorous, well-established labor standards policies and implementation systems get a low-priority (famous brands, international retailers, etc.)
- If you are sourcing from companies commonly targeted by activists, keep them in your short terms plans regardless of the quality of the labor standards performance system they have in place
- Give a low priority to suppliers that are members in good standing of multi-stakeholder systems or well-established industry initiatives
- Give a low priority to suppliers that are certified to a rigorous industry or labor standard
- If you source directly from manufacturers and through trading companies or importers, you must include all of these channels in your initial scope. If you do not, the importers and trading companies can become a channel for sourcing goods from suppliers with extremely poor social and environmental standards performance

# Using the SAI Process-based Rating System for Suppliers & Contractors

Realistically, you cannot wake up tomorrow and announce that all suppliers need to meet PS2 immediately. So what do you do? How do you start the journey from where you are today to a supply chain that has better labor standards performance?



Use the same measure and improve approach that you use in your company. Use the SAI Process-based Rating System. Refer to the Toolkit and Section 4 - Labor Standards Performance in Your Company: Measure and Improve. This approach has several positive elements. Most importantly, it is pragmatic. It recognizes that you have to keep buying products, resources and services. It recognizes that not all of your suppliers are going to be fully compliant with PS2. It allows for you to engage with your suppliers and use your leverage to drive improvement. This is really beneficial.

Using the SAI Process-based Rating System also allows for more cooperation between your labor standards and sourcing departments. You can measure the overall labor standards performance rating of your purchasing or contracting departments. Improved, but realistic, labor standards performance targets can be set for each year.

There are some basic questions with the tiered rating approach that need to be addressed. The first issue has to do with what level is acceptable and for how long it is acceptable. For example, if you find a key supplier is a Level 1 (lowest) in labor standards performance, how long do you allow them to stay at that low level before terminating them as a supplier?

We suggest that you look at your supply chain management in terms of existing suppliers and new suppliers. With new suppliers, break it down into pre-contract and post-contract. The leverage in your relationship changes with new suppliers once a contract is signed, so we think it is useful to differentiate between the two stages.

For existing suppliers, you need to start the process of having each one rated. This can be done by having the supplier conduct a self-assessment; then have a trained member of your Internal Labor Standards Performance Team rate them too. A critical part of the process will be effectively positioning and introducing the rating system as part of a capacity building and improvement process. Make it clear to them that this is not an audit, it is a benchmark. It is to measure where they are and identify areas where they need to improve.

## Improving Overall Labor Standards Performance in Your Supply Chain

Set a minimum labor standards performance rating for new suppliers and work with your existing suppliers to improve by giving them specific goals and deadlines.

Your rating can be based on reviewing audit reports, through phone calls or through factory visits. Remember, it is a process; it is not going to happen overnight. If you have 20 suppliers the job may seem manageable, but if you have 1,000 it may seem frightening. The key is to get started. It will save you time and money in the coming years.

In the beginning it is recommended that you have some independent verification of your supplier ratings. The independent rating will help you to calibrate your rating and give it more credibility.

Tell each existing suppliers how they rate. Talk to them about the areas where they did poorly. If feasible, provide them with training or toolkits to help them improve. Give them a specific target for improvement and a deadline. If they are a Level 1 now, tell them they need to reach Level 2 within 12 months. It is up to you to set the improvement targets, but for your system to have credibility you need to make the rules and enforce them.



For new suppliers, you can set a threshold to become your supplier. You can set a policy saying that a new supplier must be Level 2 prior to signing a contract or issuing a purchase order. Once the contract is signed, they would go into the pool of existing suppliers and follow those rules. Setting a minimum level for new suppliers is one way to upgrade the overall labor standards performance of your supply base. The Toolkit has instructions and forms for you to use to get started.

**TIP** ↓

### Getting the Most Value from Using a Rating System

- **Require suppliers to implement management systems and form Internal Labor Standards Performance Teams to meet PS2**
- **Assist your suppliers to get training and technical assistance to implement management systems and form Internal Labor Standards Performance Teams**
- **Rate all suppliers to establish a baseline aggregate labor standards performance level – this should be provided to each purchasing and/or merchandising department so you can see the comparative performance level for each department**
- **Make suppliers' labor standards performance part of the performance measurement and compensation plan for relevant workers in your company**
- **Set specific targets for improving the aggregate labor standards performance level in each purchasing and/or merchandising department**
- **Provide specific timeframes with incentives to suppliers for measurably improving their labor standards performance level**
- **Conversely, provide penalties for suppliers that stay at a labor standards performance level past the established timeline**

## Training Your Suppliers & Contractors

You will need to introduce your suppliers to PS2 and the supply chain requirements related to child labor and forced labor. Think of the supplier training as a primary communications channel. You need to send a clear message about the importance of labor standards performance. You need to tell suppliers about your adoption of PS2 and what it means for them. You need to establish specific goals and incentives and/or penalties.

### Basic Recommended Training for Suppliers

Introduction to PS2

Management systems design and implementation for labor standards performance

Building an Internal Labor Standards Performance Team

Effective worker communication and grievance mechanisms

Managing sub-contractors

Supplier training needs vary depending on the nature of the business relationship with the supplier and the degree of risk to your company. If they are providing cement for your construction site or packaging fruit into boxes bearing your company name, they need training like they are part of your company. If you are buying stainless steel or fertilizer from large multi-nationals with a credible labor standards performance code, it is probably not an effective place to focus your supplier training.

Again, you need to focus attention on the suppliers that are the highest risk and where you have some influence.

The labor standards performance training for your suppliers can be part of the production training you provide them or part of the ongoing communication with the company. Training is one of the most important elements of supplier development. Position the training as a benefit that is only offered to key suppliers. The labor standards performance team member in your company should be

trained to provide the needed supplier training.

As we have stressed throughout, management systems are the key to ongoing performance. If you help teach your suppliers how to implement a management systems approach to labor standards performance, you will have less risk. You should also be able to spend less time and money dealing with audits and problems later. Remember, you need to position labor standards performance as an investment, not a cost. Auditing is a cost. Training is an investment.

# Management System Tools with Step-by-Step Guide

# 7





# Introduction

Now it's time to get to work. In the following pages, we provide you with a step-by-step guide for starting to create a labor standards management system. We include sample documents to get you started. Our goal is to help you put your new knowledge into action.

We've divided the tools into two sections:

- Labor Standards Performance in Your Company
- Labor Standards Performance in Your Supply Chain

In both cases, there is a step-by-step map that guides you through the process and shows you what tools to use. The tools are sample documents and forms that will help you toward meeting the requirements of PS2. We also provide easy-to-use instructions on how to use each tool to build your own labor standards performance management system.

## TIP ↓

**In the following sections, we refer to the human resources, the sourcing and other departments. We realize that in many cases these will not be large “departments” in your company. In a small company, it may even be one person filling two roles. The point is to look at the various functions and how they need to interact. Regardless of the size of the departments, you need to make sure that the people responsible for these functions are trained, committed and have the support of others in your company.**

You will probably need to modify the sample documents based on the operations of your company and the labor laws in your country. The following guides are not all inclusive – they are designed to get you started.

The most important thing to remember is that having a piece of paper with a policy and a procedure

is not the end. It is the beginning. You need to embrace the idea of continually improving your labor standards performance. If you simply create a book of policies and procedures and put the book on the shelf, nothing will change. Continual improvement requires people that are committed to the effort. It requires trained people that have the right attitude, skills and knowledge. It requires leadership.

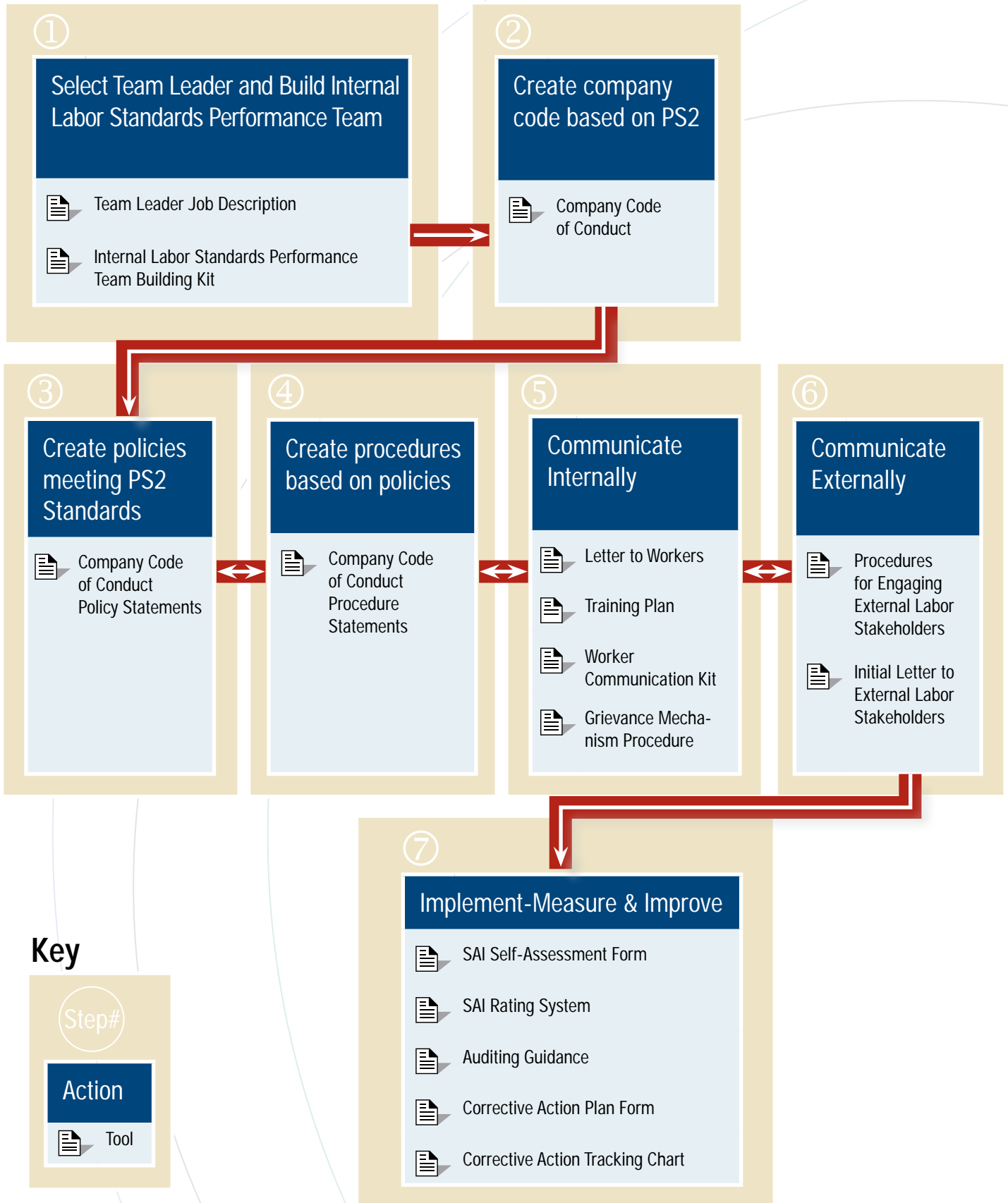
For interactive, online versions of the following tools, plus additional training and tools, you can visit SAI's website [www.sai-intl.org/Training](http://www.sai-intl.org/Training).

Take a look at the map to Labor Standards Performance in your Company.

There are seven steps. In each step there is an instruction page that includes:


- **1. Objective of this Step**  
This is an overview of the step and why it is important
- **2. Color-coded Map**  
This shows you where you are in the process
- **3. Instructions for Use of Tools**  
This has instructions for using each sample document or form


# Labor Standards Performance in your Company





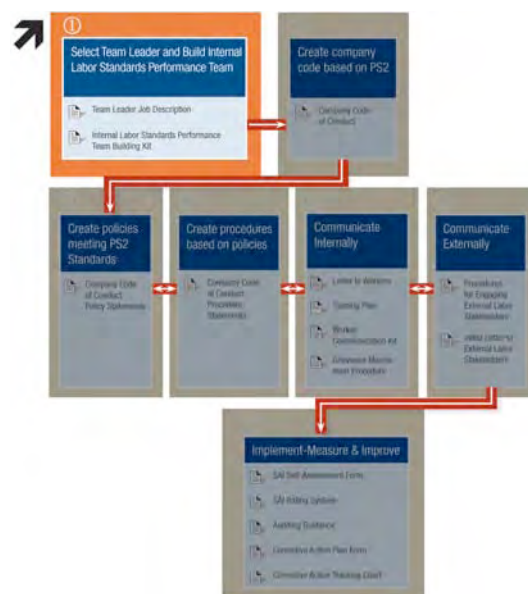
# Select Team Leader and Build Internal Labor Standards Performance Team

 Team Leader Job Description

 Internal Labor Standards Performance Team Building Kit

## Objective of this Step

Creating a company code based on PS2 is no simple undertaking. It will not only require clear vision, but also a dedicated team, whether a couple of people or a large department. Your initial step towards adopting a code and rolling it out to your company will be to build your Internal Labor Standards Performance Team.



## Instructions for Use of Tools

### *Team Leader Job Description*



Use the following toolkit item to manage your thoughts on your team leader's role and responsibilities: [Team Leader Job Description](#)

Using the tool as an aid, create a job description for your Team Leader. This does not need to be a full-time position, but it must be assigned to one person who is solely responsible.

We recommend that this person be a senior human resource manager or director, and suggest that this individual reports to a high level within the organization, such as a member of the executive management team.

Once you have finished the job description, think about eligible candidates for the position. You should think about people you already have working in your company. Does one of your workers already have the skills to be in this leadership position? What additional training is needed? The person you select to be the Team Leader must have a passion for improving labor and working conditions and the ability to communicate at all levels of the organization.

### *Internal Labor Standards Performance Team Building Kit*





Once you have clarified some of the job responsibilities of your Team Leader, you will want to strategize on how to build the team and select the leader.

Use the following toolkit items to get started on building your performance team: [Instructions for Building Internal Labor Standards Performance Team](#), [Instructions for Worker Representative Selection for Internal Labor Standards Performance Team](#), and [Briefing on Purpose and Formation of Internal Labor Standards Performance Team](#).



# Select Team Leader and Build Internal Labor Standards Performance Team

 Team Leader Job Description

 Internal Labor Standards Performance Team Building Kit

Use the toolkit item *[Instructions for Building Internal Labor Standards Performance Team](#)* to learn about the overall process for the selection of management members of the team from the various departments and worker representatives.

Use the toolkit item *[Instructions for Worker Representative Selection for Internal Labor Standards Performance Team](#)* to learn about the important worker representative selection process and the role of an independent third party to facilitate the selection.

Use the *[Briefing on Purpose and Formation of Internal Labor Standards Performance Team](#)* to inform all workers about the team, its role and the selection process. This does not replace the more detailed Letter to Workers that will be sent at a later stage.

## 📄 Job Description

The following is an example job description for an Internal Labor Standards Performance Team Leader.

### Team Leader

The Team Leader is responsible for designing and implementing the labor standards performance program. They must possess the attitudes, skills and knowledge needed to lead the effort. They must be able to effectively communicate with workers at all levels of the company. They must demonstrate a willingness to learn and to adopt a pragmatic approach to solving problems. The Team Leader is responsible for managing the Internal Labor Standards Performance Team and working with executive management to achieve measurable improvements in the labor standards performance of the company.

### Roles and Responsibilities

Internally:	<ul style="list-style-type: none"> <li>- Lead the development and implementation of policies and procedures based on our Company Code of Conduct and related labor standards and practices</li> <li>- Lead Internal Labor Standards Performance Team meetings</li> <li>- Lead internal labor standards performance audits</li> <li>- Develop an annual labor standards performance plan and budget</li> <li>- Develop and implement effective worker communication channels, including a grievance mechanism</li> <li>- Coordinate and oversee all labor standards performance training</li> <li>- Seek to integrate labor standards performance into other operational and compliance initiatives</li> <li>- Report to Senior Management on program progress</li> </ul>
Externally:	<ul style="list-style-type: none"> <li>- Develop external reports on labor standards performance appropriate to various stakeholder groups, including investors, customers, suppliers and community groups</li> <li>- Act as primary contact for external audits by customers and independent auditors</li> <li>- Represent the company on external committees, and at relevant meetings as appropriate</li> <li>- Develop and implement annual plan for engaging relevant local NGOs, unions and government agencies</li> </ul>
Company Contractors and Suppliers:	<ul style="list-style-type: none"> <li>- Develop and implement company’s labor performance standards program for its contractors and supply chain</li> <li>- Lead risk assessment and use of supplier rating system</li> <li>- Coordinate with all relevant teams to communicate program and expectations to contractors and suppliers</li> <li>- Coordinate training and technical assistance for contractors and suppliers</li> <li>- Conduct or coordinate any monitoring of contractors and suppliers</li> <li>- Extend grievance mechanisms to contractors and suppliers</li> </ul>



The individual should possess or be willing and able to develop in the following areas.

Attitudes:	<ul style="list-style-type: none"> <li>- Non-discriminatory</li> <li>- Treat all workers with equal dignity</li> <li>- Neutral to unions</li> <li>- Investigative</li> <li>- Problem-solver</li> <li>- Pragmatic</li> </ul>
Skills:	<ul style="list-style-type: none"> <li>- Developing procedures to meet labor standards policy requirements</li> <li>- Interview methods and techniques (worker interviews, management interviews)</li> <li>- Developing training curriculum</li> <li>- Training workers and managers, contractors and suppliers</li> <li>- Soliciting and incorporating local NGO and trade union feedback</li> <li>- Assimilating operational processes quickly and clearly communicating complex information to other senior level workers.</li> <li>- Writing, presentation and interpersonal skills to enable effective communication with workers and stakeholders across all levels and functions of the company as well as in external organizations.</li> </ul>
Knowledge:	<ul style="list-style-type: none"> <li>- International labor standard elements</li> <li>- Local labor laws</li> <li>- Internal auditing procedures based on ISO 19011</li> <li>- Basic elements of human resource management systems</li> <li>- Relevant corporate and industry codes</li> <li>- Management systems development and use internal and in supply chain</li> <li>- Common labor problems in the region and industry</li> <li>- Potential solutions based on international best practices</li> </ul>

## Instructions for Building Internal Labor Standards Performance Team

The following steps will take you through the process of building your Team.

There is no one correct composition for an Internal Labor Standards Performance Team – it depends on the size, organizational structure and other specifics of your company. The Team will evolve as your program evolves and as your workers gain more experience with the program. You can rotate the members of the Team and stagger their terms of service. The key at this stage is to inform all workers about the program and the Team's roles and responsibilities, and to ensure that both management and non-management workers are represented.

### Step 1

Send out the Briefing on Purpose & Formation of the Internal Labor Standards Performance Team to all workers.

### Step 2

Each department will have an open vote to nominate persons within their department. The nominated persons from each department will meet and choose the final representatives for the Team from among themselves.

### Step 3

Arrange for a neutral body to facilitate the worker representative selection process. This could be someone from a local NGO, community group, academic institution, etc. – someone who would be trusted by both management and non-management and would not be biased towards influencing the outcome of the election. Refer to the Instructions for Worker Selection for Internal Labor Standards Performance Team.

### Step 4

Select the Team leader.

### Step 5

Define to whom the Team will report.

## Step 6

Work together to develop a work-plan. The work-plan should include the frequency of meetings, internal audits and management review. It should also set a timeline for completing tasks and identify the responsible persons.

## Instructions for Worker Selection for Internal Labor Standards Performance Team

The following will take you step by step through the important process of having workers choose their representatives for the Internal Labor Standards Performance Team.

### **Process for successfully involving workers:**

- 1.** Confirm workers' choice to participate in the Internal Labor Standards Performance Team:
  - a. Provide all workers with a briefing on the role of the Internal Labor Standards Performance Team, the pros and cons of participating on the Team, and the roles and responsibilities of the worker representatives on the Team.
  - b. The briefing consists of a short written document which should be distributed to all workers in all relevant languages. The distribution of this document should be done by a neutral body, such as someone from a local NGO, community group, academic institution, etc. – someone who would be trusted by both management and non-management and would not be biased towards influencing the outcome of the election. He or she should be capable of verbally explaining the program and the contents of the document.
  - c. The briefing leads to a vote to determine workers' interest in having representatives on the Team. The vote should be coordinated by the neutral body that briefed the workforce. This first vote among workers is to determine whether or not they want to elect workers to the Team. This can be a fairly informal poll at work stations or done by secret ballot.
- 2.** If the workers choose to have representatives on the Team, the neutral body will coordinate another vote to elect the worker representatives. Again, this can be a poll at workstations or done by secret ballot.
- 3.** Ensure that Management is not involved in, nor influences in any way, the election process. The election of worker representatives to the Team can be fairly simple, but it must be set up by the representative workers union or a neutral body trusted by workers.
- 4.** Ensure that existing worker representation mechanisms are not circumvented.
  - a. If your company has had worker training before that involved a peer selection process and the selection was done as outlined above, those trained workers can serve as the neutral body to set up the worker elections for the Team.
  - b. Where there is a representative union (with Collective Bargaining Agreement rights), they will serve as the worker representatives on the Team and no election is required. However they should be given time during the work-day to keep the workforce informed as part of their normal representative function. The union may choose to have an open election for the worker positions on the Team. However, this is solely workers' decision and management should remain outside of the decision-making process. If management were to seek such an election, it might be seen as communicating to workers their desire to seek substitutes for the union. This would be a violation of the principle of non-interference (see Article 2 of Convention 98).
  - c. Where there are union members present, but they have not secured Collective Bargaining Agreement rights, they should be invited to participate in the preparation and delivery of the briefing and the organization of the vote. They should be proportionally represented (minimum of one member) on the Team, and they themselves should designate who among them will participate in the Team.

- 5.** Ensure that all parties understand the role of the worker representatives on the Internal Labor Standards Performance Team:
  - a.** The worker representatives are NOT there to conduct negotiations with management or collective representation of workers, as this is not the official mandate of the Team. Such a mandate is only given to worker organizations under specific conditions defined by national labor laws.
  - b.** The worker representatives on the Team are only there to facilitate communications, monitor and provide feedback to management on the program's progress and challenges. If they begin to discuss or negotiate (even informally) contract terms (e.g. wages, hours, and benefits), then management will be seen as setting up a substitute for and potential block to trade union organizing.
  
- 6.** Establish a mechanism to effectively communicate to all workers and structure regular elections:
  - a.** Workers need to be informed about who are the worker representatives, the length of their terms and corresponding responsibilities.
  - b.** It is important that too much time does not elapse after the first election before subsequent elections take place (1-2 years maximum). As workers better understand the function of the worker representative and the role of the Internal Labor Standards Performance Team, they may also form different ideas about who they want to nominate and elect as worker representatives in the future.

## Briefing on Purpose & Formation of Internal Labor Standards Performance Team

The following is a sample briefing you can use to inform all workers about the Internal Labor Standards Team, its role and the selection process.

### **TO ALL WORKERS**

We are starting on a new program to improve working conditions in our company. A key part of this effort is to form a Team to manage the project. The Team will have representatives from all workers, both management and non-management. We will need people from many different departments to participate.

This briefing will help you understand the Team's purpose, role and responsibilities and the process for member selection. It outlines the considerations involved for serving on the Team yourself or for selecting some of your colleagues. You will receive continual communications on the project as it progresses.

### Purpose of the Team

The Team will lead the effort to improve labor and working conditions.

### Roles and Responsibilities of the Team

- The Team will meet regularly to discuss issues related to labor and working conditions.
- The Team will write and implement plans for improvement.
- The Team will coordinate communications between departments and between management and workers.
- The Team will evaluate progress and make improvements based on suggestions from all workers.
- The Team will never be involved in any contract negotiations or collective representation of workers, as this is not the mandate or function of the Team.
- These roles and responsibilities are additional to the normal job responsibilities of the member. This is not a separate full-time job.

### Process for Selection of Team Members

#### **Management Representatives**

Each department will have an open vote to nominate persons within their department. The nominated persons from each department will meet and choose among themselves the final representatives for the Team.

#### **Worker Representatives**

Workers will vote on whether or not they want to have representatives on the Team. If they choose to have representatives, they will vote to select from amongst themselves. This process should not be influenced by management. It will be facilitated by a neutral third party (such as someone from a local NGO, community group, academic institution, etc.) or a representative union, if one is present. Detailed written guidelines for worker selection are available and will be explained by a neutral third party or the union representative.



## Criteria and Considerations for Team Members

Things to consider as you think about whether you want to elect representatives for the Team, and whether you yourself want to serve:

### ■ Benefits of Team Participation:

- Helps management understand workers' genuine concerns and needs
- Improves communications between workers and managers
- For Team members, builds leadership, organizational and communication skills
- For the company, builds additional system for addressing labor and working conditions problems, and potentially reducing risk and enhancing overall business performance

### ■ Potential Drawbacks of Team Participation:

- For Team members, requires extra investment of time and responsibility in addition to daily work
- Early stages will require additional effort to change the way things are done and to document the new process
- The Team cannot be expected to quickly solve all problems nor to replace other necessary channels

The Team will receive training to improve their Attitude, Skills and Knowledge. However, think about these areas as you elect representatives for the Team. Below are some examples of what you might want to consider.

### ■ Attitude

- The "Will" to improve
- Respect for all workers and managers
- Non-discriminatory
- Investigative
- Pragmatic

### ■ Skills

- Verbal communication
- Written communication
- Problem solving
- Teaching others

### ■ Knowledge

- Basic elements of international labor standards
- Local labor laws
- Basic elements of labor standards performance



# Create Company Code Based on PS2

## Company Code of Conduct

### Objective of this Step

Your Company Code of Conduct is the policy statement that defines principles and expected conduct for all aspects of your business.

This can address management philosophy, governance, environment, corruption, transparency and treatment of workers and other stakeholders. In this step you will create the labor and working conditions portion of your Company Code of Conduct based on PS2.



## Instructions for Use of Tools

### *Company Code of Conduct*



This is the most fundamental document in your system. This is how you communicate your Company's beliefs to workers, your Board, your suppliers, your contractors, your customers and all external stakeholders. It is very important that you think through the creation of your Code and tailor it to your company. Although your Company Code should address all of the elements of PS2, you do not need to simply copy the PS2 structure and language. Use the following toolkit item [Company Code of Conduct](#) to get started.

## Code of Conduct

This is the most fundamental document in your system.

### Company Code of Conduct


We suggest that you review Corporate Codes of Conduct published by those companies considered to be leaders in corporate social responsibility. These are easily available on companies' websites. To get a current list of leading companies, go to <http://business-ethics.com> or <http://www.thecro.com>. We suggest looking at leading companies in your country and global companies from your industry. As you look at these, focus on the labor and working conditions sections that apply to their workers, contractors and suppliers.

You cannot simply copy a template for such a wide-ranging strategic document. However a good start is to use the elements of PS2 as the outline for labor and working conditions in writing your Code. Make sure that each policy statement in your Code is in alignment with the respective element and guiding principles of PS2. Here is the outline of PS2 for your reference, but do not feel limited by it.

1. Working Conditions and Management of Worker Relationship
  - a. Human Resources Policy
  - b. Working Relationship
  - c. Working Conditions & Terms of Employment
  - d. Workers' Organizations
  - e. Non-Discrimination & Equal Opportunity
  - f. Retrenchment
  - g. Grievance Mechanism
2. Protecting the Workforce
  - a. Child Labor
  - b. Forced Labor
3. Occupational Health & Safety
4. Non-Employee Workers
5. Supply Chain

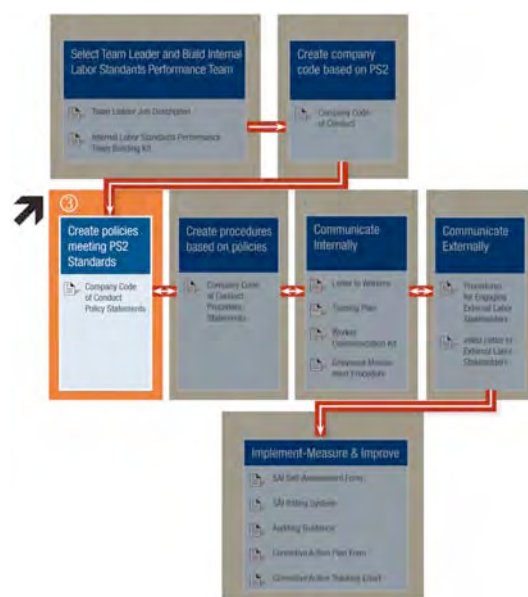


# Create Policies Meeting PS2 Standards

 Company Code of Conduct Policy Statements

## Objective of this Step

So far you've built your Code of Conduct based on PS2 and formed a Team to help put it in practice. How will the Team get started? The first step is to set the Company policies. Policies are the rules. They tell everyone what is allowed and what is not allowed. You need to write them down and make them understood.



## Instructions for Use of Tools

### *Company Code of Conduct Policy Statements*



Basically, your labor standards performance policies are going to flow directly from PS2. You'll need to clearly and simply state your policy with respect to each element of PS2. It does not have to be long and technical like a legal document. You can simply paraphrase the guiding principles of PS2 and customize the language for your Company.

Use the following toolkit item to get you started: [Company Code of Conduct Policy Statements](#)

## Company Code of Conduct Policy Statements

The following are the guiding principles which should be reflected in your Company's written policies with respect to PS2. You should modify the statement according to your Company's organizational structure.

### Human Resources Policy & Working Relationship

- Our Company will have documented policies and procedures related to our performance related to PS2 and our Code of Conduct.
- We will inform workers of their rights under PS2, national labor and employment law.
- We will make all policies clear and understandable to all workers.

### Working Conditions and Terms of Employment

- If there is a collective bargaining agreement, our Company will respect its terms.
- We will provide reasonable working conditions and terms of employment, at a minimum complying with the national labor law.

### Workers' Organizations

- Our company will comply with national law that recognizes workers' rights to form and to join workers' organizations.
- If national law restricts the right to organize, we will enable the means for workers to bargain collectively and to organize.
- If national law restricts workers' organizations, we will establish an alternative way for workers to file grievances.
- We will not interfere with or discriminate against workers who choose to organize.
- Worker representatives will be given access to management.
- Worker organizations are expected to fairly represent the workforce.

### Non-Discrimination and Equal Opportunity

- Our Company will hire, promote and compensate workers solely based on their ability to do the job.
- All workers will be given equal access to training, tools and opportunities for advancement.
- We will ensure that all workers will be free from harassment by management or other workers.
- Positive discrimination may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities.

## Company Code of Conduct Policy Statements

The following are the guiding principles which should be reflected in your Company's written policies with respect to PS2. You should modify the statement according to your Company's organizational structure.

### Retrenchment

- Our Company will develop and implement a plan to mitigate the adverse impact of retrenchment if we anticipate a large number of layoffs.
- The plan will incorporate non-discrimination principles and include the input of workers, their organizations, where appropriate, the government.

### Grievance Mechanism:

- Our Company will establish a transparent process for workers to express concerns and file grievances, including anonymous complaints.
- We will ensure that there will be no retaliation or discrimination against those that express grievances.
- Management will treat the grievances seriously and take prompt, appropriate action.
- Any grievance mechanism will not replace other channels as defined by law or collective bargaining agreements.

### Child Labor

- Our Company will not employ workers under the minimum age for employment as defined by national law.
- Workers between the minimum age and 18 will not be employed in dangerous work or work that interferes with their education or development.

### Forced Labor

- Our company will not employ forced labor.
- We will respect workers' rights to retain their personal documents and money.
- We will respect workers' rights to leave the workplace after work.
- We will respect workers' rights to resign.

### Occupational Health and Safety

- Our Company will ensure that workers are not unreasonably endangered at work or in dormitories.



## Company Code of Conduct Policy Statements

The following are the guiding principles which should be reflected in your Company's written policies with respect to PS2. You should modify the statement according to your Company's organizational structure.

- We will take all necessary precautions to mitigate work-related risks and develop an emergency prevention and response system.
- Workers will be provided personal protective equipment and will be trained in its use at our Company's expense.
- We will document and report accidents, diseases and incidents.

### Non-Employee Workers


- Our Company will extend our labor standards performance policies and procedures to our contractors hired directly or through employment agencies.
- We will not use contracting as a means of circumventing labor rights and laws.
- We will monitor contractors, employment and recruitment agencies to verify their adherence to labor rights and laws.

### Supply Chain

- Our Company will extend the principles of PS2 as feasible to our suppliers.
- We will notify our suppliers of the PS2 requirements concerning child labor and forced labor and minimize its presence.
- We will monitor our suppliers' performance related to the PS2 requirements concerning child labor and forced labor.



# Create Procedures Based on Policies

 Company Code of Conduct Procedure Statements

## Objective of this Step

You've created your Code of Conduct Policy Statements – the rules you want your Company to follow. Now you need to say what you are going to do to ensure the rules are followed. And what you will do when the rules are broken. You need a “how-to” guide to following the rules – you need to create your Code of Conduct Procedure Statements.



## Instructions for Use of Tools

### *Company Code of Conduct Procedure Statements*



Procedures need to be clearly written. They need to explain step-by-step how everyone will implement the principles of PS2 and your Code of Conduct. They need to be clearly communicated to workers at all levels of your company - in all of the languages spoken in your company.

Your Code of Conduct Procedures should not be an isolated set of activities layered on to your existing business procedures. They should be integrated in your day-to-day operations.

The toolkit item ***Company Code of Conduct Procedure Statements*** outlines the labor standards performance procedures you'll want to incorporate into your operating procedures – you should integrate them with your existing HR and other procedures and customize as appropriate.

## PS2 Procedure - Human Resources Policy and Working Relationship

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Human Resources Policy and Working Relationship. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our Company will have documented policies and procedures related to our performance related to PS2 and our Code of Conduct.
- We will inform workers of their rights under PS2, national labor and employment law.
- We will make all policies clear and understandable to all workers.

### **Guidelines for Operation:**

1. Our Company will adopt and implement a written policy and procedure to address each element of PS2.
2. Our Internal Labor Standards Performance Team will provide workers with printed materials and regular training, both orientation and follow-up, that clearly explains their rights under PS2 and national labor and employment law. The materials will clearly explain all related policies and procedures in all relevant languages at a reading level that is understandable. The Human Resources department will keep a log of all trainings and copies of all materials.
3. Our Human Resources Department will provide all workers, including contracted workers with detailed written explanations of their working conditions and employment terms, including wages and benefits. Our Internal Labor Standards Performance Team will further communicate the conditions and terms to all workers through regular training, both orientation and follow-up.
4. The General Manager will send a written communication to each worker informing them of our labor policies and procedures, and instructing full cooperation with the Internal Labor Standards Performance Team.
5. Our Company's Internal Labor Standards Performance Team Leader is responsible for organizing and communicating all policies and procedures related to PS2. He or she will also supervise the management review and any updates to all policies and procedures.
6. All policies and procedures will identify the responsible party and record the last date reviewed and modified.
7. Our Company will inform workers that they may elect Worker Representative(s) to facilitate communication with senior management in matters relating to PS2 and participate in related management reviews.

## PS2 Procedure - Human Resources Policy and Working Relationship

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Human Resources Policy and Working Relationship. You should modify it according to your Company's organizational structure.

- 8.** Our Internal Labor Standards Performance Team will conduct an annual review of all policies and procedures related to PS2. The Internal Labor Standards Performance Team Leader is responsible for monitoring changes in national labor law and PS2 and reviewing relevant policies and procedures in a timely manner in light of these changes.
- 9.** Our Internal Labor Standards Performance Team will conduct a management review every six months. If the workers have elected Worker Representative(s), the Representative(s) will also participate in the review. Detailed minutes from the review will be recorded, including any decisions made. The minutes will be made available for review by request of any party.
- 10.** The Internal Labor Standards Performance Team Leader will conduct an internal audit at least once every six months, immediately prior to the management review. The audit will be conducted in accordance with our Company's Internal Labor Standards Performance Audit Guidance. The findings from the internal audit will form the basis for the agenda for the management review. At the management review the Team will discuss the audit findings, corrective actions, remediation plans, and plans for continual improvement. It will also assign the responsible party and deadline for each planned action.
- 11.** Upon request, we will provide a complete set of all policies to the requesting party. At management's discretion, it may also provide copies of its procedures.
- 12.** We will address all complaints through a documented process in accordance with our Grievance Mechanism. These procedures will be posted prominently for workers and for the public.
- 13.** The Internal Labor Standards Performance Team Leader's job description and performance evaluation will include criteria related to the implementation of management systems for continual improvement with respect to PS2 and our Company's labor policies and procedures.

## PS2 Procedure - Working Conditions and Terms of Employment

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Working Conditions and Terms of Employment. You should modify it according to your Company's organizational structure.

### Guiding Principles

- If there is a collective bargaining agreement, our Company will respect its terms.
- We will provide reasonable working conditions and terms of employment, at a minimum complying with the national labor law.

### Guidelines for Operation

1. Our Company will ensure that wages paid for a standard working week shall always meet national law or industry minimum standards, or defined by a collective bargaining agreement if applicable.
2. Our Internal Labor Standards Performance Team and Human Resources Department will conduct research to collect data on wages and market conditions from national government, local and international non-governmental organizations, and through worker interviews. The Human Resources Department will calculate reasonable wages for workers based on the law and available data. It will re-calculate the wage annually, based on updated research and benchmarked with companies in the same sector.
3. The formula for calculating our Company's minimum wage and the supporting data will be documented and communicated to all workers.
4. The payroll department will provide payslips that clearly explain the number of hours worked, the wage calculation and any deductions. All information on the payslips will be in the workers' native language(s).
5. Our Company will provide all benefits in accordance with national law or defined by a collective bargaining agreement if applicable. These legal benefits and those additional benefits provided by our Company will be clearly communicated to the workers in the worker orientation and through ongoing training.
6. All applicants will be informed of the general shift system and working conditions during the application process to determine their interest and availability.
7. Workers will be provided written details of the shift system, working conditions and payment terms during their initial job training. Additional information will be provided as needed through posters, handouts, wallet cards, etc.
8. Workers will not be required to work hours beyond the national legal limit or set by a collective bargaining agreement if applicable.

## PS2 Procedure - Working Conditions and Terms of Employment

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Working Conditions and Terms of Employment. You should modify it according to your Company's organizational structure.

9. Overtime will be voluntary and fairly distributed. Each department will post a sign-up sheet for workers who wish to volunteer to work hours beyond their regular shift hours. Supervisors will contact the workers on the sign-up sheet using a rotation which will ensure that there is equal opportunity for each worker that has volunteered.
10. Supervisors will restrict the amount of overtime assigned to any worker so that the total number of hours worked does not exceed that allowed by national law in a seven day period or as defined by a collective bargaining agreement if applicable.
11. Overtime will be paid at a premium in accordance with national labor law or as defined by a collective bargaining agreement if applicable.
12. Our HR Department will communicate these overtime procedures to workers and detail the payment calculations on the employee wage slips.
13. Each worker will sign in and sign out using the automated time clock system. If the worker is absent for a reason allowable by national law or our Company policy and should receive payment for the missed time, the supervisor will review the supporting document provided by the worker and authorize payment.
14. Each worker will be allowed to view his or her record of attendance with the supervisor. The supervisor will not be authorized to amend the attendance records without recording the reason in the system. Any amendments will be noted and tracked in the system by the payroll department.
15. The payroll department will receive the timesheet for processing payroll. All timesheets will be kept on file by the Accounting Manager, for a minimum of X years in accordance with national law.
16. Payroll deductions will be limited to those allowable by national law or authorized by the worker. In the case of worker-authorized deductions, the worker must sign and submit written authorization to the Human Resources department. In the case of worker-authorized third-party deductions, our Company will require a contract between our Company and the third party. The contract will specify procedures and documentation for worker authorization, processing, and handling of complaints.
17. Workers will be paid on a weekly basis through direct deposit to the worker's bank account, cash or check.



## PS2 Procedure - Workers' Organizations

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Workers' Organizations. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our company will comply with national law that recognizes workers' rights to form and to join workers' organizations.
- If national law restricts the right to organize, we will enable the means for workers to bargain collectively and organize.
- If national law restricts workers' organizations, we will establish an alternative way for workers to file grievances.
- We will not interfere with or discriminate against workers who choose to organize.
- Worker representatives will be given access to management.
- Worker organizations are expected to fairly represent the workforce.

### **Guidelines for Operation:**

Our Company will follow all national laws recognizing workers' rights to form and to join workers organizations of their choosing without interference and to bargain collectively.

What We Will Not Do:

Our Company will not interfere with non-violent legal efforts towards worker organizing, trade union membership and collective bargaining. We will not permit such actions as:

- any acts of prejudice or retaliation against workers who engage in union and/or organizing activities; for example dismissal, transfer, relocation, demotion and denial of remuneration, social benefits and/or vocational training
- discrimination in hiring workers with a history of union and/or organizing activities
- making employment of a worker subject to the condition that she or he will not join a trade union or relinquish trade union membership
- blacklisting workers

Our Company will not influence or interfere in workers' exercise of their rights. We will not permit such actions as:

- influencing or interfering in the election of workers' representatives
- supporting workers' organizations by financial or other means in order to influence
- favoring or supporting one workers' organization over another
- favoring or letting the existence of elected representatives undermine the position of any trade unions at the Company

## PS2 Procedure - Workers' Organizations

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Workers' Organizations. You should modify it according to your Company's organizational structure.

### What We Will Do:

We will enable an atmosphere of constructive social dialog. The ILO defines "social dialog" as including all types of negotiation, consultation and exchange of information between, or among, representatives of governments, employers and workers on issues of common interest. We will:

- Engage constructively with worker representatives and organizations
- Demonstrate a neutral approach to trade unions and engage in open and constructive social dialog
- Ensure there are no references or questions about past union activity in job applications and interviews
- Provide each individual worker, and henceforth each newly-recruited worker, with a letter guaranteeing workers' rights to form and join workers' organizations of their choosing
- Include accurate information about the right to form and join workers' organizations of their choosing, to workers in training upon job commencement, training on PS2, and ongoing and subsequent training regarding workers' rights and obligations
- Provide training to middle-level management and supervisors about workers' rights to form and join workers' organizations of their choosing, and how to respect these rights
- Where a representative union in our Company's sector requests it, sign an agreement between company and union on access to unorganized workers for the purpose of communication
- (If our Company has a union) sign a Procedural Agreement for the operation of relations between our Company and the union.
- (If our Company has a union) consult with the union as we develop our disciplinary procedure.
- (If our Company has a union) consult with the union as we develop our grievance mechanism.

## PS2 Procedure - Non-Discrimination and Equal Opportunity

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Non-Discrimination and Equal Opportunity. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our Company will hire, promote and compensate workers solely based on their ability to do the job.
- All workers will be given equal access to training, tools and opportunities for advancement.
- We will ensure that all workers will be free from harassment by management or other workers.
- Positive discrimination may be allowable in cases where it protects disadvantaged or excluded groups and provides them special opportunities.

### Guidelines for Operation:

1. When hiring any worker, our Human Resources Department will keep the original application and a photocopy of the original identification documents in the applicant's file. If the applicant is hired, this will be transferred to his or her personnel file. Whether or not the applicant is hired, the application will be kept on file for a minimum of 2 years.
2. At each quarterly management review, our Internal Labor Standards Performance Team will conduct a spot check of all application files processed during the previous quarter, to check for evidence of discrimination.
3. All application documents will have a cover sheet explaining our Company's Non-Discrimination and Equal Opportunity policy. The Human Resources Department staff person accepting an application will verbally explain the policy and go over the points on the cover sheet with the applicant.
4. Management will promote a culture respect for women and minorities. There will be zero-tolerance for mistreatment and degrading attitudes or behavior. Incidents of harassment will be dealt with immediately, through the application of the proper documented disciplinary action as outlined in our Company's Disciplinary Policy & Procedure. Management will create and use specific written documentation to warn workers of disciplinary problems detailing the infraction involved and stating that similar violations in the future could result in further discipline, up to and including termination. For example, if a worker violates the policies related to harassment, they will receive a written warning on the first offense and subsequent discipline follows procedures outlined in the policy.
5. Individuals who believe they have experienced discrimination at the workplace should file their complaints through our Company's Grievance Mechanism.

## PS2 Procedure - Non-Discrimination and Equal Opportunity

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Non-Discrimination and Equal Opportunity. You should modify it according to your Company's organizational structure.

6. At each quarterly management review, our Internal Labor Standards Performance Team will review the workplace demographics by department in comparison with the application and personnel promotion files, review any complaints records, and interview workers, in order to check for evidence of discrimination.
7. We will include accurate information about our Non-Discrimination and Equal Opportunity policy, to workers in training upon job commencement, training on PS2, and ongoing and subsequent training regarding workers' rights and obligations.
8. We will provide training to middle-level management and supervisors, about our Non-Discrimination and Equal Opportunity policy and about how to enable a respectful and constructive workplace atmosphere.

## PS2 Procedure - Retrenchment

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Retrenchment. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our company will analyze all alternatives to avoid or minimize retrenchment.
- Our Company will develop and implement a plan to mitigate the adverse impact of retrenchment if we anticipate a large number of layoffs.
- The plan will incorporate non-discrimination principles and include the input of workers, their organizations and, where appropriate, the government.

### Guidelines for Operation

Our Company will take all necessary precautions to avoid retrenchments where possible. If retrenchment is inevitable, we will conduct them in a manner consistent with international labor standards (including PS2, ILO Convention 158), national labor law and recommendations of multi-stakeholder consultations such as the MFA Forum's Guidelines for Managing Responsible Transition. Accordingly we will take care to adhere to the following:

In general retrenchment situations:

1. Department managers will give advanced notice of specific job redundancies and the rationale or criteria for redundancies to individual workers, to worker representatives where they exist, and to the relevant governmental authorities. Where possible this information will be provided prior to the termination decision, to allow for meaningful consultations.
2. Where no alternative employment can be secured for the displaced workers, we will ensure that workers are paid their entitlements in retrenchment according to the law.
3. We will ensure that all severance pay or other legal benefits will be paid fairly and promptly, without undue conditions such as requiring workers to sign any declaration of good health, waivers or releases of other rights.
4. We will ensure that pregnant workers and workers with significant medical conditions receive adequate compensation commensurate with their situation.
5. We will resolve any outstanding disputes with workers involving monetary entitlements.

In significant retrenchment situations:

6. Our Internal Labor Standards Performance Team and senior management will develop and clearly communicate a retrenchment plan, in consultation with worker representatives and workers' organizations if present. The plan will include workers' legal rights and payments owed, and if possible address the adverse impacts on workers and their community. The plan should be clearly communicated and posted for easy reference, with avenues for workers to ask questions and seek clarifications.
7. We will consider all possible ways to avoid retrenchment/closure, with the full involvement of, and negotiation with, worker representatives and workers' organizations.

## PS2 Procedure - Retrenchment

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Retrenchment. You should modify it according to your Company's organizational structure.

- 8.** To ensure the closure is being carried out in accordance with our policy and plan, the Internal Labor Standards Performance Team and senior management will establish specific channels for employees to confidentially express any concerns or problems they may be experiencing, especially around legally-owed payments.
- 9.** Our Health and Safety Management Representative will ensure that all workers have access to prompt and professional assessment of their health at the end of their employment through appropriate national medical facilities to determine whether there are work related health problems, injuries or disabilities.
- 10.** As part of our efforts to analyze alternatives to avoid or minimize retrenchment, our Human Resources Department will coordinate with our Company's other facilities to give retrenched workers the opportunity to transfer to these facilities, at a comparable wage to their prior employment, if possible. As feasible we will extend eligibility for skills training and entrepreneurship development opportunities to family members.
- 11.** Where alternative employment can not be secured, our Internal Labor Standards Performance Team and Human Resources Department will provide active assistance for workers in searching for new employment and training – for example promote workers' access to job banks and retraining programs.
- 12.** The retrenchment plan will include a timeframe for keeping workers on the payroll, even after they have become redundant, for a transitional period of training and job search assistance.
- 13.** When overseas migrant workers are retrenched, we will ensure that these workers enjoy equality of treatment with other workers and that every effort is made to secure alternative employment within the country. If this is not possible, then we will ensure the workers are repatriated with all costs covered, including recruitment fees.
- 14.** Our Internal Labor Standards Performance Team and Human Resources Department will arrange for free financial counseling for workers to prepare them for loss of income and livelihood, and assist them in planning how to use their severance payment.



## PS2 Procedure - Child Labor

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Child Labor. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our Company will not employ workers under the minimum age for employment as defined by national law and ILO, whichever is stricter.
- Workers between the minimum age and 18 will not be employed in dangerous work or work that interferes with their education or development.

### **Guidelines for Operation:**

1. When hiring any worker, our Human Resources Department will verify the age of the applicant in the following ways:
  - a. The application will ask the applicant's age and require the signatures of both the applicant and the Human Resources Department staff person verifying the information.
  - b. The applicant will be required to submit an original of one of the following documents to verify the age: (1) national identification card, (2) birth certificate. If there is any doubt of the validity of the above, the applicant will be required to submit additional records to verify age, such as medical or school records.
  - c. A photocopy of the original identification document will be kept in the applicant's file. If the applicant is hired, this will be transferred to his or her personnel file. Whether or not the applicant is hired, the application will be kept on file for a minimum of 2 years.
2. In the event that our Company inadvertently hires a child under national age minimum, it will adhere to the following remediation procedure:
  - a. The child will be immediately removed from employment.
  - b. Our Company will pay the child an equivalent salary to attend school until they reach the national minimum age for employment.
  - c. In addition, we will specifically seek to offer the child's parents employment at our Company.
3. We will provide training to middle-level management and supervisors, about our Child Labor policy, how to avoid hiring underage workers and how to enable a healthy and safe working environment for legally employed young workers.

## PS2 Procedure - Forced Labor

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Forced Labor. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our company will not employ forced labor.
- We will respect workers' rights to retain their personal documents and money.
- We will respect workers' rights to leave the workplace after work.
- We will respect workers' rights to resign.

### Guidelines for Operation:

1. Our Company will not retain any worker's original identification documents upon commencing employment, including but not limited to: national IDs, passports, birth certificates, work permits, residence permits, travel documents, or any other that might limit the worker's legal status, freedom to travel, or ability to leave the job. If such documents are required for the workers' file, our Human Resources Department shall ask for copies, never originals. Originals will only be used to compare with copies for authenticity purposes.
2. Our Company will provide each worker with an employment contract between our Company and the worker which clearly defines the worker's right to resign, and the terms and conditions of their payment.
3. Our Company will pay each worker directly and will not withhold wages for broker fees. Our Company will verify with each worker that he or she did not have to pay a broker fee upon hiring.
4. If Our Company uses a broker to recruit workers, our Company will pay the recruitment fee directly to the broker.
5. Workers seeking to terminate their employment must submit written notice to our Human Resources Department giving X days notice in accordance with national labor law requirements. Our Human Resources Department must provide written confirmation of receipt of the termination notice to the worker within X days, in accordance with national labor law requirements. Our Company will conduct and record an exit interview with the worker to determine the reason for resignation.
6. If our Company uses employment agencies, it will provide the agencies with copies of the our Company's Code of Conduct and PS2 and request evidence of compliance with the policy.
7. On the first day of orientation, and before commencement of the job, the worker will be provided with personal protective equipment and necessary tools at no cost to the worker.
8. Workers that lose or damage their personal protective equipment or necessary tools shall report the incident to their line supervisor. The supervisor will document the loss and replace the item within X days. The Department Manager will document the loss in the worker's personnel file and replace the items within X days. If the issue is recurrent, the worker may be charged for the replacement items at cost.

## PS2 Procedure - Forced Labor

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Forced Labor. You should modify it according to your Company's organizational structure.

9. We will include information about our Company's policy against forced labor, to workers in training upon job commencement, training on PS2, and ongoing and subsequent training regarding workers' rights and obligations
10. We will provide training to middle-level management and supervisors, about our Company's policy against forced labor and how they to ensure a workplace free of involuntary labor under threat of force or penalty.

## PS2 Procedure - Occupational Health and Safety

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Occupational Health and Safety. You should modify it according to your Company's organizational structure.

### Guiding Principles

- Our company will take all reasonable precaution actions to protect the health and safety of workers
- We will ensure that workers are not exposed to unnecessary or unreasonable risks at the workplace, dormitories and transport systems
- We will implement an OHS management system consistent with international standards such as OHSAS 18001 and ILO-OSH 2001
- We will systematically assess all of the OHS risks, conducting a comprehensive job safety or job hazard analyses.
- We will implement preventive and protective measures according to the order of priority: Eliminating the hazard, Controlling the hazard at its source, Minimizing the hazard, Providing appropriate personal protective equipment
- We will document, investigate and report all accidents and occupational diseases.
- We will investigate and identify the root causes of all accidents with working time loss, and implement appropriate corrective actions

### Guidelines for Operation:

1. Our Company will appoint a senior management representative who will be accountable for implementation of our OHS policy and communicating to all employees our Company's commitment with OHS goals.
2. Our Company will structure the OHS department consistent with the size and risks of the operations and designate an OHS Team of specialists assigned exclusively for this job. Our OHS Team will be responsible for: the OHS risk assessment and risk management; risk monitoring; worker's exposure monitoring; workers health monitoring; developing management programs and corrective action plans; auditing; workplace observation and inspection; accidents investigation and accidents monitoring; OHS performance indicators reporting and OHS objective and goals.
3. Our OHS team will regularly and systematically assess all of the OHS risks, conducting a comprehensive job safety or job hazard analysis. The results of these analyses will be prioritized as part of an action plan based on the likelihood and severity of the consequence of exposure to the identified hazards.
4. Our Company will also form a Health and Safety Committee with workers participation at all different operational sites.
5. Each department and work area will be accountable for the implementation of the OHS policy, safety procedures, management programs and corrective plans, monitoring, reporting and results.

## PS2 Procedure - Occupational Health and Safety

The following are guidelines for what to include as you construct your Company's procedure for following the PS2 principles for Occupational Health and Safety. You should modify it according to your Company's organizational structure.

- 6.** Each department and work area where the workers are exposed to hazardous agents (noise, heat, cold, vibration, chemicals, ionizing agents, biological agents etc.) will monitor the workers' exposure and health conditions related to these specific agents. Proper protection will be provided by our Company expenses.
- 7.** All operational procedures will include some guidance on the safety ways to do the job and procedures for emergency situations. We will also develop special procedures for hazardous activities such as: working in confined spaces; working in high; transport, handling and storage of hazardous materials; working at electrical facilities; and hazardous work permitting, tagging, blocking and locking systems.
- 8.** Our Internal Labor Standards Performance Team and OHS Team will coordinate to communicate to the workers all the risks to which they are exposed, post signage in all the hazardous areas and label hazardous equipments.
- 9.** Our Internal Labor Standards Performance Team and OHS Team will provide a basic occupational training program and specialty courses, as needed, to ensure that workers are oriented to the specific hazards of individual work assignments. Training will be provided to management, supervisors, workers, and occasional visitors to areas of risks and hazards.
- 10.** Our Internal Labor Standards Performance Team and OHS Team will conduct regular facility walk-throughs to ensure that all risk are identified and the proper prevention measures are in place including, but not limited to the following :
  - a.** Our Company will provide clean, healthy and good sanitary conditions at workplace, accommodations, transport system, eating area, lavatories and showers. We will provide potable and fresh water to all workers.
  - b.** Qualified first-aid will be available at all times. Appropriately equipped first-aid stations will be easily accessible throughout the place of work. Where the scale of work or the type of activity being carried out so requires, dedicated and appropriately equipped first aid room(s) will be provided.
  - c.** All workstations will have eye-wash stations and/or emergency showers where immediate flushing with water is the recommended first-aid response.
  - d.** Each department and work area will have an updated emergency response plan and a trained emergency response brigade. Emergency response simulations will be conducted every year.
  - e.** All sites will have the necessary fire detectors, alarm systems, fire-fighting equipment, means of egress emergency signs and illumination. The equipment will be maintained in good working order and be readily accessible. It should be adequate for the dimensions and use of the premises, equipment installed, physical and chemical properties of substances present, and the maximum number of people present.



# Communicate Internally

Letter to Workers

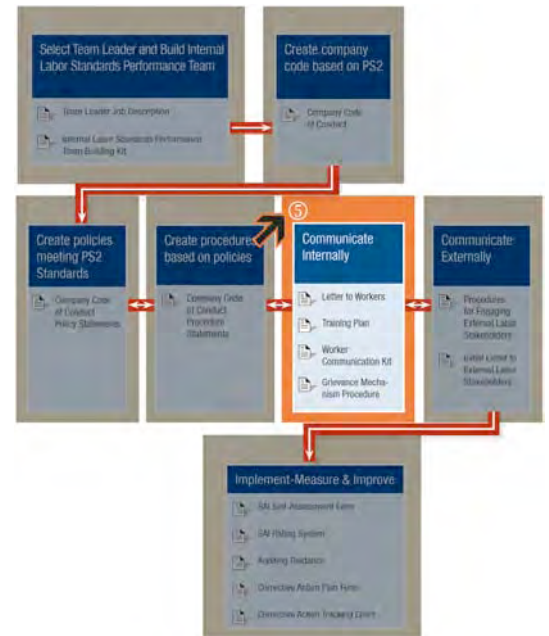
Worker Communication Kit

Training Plan

Grievance Mechanism Procedure

## Objective of this Step

At this point, you've made the effort to think through your policies and procedures. You've gotten input from all areas of your company through your internal compliance team. You are through with the planning. Now is the time to take action. Remember it is people that make the system work and come to life. People that are trained. People that are passionate. People that are committed to improving. Effective communications is the key to mobilizing people to take action.



## Instructions for Use of Tools

### Letter to Workers



Improving labor performance will probably require some change in the behavior of your company and your workers. There are different strategies and different techniques for changing behavior, but it seems that the experts agree that to create lasting change, senior management must lead the effort. You need to send a clear message to all employees at, all levels, that this is a long-term commitment by your company. The Letter to Workers is the official announcement that your company is launching this program Ideally it should come from the CEO. Use the toolkit item **Letter to Workers** as a sample to get started.

### Training Plan




Training is the heart of capacity building. The overall goal of internal training is to create a common understanding and a common language about labor and working conditions performance. The specifics of the training and the level of detail vary from department to department. But the message must be clear and consistent. Labor standards training should be part of the training provided to all new workers. It also needs to be part of the ongoing training program. The Training Plan divides the training by department. Refer back to the Training Requirements section for more explanation. Use the toolkit item **Training Plan** as a template to get started.






# Communicate Internally

 Letter to Workers

 Worker Communication Kit

 Training Plan

 Grievance Mechanism Procedure

## *Worker Communication Kit*



Establishing an effective worker-manager dialogue is a critical step in involving workers in your company and in starting to reap the benefits of their involvement. Communications should be clear, simple, and easily translated into multiple languages. It is important for workers to understand both their rights and their responsibilities. Take a look at the Worker Involvement & Communications section for ideas and tips on this important topic.

We have provided you with sample documents to get you started. Included are the [Worker Briefing](#) and [Worker Survey](#).

The purpose of the [Worker Briefing](#) is to introduce the program to the workers. It builds on the introduction provided during the worker selection of the Internal Labor Standards Performance team. It should be easy to read and understand by all workers. It is helpful to include pictures or diagrams. We suggest starting with a simple format like the one included here, and working with your worker representatives to customize it for your company.

The [Worker Survey](#) is a critical part of the overall communication strategy. It is useful to provide you with a perspective on how workers feel about the labor conditions. You should have the worker representatives help you customize the language and questions so that they are understandable and relevant to your company. Have the worker representatives help you distribute the survey and explain to the workers that the answers are confidential. Best practices include allowing the workers to take the Survey home to complete overnight and providing them with a locked box for inserting their responses. Consider offering workers that complete the survey a small token of appreciation (example, a free soda at the canteen). It is important that you give feedback to the workers on the results of the survey and the actions the company will take in response.

## *Grievance Mechanism Procedure*



It is critical for workers to have a structured and confidential mechanism to report their compliance concerns or grievances without fear of retaliation. You need a system in place that workers trust and that allows you to respond appropriately and effectively. This should be addressed in a written procedure that is clearly communicated to all management and workers. Use the following toolkit item to get you started: [Grievance Mechanism Procedure](#)

 Letter to Workers

This is a letter to all workers in the company.

 Your Company Letterhead

### To All Employees of Company:

Our vision for Company is to become one of the most respected and admired companies in our industry. We aspire to conduct ourselves in an ethical, legal and socially responsible manner befitting a world-class company.

Environmental, social and labor issues, are a growing concern to investors, consumers and to all of us as people. Our Company Code of Conduct is the document that conveys our most deeply held principles. One of the most important aspects of our Code addresses our labor and working conditions.

We are initiating a program to measure and improve our performance related to labor and working conditions. We will make every effort to embed the principles of our Corporate Code in all of our day-to-day business activities. I ask for your full cooperation and participation in this important initiative.

Not only is it an integral part of our overall business strategy, but it is also the right thing to do. It is the right thing for our customers, our suppliers, our shareholders, our host governments, our communities and for you, our most valuable asset.

We are launching this program to benefit all of us. When all of us work well together, we all prosper. Our goal is to engage all of you in our work towards what we hope will be a common goal of continually improving our labor and working conditions.

Our Corporate Code of Conduct is the most fundamental document of our program. It addresses the rights and responsibilities we have as employees. Each of us needs to read this and take it to heart. Our Corporate Code of Conduct is a public document. We will make it as widely available as possible, in multiple languages and with continual updates.

[person's name and title] is in charge of this effort. Each of you have a direct line of communication with [person] for any suggestions or concerns. Of course, you are always free to contact me with critical issues.

I thank you for your efforts in making this Code of Conduct a reality and for your continued dedication to our success.

Signature

Name

Title

# Worker Training Plan for Labor Standards Performance

Below is a training plan for workers by department. These are the topics that should be covered and continually refreshed over the course of the year. You can shift the sequence and expand upon the topics as needed. This is the suggested minimum training for all workers by department. The Internal Labor Standards Performance Team should receive additional training.

BY DEPARTMENT	MODULE 1			MODULE 2			MODULE 3			MODULE 4		
<b>Human Resources and Labor/Environmental Performance</b>	Introduction to Labor Standards Performance and Management Systems			Basic Auditing Techniques and Tools			Linking Human Resource Managements Systems to Labor Performance			Complaint Management & Resolution; Worker Communications		
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS
<b>Senior Management</b>	Introduction to Labor Standards Performance and Management Systems			Reputational Risk and Strategic Communications			Worker Involvement and its Benefit			Integrating Key Performance Indicators for Labor and Business		
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS
<b>Research &amp; Development / Merchandizing</b>	Introduction to Labor Standards Performance and Management Systems			Product Cycle and its Impact on Labor Standards Performance			Marketing and Communication Benefits					
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS
<b>Sourcing</b>	Introduction to Labor Standards Performance and Management Systems			Integrating Purchasing Practices and Labor Performance			Using the Supplier Rating System			Supplier Development Outreach Program		
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS
<b>Production &amp; Maintenance</b>	Introduction to Labor Standards Performance and Management Systems			Production Benefits from Improving Labor Standards Performance			Linking Human Resource Managements Systems to Labor Performance			Complaint Management & Resolution; Worker Communications		
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS
<b>Workers (Non-management)</b>	Introduction to Labor Standards Performance and Management Systems			Grievance Mechanisms			Worker-Manager Communications			Production Benefits from Improving Labor Standards Performance		
	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS	DURATION	TRAINER	STATUS

## Worker Communication Kit: Worker Briefing

Instruction: The briefing introduces the labor standards performance program to the workers. Have your worker representatives help you modify the briefing for your company.

### To All Workers

We want you to know about a very important program at our company – our Labor Standards Performance Improvement Program. Its aim is to improve labor and working conditions at our company and those with whom we do business. Just as we work to continually improve our company's business, we also want to continually improve our workers' well-being and satisfaction.

#### What is the Program based on?

The Program is based on an international labor standard called PS2 that was created by the World Bank Group. PS2 requires companies to meet guidelines related to labor and working conditions. Attached is a handout that explains PS2 in detail. We will also put up posters around the facility.

#### Who's responsible for this program?

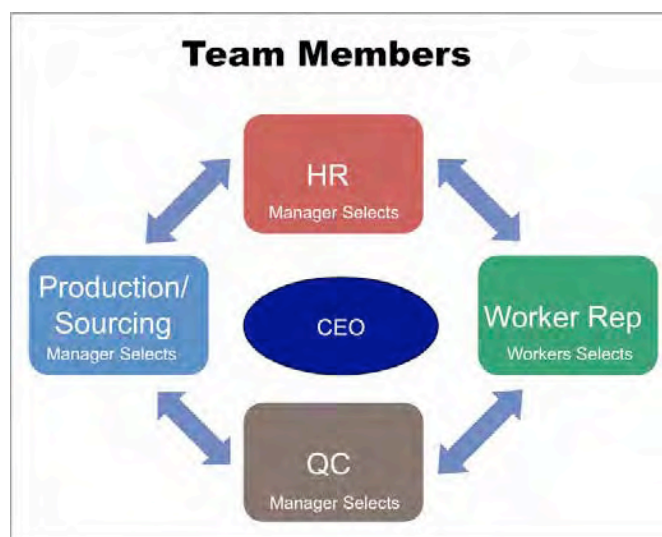
The Internal Labor Standards Performance Team manages this program. The Team has both management and worker representatives.

#### What does the Team do?

- The Team meets regularly to discuss issues related to labor and working conditions.
- The Team writes and implements plans for improvement.
- The Team coordinates communications between departments and between management and workers.
- The Team evaluates progress and makes improvements based on suggestions from all workers.

#### How does the Team interact with other worker organizations here?

- The Team does not take the place of other groups like your union or other worker associations.
- The Team will never be involved in any contract negotiations or collective representation of workers, as this is not the function of the Team.
- Your union representative may be a member on the Team, though he or she will have a different role here.
- Talk to your union or worker representatives if you have any questions about the formation and role of the Team.



## Worker Communication Kit: Worker Briefing

Instruction: The briefing introduces the labor standards performance program to the workers. Have your worker representatives help you modify the briefing for your company.

It is important for you to understand your rights and your responsibilities in this program. Together we can make this a better place for all of us to work.

### **What can you expect from the Program?**

- Better ways for you to communicate with management
- Better communications from management to you
- Ongoing improvement in labor and working conditions
- Constructive ways for you and managers to identify workplace problems and jointly develop solutions
- A confidential grievance mechanism for you to raise reasonable workplace concerns

### **What can you do to help?**

- Be informed – look over the attached materials and talk to your worker representatives
- Share your ideas on ways to improve
- Voice your concerns through constructive channels

## Worker Communication Kit: Worker Survey

The following is a sample Worker Survey to get feedback from workers. You should modify it for your organization and make it easy for workers to understand in their native language.

**Worker Shift #:** \_\_\_\_\_

### Why do we want your ideas?

To become a better place to work, we need to know what can be improved. We want your opinion about what can be improved in the company. You can put down what you really think because your name will not be on this form. Your opinions will help us create a better workplace for you.

First, which one of these issues do you think the company can improve on:

Noise	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Dust	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Light	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Temperature	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Cleanliness	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Fire safety	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Machine safety	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Chemicals safety	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Training	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Food	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Potable Water	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Transport	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Restrooms	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Salary Calculation	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Grievance Mechanism	<input type="checkbox"/> Can improve a lot	<input type="checkbox"/> Can improve a little	<input type="checkbox"/> Already very good
Other areas	please specify:		

**Where do you think the most important improvement can be made? Do you have any ideas on how to improve those areas?**

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## Worker Communication Kit: Worker Survey

The following is a sample Worker Survey to get feedback from workers. You should modify it for your organization and make it easy for workers to understand in their native language.

These are some questions that will help your company understand how things are working for you, and perhaps where they can be improved. Please answer honestly. This will help the company understand your perspective.

- Do you know people who left the company? What do you think the main reasons for leaving are (wages? too many hours? Other reasons?)

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- If you have concerns about work, whom do you speak to? Do you feel that the company could have a better way of listening to workers' concerns and addressing them? How?

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- Do you think all workers are treated the same? Are men and women treated differently? Can the company look after pregnant women better? How?

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- What do you think are the three main things that the company can change to make you happier to go to work?

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- What do you think are the best ways for workers to help the company become a better place to work for (regular meetings to talk about issues? Suggestion box? Other ideas?)

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## Grievance Mechanism Procedure

The following is an example procedure for your Company grievance mechanism. You should modify it according to your Company's organizational structure.

### Guiding Principles based on our Code of Conduct:

- Our Company will establish a transparent process for workers to express concerns and file grievances, including anonymous complaints.
- We will ensure that there will be no retaliation or discrimination against those that express grievances.
- Management will treat the grievances seriously and take prompt, appropriate action.
- Any grievance mechanism will not replace other channels as defined by law or collective bargaining agreements.
- Communications, communications, communications:
  - Good worker-manager communications can enable workers to raise concerns before they become a serious complaint.
  - Explanations of responses to complaints, even if only to alert workers to a delay in the process, are key to ensuring workers understand their complaints are respected and taken seriously.

### **General Information**

Any grievance or dispute which may arise from a worker or worker organization shall be subject to the following Procedure.

All individual complaints and grievances shall be initiated at Step 1 and shall, if necessary, proceed Step-by-Step to Step 6 where the resolution proposed shall be final and binding.

However, every effort will be made by both management and workers to resolve complaints, grievances and disputes at the earliest possible opportunity and with the minimum opportunity for tension or conflict.

Both management and workers should seek to maintain a positive working environment involving regular, two-way communication, consultation, dialog and bargaining. The Procedure should be used responsibly and that the full set of procedural steps should be needed very rarely.

Issues will inevitably arise from time to time, but since disputes are potentially harmful to the company, its workers, supervisors and managers at every level, all parties will be expected to resolve all but the most complex difficulties without recourse to Steps 5 and 6 of this Procedure.

The worker organization filing the grievance or representing the worker filing the grievance shall have the right to be notified and be present at all steps of the Procedure.

Collective grievances and disputes will be handled in the same Step-by-Step approach as that for individual complaints and grievances but shall begin at Step 2.

## Grievance Mechanism Procedure

The following is an example procedure for your Company grievance mechanism. You should modify it according to your Company's organizational structure.

Every effort should be made to settle the issue at each Stage and until this procedure has been completed there shall be no threats of 'go-slows', partial or general stoppages of work or other illegal action or lock-out.

### **Procedure**

#### Step 1:

The worker should present the complaint or grievance verbally to the most immediate supervisor who has the authority to make adjustments in the matter, within 14 days of the alleged grievance or knowledge. The company will provide each supervisor with a bank log for recording all complaints presented and the action taken. The company will also provide clear procedures and channels for workers to file grievances anonymously and file grievances against their direct supervisor if he/she is the problem. See below for further clarification.

Workers also need a confidential avenue for filing complaints and for requesting that a case be handled confidentially. Although it is important for workers to understand there are transparent procedures for management to review and respond to complaints, the process should not be overly bureaucratic.

#### Step 2:

If a satisfactory settlement is not reached in Step 1 within three days, or if the worker fears making the complaint or grievance directly to the most immediate supervisor, then the worker representative, the trade union or other worker organization, or any individual member(s) of such organization, may present the complaint or grievance verbally to the supervisor concerned. The worker may choose to remain anonymous.

#### Step 3:

If a satisfactory settlement is not reached in Step 2 within three days following its completion, the worker or his or her chosen representative for the case may present the complaint or grievance to the Department Head.

Upon the request of said Department Head, the complaint or grievance shall be in writing and shall state the complainant(s) or grievant(s) names(s).

#### Step 4:

If a satisfactory settlement is not reached in Step 3 within five days of the date of submission of the written complaint or grievance to the Department Head, the worker or his or her chosen representative for the case may present the complaint or grievance to the Head of the Human Resources Department.

The Head of the Human Resources Department or his/her designee shall schedule a meeting to be held within fourteen days of the receipt of the complaint or grievance with the worker or his or her chosen representative, for the purpose of attempting to resolve the complaint or grievance. The worker can bring one or two peers for support during this meeting; those workers will also be covered under the non-reprisal clause.

The Head of the Human Resources Department or his/her designee shall respond in writing within seven days of the date of the meeting.

## Grievance Mechanism Procedure

The following is an example procedure for your Company grievance mechanism. You should modify it according to your Company's organizational structure.

### Step 5:

If the complaint or grievance is not resolved at Step 4, the employee or his or her chosen representative may, within 14 days after the written response from the Head of the Human Resources Department, serve written notice to the Company that he or she desires to have the complaint or grievance on the agenda of the next meeting of the Internal Labor Standards Performance Team.

At the meeting, the worker or his or her chosen representative shall present the details of the complaint or grievance and the company shall respond.

Every effort shall be made to secure a resolution in the best interests of the worker(s) and the company.

### Step 6:

If the complaint or grievance is not resolved at Step 5 and it is clear that resolution within the company is impossible, the worker or his or her chosen representative may refer the complaint or grievance to the Labor Ministry for resolution.

### Step 7:

The Internal Labor Standards Performance Team will conduct a quarterly review of all complaints and actions taken. The Team will review the complaint logs of each supervisor and Department Head to evaluate the effectiveness of the grievance procedure and resolutions.

As part of the quarterly review, the Team will follow up directly with the worker or his or her chosen representative to make sure there has been no retribution.

The Team will maintain a central record of all complaints and resolutions. The logs from each quarterly review will be added to this central record.



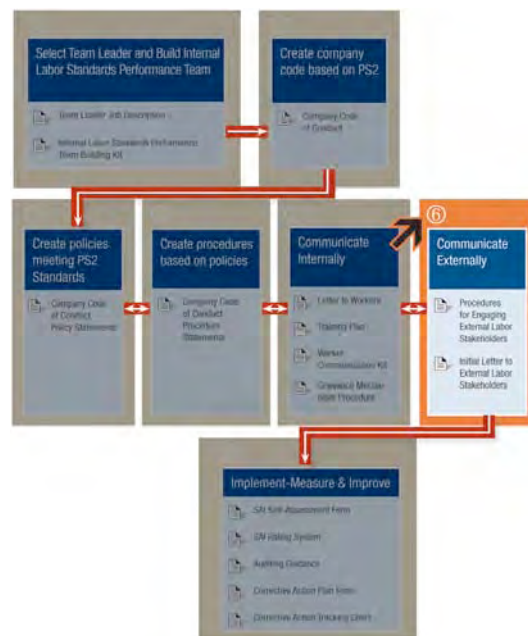
# Communicate Externally

Procedures for Engaging External Labor Stakeholders

Initial Letter to External Labor Stakeholders

## Objective of this Step

One of the keys to building and sustaining change is to involve all stakeholders in the process – employees, investors, customers, suppliers, contractors, governments, trade unions and NGOs. This does not mean that you have to engage with every single person or party that reaches out to you or that is located in your area. You need to strategically select and maintain relationships with those organizations that are most credible and can serve as constructive contributors in your program.



## Instructions for Use of Tools

### *Procedures for Engaging External Labor Stakeholders*



It may seem like a lot of work to sort through all the stakeholders in your community. Relationships also take time to develop. You can do this step-by-step and expand as you go. It can be a key function of the Internal Labor Standards Performance Team leader. First, set up a structured procedure. Use the following toolkit item to get you started: ***Procedures for Engaging External Labor Stakeholders***

### *Initial Letter to External Labor Stakeholders*



Once you have identified a shortlist of targeted organizations, the next step is to send a letter to them introducing your company and your program. Use the following toolkit item to get you started: ***Initial Letter to External Labor Stakeholders***

## Procedure for Engaging External Stakeholders

The following is an example procedure for engaging external stakeholders. Your Internal Labor Standards Performance Team leader should have the primary responsibility for managing the procedure.

### 1. Select the Organizations

- Create a stakeholder map to identify the key NGOs, trade unions and other organization for your industry and region that deal with labor and working conditions.
- Interview workers about local NGOs, trade unions and other community organizations.
- Interview community leaders such as government officials and leaders of religious institutions and schools about the reputation of local NGOs, trade unions and other community organizations.
- Survey local chambers of commerce and industry associations, as well as other companies in the area.
- Contact the international union and NGO offices or regional offices of international groups.
- Ask international groups for help in identifying the appropriate local groups.
- Contact relevant government agencies to seek information on programs and funding that may be available to assist your and/or suppliers with training and improvements to promote exports.
- Keep a centralized record of NGO, trade union, government and other contacts.
- Develop a brief profile on each group. It doesn't have to be long, but should include each group's mission, history, possible political links, methods of engagement, etc.

### 2. Cultivate Relationships

- Send a letter to selected organizations, introducing your company and program.
- Meet with the organizations that respond to your letter to discuss common issues and concerns specific to the region and industry and seek solutions that work for all parties.
- Consult with the selected organization as an integral part of your internal audit process.
- Allocate staff time to working with multi-stakeholder organizations, local consultative groups, advisory committees and/or participating in projects. This serves to establish trust and to better understand their perspective.
- Consult with national and international trade union organizations on a regular basis concerning global labor issues and developments.



## Procedure for Engaging External Stakeholders

The following is an example procedure for engaging external stakeholders. Your Internal Labor Standards Performance Team leader should have the primary responsibility for managing the procedure.

### 3. Maintain Communications

- Publicly communicate the procedure for selecting and working with organizations.
- Regularly update all stakeholders with company news, CSR reports, relevant business plans, program updates and ongoing reviews of your labor standards performance and monitoring programs. Frequent communication is crucial and should be systematized.
- Respond promptly on the issues and questions raised by all stakeholders. This should include descriptions of the steps taken to address the issues and the results of such measures.
- Seek the input of external stakeholders as you develop corrective action plans and other improvement initiatives.
- Periodically update your stakeholder map and reach out to new organizations, following the steps in Part 1 above.



## Initial Letter to External Labor Stakeholders

Copy and paste the text below to use as a starting point. Modify the text and print it on your letterhead. Attach a copy of your Code of Conduct.

### Your Company Letterhead

Dear \_\_\_\_\_

We are writing to introduce ourselves and our program to improve labor and working conditions in our company, contractors and in our supply chain. We appreciate your organization's efforts in the community, and we are contacting you to start a dialog. We consider your input valuable to our efforts to be a responsible part of the community.

We take our responsibility for the protection of workers' rights seriously, both in our company and throughout our supply chain. We recognize that our company policies, procedures and practices have a considerable impact on our workers and the communities in which they live.

We have made a conscious decision to follow the requirements of the World Bank's Performance Standard 2, which covers labor and working conditions. We have outlined these requirements in our Company Code of Conduct. This Code specifically addresses the labor standards that must be met and the management systems that must be in place in order to implement sustainable change. We are asking our contractors and suppliers to also meet the relevant PS2 requirements. Our Code of Conduct can be accessed directly from our website (Company.com) and is also attached to this correspondence.

We have identified your organization as a credible and well-regarded part of the community. We hope that you can contribute to our process of continual improvement through a sustained dialogue.

Please contact us to discuss our improvement program and your interest in speaking further with us.

Signature

Name

Title

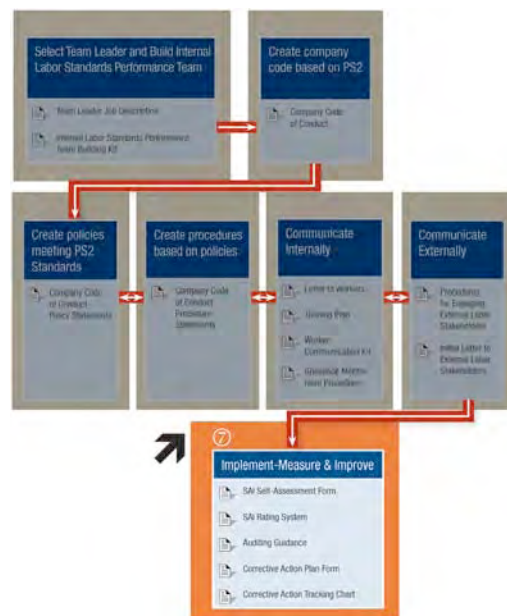


# Implement – Measure and Improve

SAI Self-Assessment Form	SAI Rating System	Auditing Guidance	Corrective Action Plan Form	Corrective Action Tracking Chart
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## Objective of this Step

With the idea of continual improvement, we are looking to create change for the better. So how are we going to do that in a simple and effective way? We are going to “Measure and Improve.” As a company, you need to measure where you are now, and set specific targets for your improvement.



## Instructions for Use of Tools

### *SAI Self-Assessment Form and Rating System*



The SAI Self-Assessment and Rating System provides you with a comprehensive way to self-analyze your Company against the requirement of PS2. You can use this to assess your internal systems and processes to monitor and drive continual improvement in your Company. It allows you to systematically measure and improve.

Use the following toolkit items: [SAI Self-Assessment Form](#), [SAI Rating System](#)

### *Auditing Guidance for Internal Labor Standards Performance Team*



In order to systematically measure your Company’s labor performance, you will need to conduct regular internal audits. This includes document review, facility tours, interviews with workers, supervisors, and meetings with management. You may decide to do an annual full audit of your Company, which could take 1-3 days depending on the size of your Company. Or, you may decide to do more frequent partial audits, looking at specific departments or functions.

Use the following toolkit item: [Auditing Guidance for Internal Labor Standards Performance Team](#)



# Implement – Measure and Improve



SAI Self-Assessment Form



SAI Rating System



Auditing Guidance



Corrective Action Plan Form



Corrective Action Tracking Chart

## *Corrective Action Plan Form*



Your journey of continual improvement will not always be smooth - you will encounter problems and you will need to find ways to address them. Think of non-conformities and corrective action requests as constructive criticism. You need to develop a corrective action plan to address each problem. The plan should seek to identify the root cause of the problem and address it at a system level rather than just as an event or symptom. You should do this in a systematic manner and record your findings and next steps with time frames for improvement.

The toolkit item [Corrective Action Plan Form](#) will help you get started.

## *Corrective Action Tracking Chart*



The most perfectly laid plans fall short without follow-through and follow-up. Once you've made your corrective action plans, you'll need to systematically track the progress – make sure non-conformities have been addressed in a timely manner, investigate unresolved issues and recurrences and follow up on opportunities for further improvement.

Here's a simple toolkit item which will help you get started; you can elaborate and develop a more comprehensive system as your program evolves: [Corrective Action Tracking Chart](#)

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

**Company:** \_\_\_\_\_

**Completed by:** \_\_\_\_\_

**Date:** \_\_\_\_\_

### Instructions:

The SAI Rating System provides you with a comprehensive way to self-analyze your Company against the requirement of PS2. You can use this Self-Assessment to assess your internal systems and processes to monitor and drive continual improvement in your Company. It allows you to systematically measure and improve.

### Completing the Self-Assessment

The Self-Assessment follows the same structure as the 9 categories of the Rating System:

- Management Systems
- Internal Labor Standards Performance Team
- Worker Involvement and Communications
- Complaint Management and Resolution
- Level and Type of Non-conformances
- Progress on Corrective Actions
- External Verification and Stakeholder Engagement
- Training & Capacity Building
- Management of Suppliers and Contractors

There are a series of questions in each section – no more than 10 in any section. You should be able to complete all of the questions in under one hour.

The questions are meant to guide you through the positive indicators in each category. Answer “Yes”, “Some/Partly” or “No” for each question. For each question there is a score associated with your answer. Add your scores for each category and circle the corresponding box on the SAI Rating System. The scores are on a scale of 1 through 5. We intentionally made the maximum possible score in each category higher than 5, so that you do not need to be perfect to achieve level 5. Our hope is that even companies that achieve a level 5 will continue their journey of continual improvement.

Many of the questions refer to specific documents that you need as part of your system. Use this as a guide to gather the documents you may have and to identify any gaps. These documents are what internal and external auditors will look for to verify the validity of your Self-Assessment. The usefulness to you and the credibility of your entire labor standards performance program are based on providing honest answers that can be verified by outside parties.

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

The goal is to gain an honest measurement of where you are now and then target areas for improvement.

### Management Systems

	Yes	Some/ partly	No	Notes
<b>1.</b> Has your Company adopted a code or generally accepted standard that conforms to PS2?				If no = 0 If partly = 0 If yes = .5
<b>2.</b> Does your Company have a written policy addressing each element of PS2?				If no = 0 If partly = .5 If yes = 1
<b>3.</b> Does your Company have written procedures for implementing each element of PS2?				If no = 0 If partly = .5 If yes = 1
<b>4.</b> Are the written policies and procedures centrally located, updated and communicated to all people in your Company?				If no = 0 If partly = .5 If yes = 1
<b>5.</b> Does senior management regularly review the policies and how effectively they are being implemented?				If no = 0 If partly = 0 If yes = .5
<b>6.</b> Does your Company have procedures in place to identify issues from all departments that could raise labor standards performance challenges and reputation risks for your Company?				If no = 0 If partly = .25 If yes = .5
<b>7.</b> Does your Company develop and implement annual improvement plans related to labor standards performance?				If no = 0 If partly = .5 If yes = 1





## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### Internal Labor Standards Performance Team

	Yes	Some/ partly	No	Notes
1. Does your Company have any staff members with time and responsibilities designated for the labor standards performance program?				If no = 0 If partly = .5 If yes = 1.5
2. Does your Company have staff members trained in the elements of labor standards performance program and PS2?				If no = 0 If partly = .25 If yes = .5
3. Does your Company have a multi-department team responsible for labor standards performance?				If no = 0 If partly = 0 If yes = .5
4. Do one or more worker representatives have a formal role in your Company's labor standards performance program?				If no = 0 If partly = 0 If yes = .5
5. Does your labor standards performance program have a designated leader who receives regular training and has a direct reporting link to senior management?				If no = 0 If partly = .25 If yes = .5
6. Are there written procedures for your staff to regularly conduct internal and external audits and meet for management reviews?				If no = 0 If partly = .25 If yes = .5
7. Do the job descriptions for assigned staff include their specific labor standards performance responsibilities?				If no = 0 If partly = 0 If yes = .5
8. Does your Company have established and utilized procedures for assigned staff to regularly discuss labor standards performance issues with heads of key business units, contractors or supplier companies?				If no = 0 If partly = .5 If yes = 1

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### Worker Involvement & Communication

	Yes	Some/ partly	No	Notes
1. Does your Company have written communication about its labor standards performance and PS2 from senior management to all workers, in all relevant languages?				If no = 0 If partly = .5 If yes = 1
2. Are the Company's labor policies clearly posted in public areas where workers can see them?				If no = 0 If partly = 0 If yes = .5
3. Does your Company have written procedures for clearly communicating your labor policies and procedures to all workers?				If no = 0 If partly = .25 If yes = .5
4. Do you survey or interview workers to verify that the key policies and procedures are understood by workers?				If no = 0 If partly = 0 If yes = .5
5. Are there established channels for workers to communicate their concerns and ideas to management other than through their direct supervisor?				If no = 0 If partly = 0 If yes = 1
6. Does your Company have a mechanism for getting worker input while designing corrective action plans and assessing outcomes?				If no = 0 If partly = .25 If yes = .5
7. Do workers participate in worker committees to address specific workplace issues?				If no = 0 If partly = 0 If yes = .5
8. Are there any freely elected (not appointed) workers' representatives?				If no = 0 If partly = 0 If yes = .5
9. Does management routinely meet with worker committees and/or worker representatives to discuss workers' ideas and concerns?				If no = 0 If partly = .25 If yes = .5
10. Does management report back to the workers on actions taken in response to worker input?				If no = 0 If partly = 0 If yes = .5

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### Complaint Management & Resolution

	Yes	Some/ partly	No	Notes
1. Are there documented mechanisms for workers to report issues and concerns to management?				If no = 0 If partly = .5 If yes = 1
2. Are there mechanisms for workers to file anonymous complaints through internal parties or external parties such as NGOs, trade unions, etc.?				If no = 0 If partly = .5 If yes = 1
3. Does your Company keep records of complaints made against it, and of the response?				If no = 0 If partly = 0 If yes = .5
4. Does your Company have staff with specific assigned responsibilities for following up on the complaints?				If no = 0 If partly = 0 If yes = .5
5. Does your Company have policies and procedures for recording and investigating complaints by your workers, including timelines and reporting back to claimants?				If no = 0 If partly = .25 If yes = .5
6. Does your Company have a whistle blower protection policy covering anyone who files a complaint, and is the policy clearly communicated to all workers, suppliers and contractors?				If no = 0 If partly = 0 If yes = 1
7. Does your Company routinely survey its workers on their level of trust and satisfaction with the system?				If no = 0 If partly = .25 If yes = .5
8. Does your Company's system for recording and investigating complaints extend to suppliers and contractors, as well as other external stakeholders?				If no = 0 If partly = .5 If yes = 1

### Level and Type of Non-Conformances

Based on your knowledge of your Company, including any existing audit reports, assess the overall performance for each PS2 element below. Use the criteria in the "Level and Type of Non-

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

Conformances” category of the SAI Rating System to determine your rating. If your Company does not have enough documented information, put a “1” in the corresponding box.

After completing the table below, determine your overall score on the SAI Rating System.

1. If you have a 1 or 2 in a High Priority element – your overall score is equal to the 1 or 2.
2. If your lowest score in a High Priority element is 3 or higher – your overall score is an average score of all 8 elements.

Level & Type of Non-Conformances	Rating 1-5 (5 highest rating)
Isolated minor labor violations. No major violations. No system failures.	<b>5</b>
Isolated labor violations; primarily minor. Isolated system failures.	<b>4</b>
Few major violations, none with immediate threats to worker well-being. Some system failures.	<b>3</b>
Recurring major violations, including some with immediate threats to worker well-being. Serious recurring system failures.	<b>2</b>
Frequent known violations of core labor standards and elements of PS2 with immediate threats to worker well-being. Complete lack of credible information.	<b>1</b>

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company’s performance related to PS2.

PS 2 Element	Rating 1-5 (5 highest rating)
Human Resources Policy	
Working Relationship	
*Working Conditions and Terms of Employment	
*Workers’ Organizations	
*Non-Discrimination and Equal Opportunity	
Retrenchment	
*Grievance Mechanism	
*Child Labor	
*Forced Labor	
*Occupational Health and Safety	
*Non-Employee Workers	
Supply Chain	
Total score:	
Average score:	

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

\* These are elements considered “High Priority” in order to help identify immediate potential threats to worker well-being (to be determined by IFC).

### Progress on Corrective Actions

	Yes	Some/ partly	No	Notes
1. Does your Company keep records of corrective action requests made by external auditors or internal staff?				If no = 0 If partly = 0 If yes = 1
2. Does your Company have staff with assigned responsibilities for tracking progress on corrective actions?				If no = 0 If partly = 0 If yes = .5
3. Does your Company have policies and procedures to follow in addressing corrective action requests?				If no = 0 If partly = .5 If yes = 1
4. Does your Company have a system for tracking and verifying progress on corrective actions?				If no = 0 If partly = .5 If yes = 1
5. Does your Company set specific timeframes and deadlines for improvement?				If no = 0 If partly = .25 If yes = .5
6. Does your Company's corrective action system include root cause analysis and address problems at a systems level?				If no = 0 If partly = .5 If yes = 1
7. Does your Company regularly review progress on corrective actions and develop comprehensive improvement plans?				If no = 0 If partly = .25 If yes = 1



## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### External Verification & Stakeholder Engagement

	Yes	Some/ partly	No	Notes
1. Does the Company have a documented procedure of providing external auditors with access to the facility, documents and workers?				If no = 0 If partly = 0 If yes = 1
2. Does the Company have a documented procedure for receiving and responding to unsolicited input from external stakeholders?				If no = 0 If partly = 0 If yes = 1
3. Does the Company have documented procedures for proactively selecting and communicating with external stakeholders?				If no = 0 If partly = .25 If yes = .5
4. Does Company staff routinely meet with local NGOs, trade unions and other external stakeholders to discuss labor compliance issues and improvement plans?				If no = 0 If partly = .5 If yes = 1
5. Does the Company routinely report back to stakeholders on issues and questions raised by them?				If no = 0 If partly = .25 If yes = .5
6. Do workers' organizations or trade unions have a structured role in the Company's review and revision of its compliance program?				If no = 0 If partly = .5 If yes = 1
7. Does Company staff routinely work with external stakeholders to implement community initiatives?				If no = 0 If partly = .5 If yes = 1

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### Training & Capacity Building

	Yes	Some/ partly	No	Notes
1. Do your Company's orientation materials for new workers mention your labor standards performance requirements and PS2?				If no = 0 If partly = 0 If yes = 1
2. Does your Company provide specific training for workers clearly explaining your labor standards performance requirements and PS2?				If no = 0 If partly = .5 If yes = 1
3. Does your Company have a documented training plan for regular ongoing training on labor compliance policies and management systems for all workers?				If no = 0 If partly = .5 If yes = 1
4. Does your Company provide additional training on auditing and management systems for its staff responsible for implementing the labor standards performance program?				If no = 0 If partly = .5 If yes = 1
5. Does your Company provide joint training targeted to improving communication between workers and supervisors and managers?				If no = 0 If partly = 0 If yes = 1
6. Does your Company routinely measure the effectiveness of your training and curricula through tests, surveys and interviews of employees?				If no = 0 If partly = .25 If yes = .5
7. Does your Company provide any training or technical assistance to your suppliers and contractors on labor standards performance and PS2?				If no = 0 If partly = .25 If yes = .5

## SAI Rating System Self-Assessment

This document will take you through a series of questions to help you measure your Company's performance related to PS2.

### Managing Suppliers & Contractors

	Yes	Some/ partly	No	Notes
1. Does your Company provide its direct suppliers and contractors with written communication asking them to comply with your code or PS2?				If no = 0 If partly = .5 If yes = 1
2. Does your Company have a map of its direct suppliers and contractors with a risk assessment?				If no = 0 If partly = .5 If yes = 1
3. Does your Company use a formal labor standards performance rating or measurement system for its direct suppliers and contractors?				If no = 0 If partly = .5 If yes = 1
4. Does your company regularly monitor direct suppliers or contractors using trained staff or independent auditors?				If no = 0 If partly = .5 If yes = 1
5. Do supplier agreements and purchase orders clearly define labor compliance expectations, including procedures for authorization of sub-contractors?				If no = 0 If partly = 0 If yes = .5
6. Are there procedures in place requiring sourcing and/or contracting to routinely inform compliance about new and existing suppliers and contracts?				If no = 0 If partly = 0 If yes = .5
7. Are there written procedures for the consideration of labor standards performance before placing orders with new or existing suppliers; and/or placing contracts with new contractors?				If no = 0 If partly = 0 If yes = .5
8. Does your Company's map and a formal risk assessment extend beyond its direct suppliers to sub-contractors and sub-suppliers?				If no = 0 If partly = 0 If yes = .5

<b>SAI Rating System</b>		Instructions: Use this form after completing the SAI Self-Assessment. The purpose of this form is to summarize the strength of your processes, and to target areas for improvement. These ratings focus on the underlying processes that drive sustainable and continual improvements in social performance.		<b>Overall Rating Score:</b>
COMPANY NAME:		(1) Circle or mark the box in each column that corresponds to your Self-Assessment score. (2) Add the total points and divide by 9 to get an overall rating score.		
PERSON(S) COMPLETING EVALUATION:		TELEPHONE:	EMAIL ADDRESS:	
CONTACT PERSON:		TELEPHONE:	EMAIL ADDRESS:	

Rating 5 is highest	Management Systems	Internal Labor Standards Performance Team	Worker Involvement & Communication	Complaint Management & Resolution	Level and Type of Non-Conformances	Progress on Corrective Actions	External Verification & Stakeholder Engagement	Training & Capacity Building	Management of Suppliers & Contractors
5	Mature management system implemented. Demonstrated commitment to continual improvement using annual improvement plans.	Team has implementation authority. Formal coordination with business units and suppliers. Team role part of performance review.	Routine two-way dialogue between workers and managers, fully utilizing formal and informal communication channels. Active participation by workers in workplace initiatives.	Fully functional system extended to supply chain and external stakeholders. Commitment to continual improvement of system through worker input.	Isolated minor violations. No major violations. No system failures.	Systematic implementation of improvement plan targeting root causes. Measurable targets for continual improvement.	Continual engagement with external stakeholders to implement programs to improve workers' lives in the workplace and community.	Team provides regular and effective training on full range of labor standards performance issues for workers and suppliers. Focus on use of management systems to help suppliers measure and improve.	Labor standards performance integrated into sourcing decisions. Supply chain map and risk assessment extended to key sub-contractors and sub-suppliers.
4	Policies, procedures and records centrally maintained and routinely reviewed. Wide awareness in company.	Multi-departmental team including worker rep. Team fully trained, meets and reports regularly. Clear team leadership. Top management support.	Key company policies understood by workers. Formal channels established for worker participation, including worker committees and worker representatives.	System well communicated and utilized by workers. Complaint resolution well documented and effective.	Occasional minor violations. Isolated system failures causing major violations.	Corrective action system fully operational. Consistent, effective follow-up with specific timeframe for improvement.	Routine proactive communication with stakeholders, including workers' organizations.	Ongoing training for key departments on management systems. Joint worker, supervisor and manager training. Introductory briefings to suppliers.	Fully operational monitoring and evaluation program of direct suppliers.
3	Complete set of policies and procedures in place meeting PS2. Sporadic communication, implementation and review.	Team in place, including worker rep. Team lacks training, experience, and/or authority.	Policies and procedures in place for worker-manager communication. Sporadic utilization of communication channels by both managers and workers.	Documented system in place to receive and respond to complaints. Utilization and resolution not systematic.	Few major violations, none with immediate threats to worker well-being. Some system failures, with recurring minor violations.	Corrective action system developed and documented. Sporadic implementation and verification. No specific timeframe for improvement.	Established procedures for engaging stakeholders, including workers' organizations. Some proactive communication.	Full introductory training on PS2 for all workers. Sporadic follow-up training in some departments.	Complete supply chain map and risk assessment. Supplier rating and evaluation system partially implemented.
2	Policies in place meeting PS2. Sporadic, conflicting or confusing procedures.	Clearly a secondary responsibility in HR department, with limited awareness. No awareness in other departments.	Sporadic and ineffective communication with workers. Some effort by management to inform workers, but all top-down communication.	Documented system for receiving complaints. No systematic way to respond to complaints. Sporadic resolution.	Some major violations with immediate threats to worker well-being. Serious recurring system failures.	Sporadic progress on corrective actions. No system for tracking corrective actions.	Documented procedures for cooperating with external auditors. Sporadic and selective responses when approached by external stakeholders.	Brief mention of labor standards performance issues and workplace rights in new worker training.	Limited communication with suppliers and contractors. Partial map and risk assessment. Sporadic monitoring or evaluation.
1	No Code or Standard adopted. No related policies and procedures.	Little or no internal awareness. No formally assigned responsibility.	Little or no communication between management and workers. Little or no awareness among workers about company policies.	No documented system to receive, address or report on complaints. Signs of possible retribution for complaints.	Frequent major violations of core labor performance standards with immediate threats to worker well-being. Lack of credible information.	No plan or evidence of effort to improve labor standards performance	Little or no transparency with external stakeholders or auditors. Signs of resistance when approached. Possible retribution when workers engage.	No mention of labor standards performance issues or workplace rights in worker training.	Little or no awareness of issues related to suppliers or contractors.

## Auditing Guidance for Internal Labor Standards Performance Auditors

This document is intended for use by your Internal Labor Standards Performance Team as it conducts internal audits. If you need to create a more formal procedure, use this as the basis.

✓	<b>A. Audit Preparation</b>
<input type="checkbox"/>	Collect previous labor standards performance reports for the factory. • Your audits for the previous two years.
<input type="checkbox"/>	Review any government inspection reports, third party audit reports, etc.
<input type="checkbox"/>	Pay special attention in observation/document review/interviews to issues identified in previous labor standards performance reports.
<input type="checkbox"/>	Research and refer to current local labor laws and regulations.
<input type="checkbox"/>	Basic labor code issues: <ul style="list-style-type: none"> <li><input type="checkbox"/> Regular weekly work hours</li> <li><input type="checkbox"/> Rest periods, lunch, etc.</li> <li><input type="checkbox"/> Overtime limits and exceptions</li> <li><input type="checkbox"/> Hour averaging and banking hours</li> <li><input type="checkbox"/> Minimum wage</li> <li><input type="checkbox"/> Overtime requirements and conditions</li> <li><input type="checkbox"/> Labor contract provisions</li> <li><input type="checkbox"/> Social system payment liability</li> <li><input type="checkbox"/> Annual leave</li> <li><input type="checkbox"/> Laws to protect disadvantaged workers</li> <li><input type="checkbox"/> Severance pay</li> </ul>
<input type="checkbox"/>	Meet with local NGOs, trade unions, government ministries. If possible, target NGOs that are industry-specific.
<input type="checkbox"/>	Research and understand the national and local context of labor union rights and activity.
<input type="checkbox"/>	Schedule sufficient time to conduct the scope of the audit.
✓	<b>B. Introductory Meeting with Management</b>
<input type="checkbox"/>	Meet with the senior management and department managers before conducting audit activities to review PS2 and the purpose of the audit.
<input type="checkbox"/>	Share an agenda for the meeting and itinerary with senior management and department managers.
<input type="checkbox"/>	With department managers, review the prior audit report and performance to date in meeting Corrective Actions.
<input type="checkbox"/>	Discuss non-retaliation against cooperating workers; inform management that future audits will include reviews of the continued employment of workers interviewed.
✓	<b>C. Operational Walk-Through</b>
<input type="checkbox"/>	Conduct operation walk-through following the flow of production from receipt of raw materials to shipment of finished goods.
<input type="checkbox"/>	Minimize the number of managers that accompany you on the walk-through. One or two escorts based on knowledge/responsibilities is usually sufficient.
<input type="checkbox"/>	During the walk-through, be aware of your body language and the message this sends to workers.

## Auditing Guidance for Internal Labor Standards Performance Auditors

This document is intended for use by your Internal Labor Standards Performance Team as it conducts internal audits. If you need to create a more formal procedure, use this as the basis.

<input type="checkbox"/>	Take notes of all things observed which require attention.
<input type="checkbox"/>	Following the facility walk-through, conduct a walk through of the dormitory facilities, canteens, washrooms, etc. (if applicable)
<input type="checkbox"/>	Identify non-conformance issues for supervisors and department managers during the walk-through.
<input type="checkbox"/>	Suggest best practice to supervisors and department managers during the walk-through.
<input type="checkbox"/>	Give sufficient attention to all PS2 elements during the operation/dormitory walk-through.
<input type="checkbox"/>	Ambient conditions should be verified for adequacy if potential risk such as air quality, noise, etc. Use measuring devices to determine noise level, temperature and adequate lighting.
<input type="checkbox"/>	If potentially underage workers are identified during the walk-through, follow-up to investigate through interviews and document review.
<input type="checkbox"/>	Identify all incidences of non-conformance with PS2; both major and minor.
<input type="checkbox"/>	Pay special attention to areas identified in previous corrective action requests.

<input checked="" type="checkbox"/>	<b>D. Interviewing Workers</b>
<input type="checkbox"/>	Select at least 5% of workers. Cap at 100 workers. Conduct individual and group interviews for balanced response.
<input type="checkbox"/>	Select workers who are representative of the workforce population (gender, race, age, religion, functional departments, etc.).
<input type="checkbox"/>	If the factory has contracted or migrant workers, make sure to select from all groups.
<input type="checkbox"/>	Do not allow supervisors or managers to influence selection of workers for interviews.
<input type="checkbox"/>	Conduct on-site interviews in areas that protect worker confidentiality and where the worker would feel comfortable. Make sure supervisors or managers are not in or near the space where the interviews are conducted.
<input type="checkbox"/>	Conduct interviews early in the audit to allow for follow-up.
<input type="checkbox"/>	Make sure to tell the workers that everything they say is confidential and that management has been warned against retaliation.
<input type="checkbox"/>	Be sensitive to cultural and gender issues.
<input type="checkbox"/>	Plan for an average of fifteen minutes per interview; however, use common sense in terminating interviews that are becoming nonproductive and extending interviews with people who are candid or openly addressing critical issues.
<input type="checkbox"/>	Formulate questions prior to the interviews to make sure you cover all specific areas of PS2 through the aggregated interviews.
<input type="checkbox"/>	If you plan to take notes, ask the workers if it is OK and clearly explain reason for taking notes. Try to minimize note taking as much as possible during the interview. Finish writing your notes immediately after the interview, so you have accurate documentation.



## Auditing Guidance for Internal Labor Standards Performance Auditors

This document is intended for use by your Internal Labor Standards Performance Team as it conducts internal audits. If you need to create a more formal procedure, use this as the basis.

<input type="checkbox"/>	Have your worker representatives advise on the best approach to building rapport with workers.
<input type="checkbox"/>	Ask workers specifically about follow up on previous corrective action plans.
<input type="checkbox"/>	Make sure your questions address the following: <ul style="list-style-type: none"> <li><input type="checkbox"/> Do workers know about and understand your policies related to labor and working conditions and PS2?</li> <li><input type="checkbox"/> Do workers understand their rights under the law and PS2 related to freedom of association and collective bargaining?</li> <li><input type="checkbox"/> Do workers understand how their wages are calculated, for base time, performance and overtime?</li> <li><input type="checkbox"/> Are workers aware of any dismissal, transfer, demotion or other punitive action against workers due to their exercising their rights under PS2.</li> <li><input type="checkbox"/> Ask workers about the status of trade unions, worker committees, or other worker groups in the factory and whether there is management interference.</li> <li><input type="checkbox"/> Ask question to determine conformance to discrimination and sexual harassment policies.</li> <li><input type="checkbox"/> Do workers understand the company's grievance mechanism, and do they feel it is operational and free from retaliation?</li> </ul>
<input type="checkbox"/>	If you employ contract workers, make sure to ask questions that address possible violations and areas of abuse.
<input type="checkbox"/>	Conduct some worker interviews off-site if possible.

<input checked="" type="checkbox"/>	<b>E. On-site Document Review</b>
<input type="checkbox"/>	Select personnel files, time cards and payroll records without management interference.
<input type="checkbox"/>	Select files and/or records at random to generate a representative sample of the workforce population and functional distribution in the factory. Seek some files to corroborate interviews conducted earlier.
<input type="checkbox"/>	Balance your time and effort investigating all areas of PS2. Document review is particularly critical for wages, working hours, health and safety, use of sub-contractors, hiring and termination.
<input type="checkbox"/>	Review training material or written communications to workers that address all PS2 issues and training records as well as instructor qualifications.
<input type="checkbox"/>	If the operation employs contract workers, address potential areas of abuse in the document review. Specifically review the contract with the workers.
<input type="checkbox"/>	Identify all significant incidences of non-conformances in preparation of your management meeting.

## Auditing Guidance for Internal Labor Standards Performance Auditors

This document is intended for use by your Internal Labor Standards Performance Team as it conducts internal audits. If you need to create a more formal procedure, use this as the basis.

✓	<b>F. Closing Meeting with Management</b>
<input type="checkbox"/>	Conduct a closing meeting with senior management and department managers.
<input type="checkbox"/>	Present your preliminary findings with particular emphasis on the positives as well as areas for improvement. All non-conformances must be addressed. Seek clarification on any findings or issues raised during the audit.
<input type="checkbox"/>	Work with the department managers and supervisors on a corrective action plan that details specific actions to be taken and timelines for their completion.
<input type="checkbox"/>	Go over any outstanding corrective action requests from previous audit reports.
<input type="checkbox"/>	Make sure senior management signs off on the corrective action plan.

## Corrective Action Plan

Here is an example of how you may fill the corrective action form. The form is suggestive only. You may have your own format to plan corrective action.

Corrective Action Plan		The form is suggestive only. You may have your own format to plan corrective action.	
<b>Factory Name:</b>	Sample Factory	<b>Corrective Action # 200:</b>	001
<b>Code of Conduct Element</b>	<b>Current Situation /problem</b>	<b>Proposed Corrective Action</b>	<b>Starting date:</b>
Health and Safety	Risk of injury from drills and saws	- Purchase protecting gloves - Train workers on using gloves - Maintain appropriate guards	Sep 07
			<b>Planned Completion date</b>
			Dec 07
<b>Issue</b>	<b>Potential Challenges</b>	<b>Likely costs</b>	
Machine Safety	- Finding right gloves - Convincing workers to use gloves - Will gloves slow down work? - Will workers steal gloves?	20 Gloves x \$25	\$500.00
		Training sessions	\$250.00
		Signs for each machine where gloves must be used 12 x \$5	\$60.00
		<b>Total Cost:</b>	\$810.00
<b>COMMENTS:</b>		<b>DATED PROGRESS REPORTS:</b>	
Some of the workers stated that gloves slowed them down. We believe this is partially due to poor fitting, ill-designed gloves. This problem can be solved in part by letting the worker representative select the glove type and sizing the glove.		Feb 08 Assessment visit to factory: Protective gloves purchased; worker training conducted. Reviewed documentation of purchases and trainings; observed proper use of gloves in two factory walk-throughs. Machine guards still not in place.	
PERSON DIRECTLY RESPONSIBLE FOR CORRECTIVE ACTION PLAN:		August 08 Assessment visit to factory: Machine guards installed and workers trained in proper use. Verified via purchase receipts and training records and worker interviews.	
SIGNATURE	DATE		

# Corrective Action Plan

Here is an example of how you may fill the corrective action form. The form is suggestive only. You may have your own format to plan corrective action.

Corrective Action Plan		The form is suggestive only. You may have your own format to plan corrective action.	
<b>Factory Name:</b>		<b>Corrective Action # 200:</b>	
<b>Code of Conduct Element</b>	<b>Current Situation /problem</b>	<b>Proposed Corrective Action</b>	<b>Starting date:</b>
			<b>Ending date</b>
<b>Issue</b>	<b>Potential Challenges</b>	<b>Likely costs</b>	
		<b>Total Cost:</b>	
<b>COMMENTS:</b>		<b>DATED PROGRESS REPORTS:</b>	
PERSON DIRECTLY RESPONSIBLE FOR CORRECTIVE ACTION PLAN:			
SIGNATURE	DATE		

## Corrective Action Tracking

Use this form as a cover sheet to compile the individual Correction Action Plan forms. This is a handy reference to give you a quick overview of the outstanding issues, the progress being made and where to focus your attention. During internal audits and management reviews, you should review this so you are aware of outstanding issues.

SUPPLIER NAME:

We recommend that you provide the supplier with a copy of this form too. Sample data has been entered in the first row.

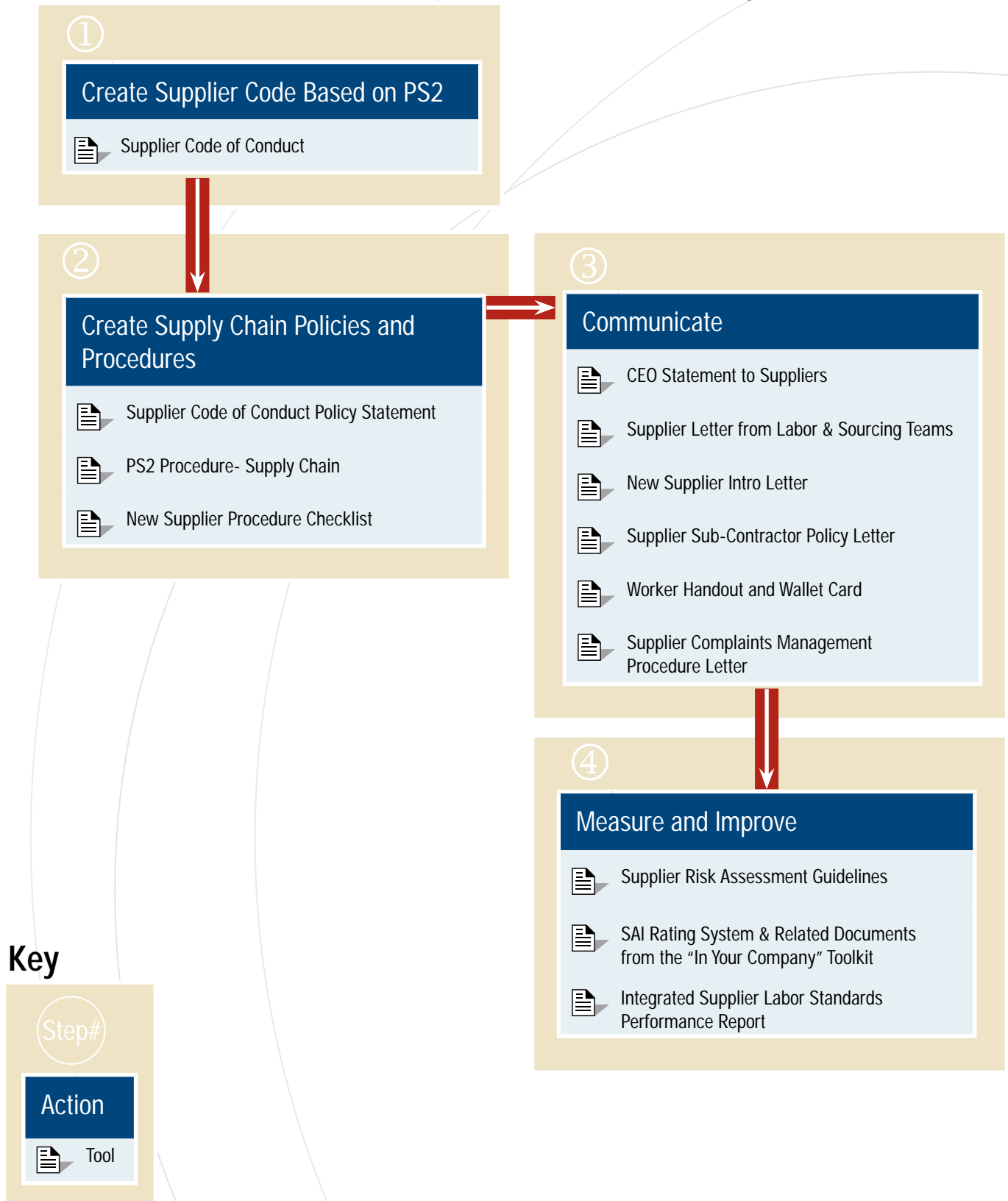
Corrective Action File #	Initial Plan Date	Code of Conduct Element	Problem Summary	Corrective Action Summary	Supplier Mgr. Responsible	Due Date	Progress Update (include date)	Date Closed
2007-001	9/1/2007	Health & Safety	Risk of injury from drills and saws	1. purchase protective gloves 2. train workers 3. install machine guards	William Smith	12/1/2007	10/15/2007 – gloves purchased, guards installed, training scheduled	12/15/2007

Take a look at the map to Labor Standards Performance in your Supply Chain.

There are four steps. In each step there is an instruction page that includes:

- **1. Objective of this Step**  
This is an overview of the step and why it is important
- **2. Color-coded Map**  
This shows you where you are in the process
- **3. Instructions for Use of Tools**  
This has instructions for using each sample document or form

# Labor Standards Performance in your Supply Chain







# Create Supplier Code Based on PS2

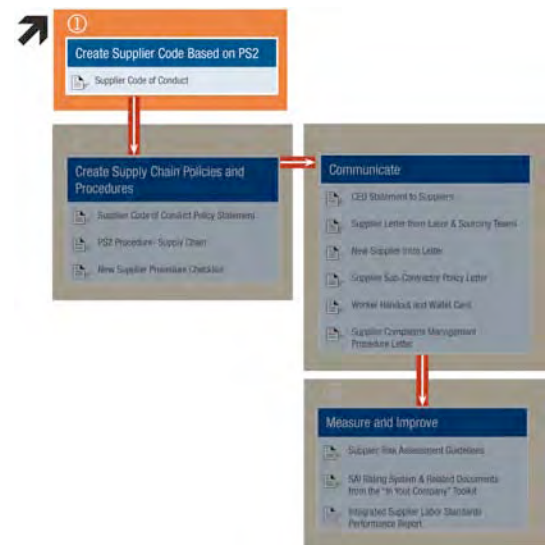
## Supplier Code of Conduct

### Objective of this Step

Just as you have a Company Code of Conduct that defines principles and expected conduct within your company, you should also have a Supplier Code of Conduct for your supply chain.

The Supplier Code of Conduct is the policy statement that defines principles and conduct that you expect each of your suppliers to follow. This can address the suppliers' management

philosophy, governance, environment, corruption, transparency and treatment of employees and other stakeholders. In this step you will create the labor and working conditions portion of your Supplier Code of Conduct based on PS2.



## Instructions for Use of Tools

### *Supplier Code of Conduct*



This is how you communicate your Company's beliefs and expectations to your suppliers. It is very important that you think through the creation of your Code and tailor it to your company. Although your Supplier Code will be based on your Company Code of Conduct, you may or may not choose to simply copy the structure and language. Use the toolkit item **Supplier Code of Conduct** to get started.

## Supplier Code of Conduct

Your Supplier Code of Conduct is the fundamental document in communicating your Company's beliefs and expectations to your suppliers. Below are tips on how to create this key document.

### Supplier Code of Conduct

Using the toolkit for the previous section, Labor Standards Performance in Your Company, you should have created a Company Code of Conduct which addresses labor and working conditions in your company.


Now use your Company Code of Conduct as the basis for writing your Supplier Code of Conduct.


PS2 does not require that you include all elements of your Company Code in your Supplier Code. It only requires that you address Child Labor and Forced Labor. So first make sure that your Supplier Code includes these elements. You may also choose to include more expansive requirements for your suppliers, though it is not required by PS2.


Writing your Supplier Code is a great activity for your Labor Standards Performance Team because the team includes people from many different departments. By getting input from several departments, you can align your Supplier Code with the overall goals your company has for managing performance and risk in your supply chain.



# Create Supply Chain Policies and Procedures

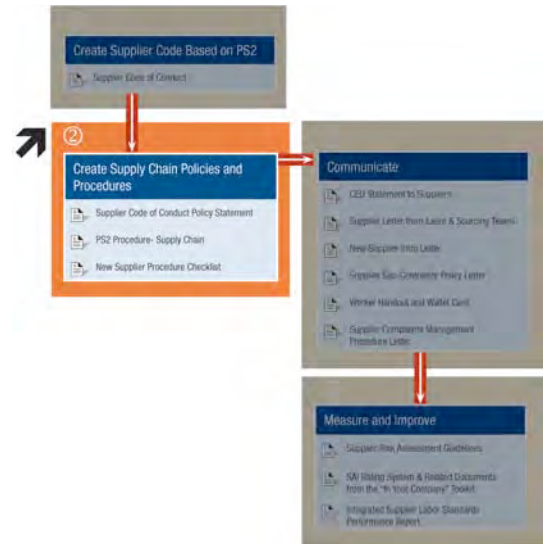
 Supplier Code of Conduct Policy Statement

 PS2 Procedure - Supply Chain

 New Supplier Procedure Checklist

## Objective of this Step

You've created your Supplier Code of Conduct. Now you need to get your internal staff and your suppliers to put it in practice. How will they know what to do? How will you make sure they do it? You need documented policies and procedures for everyone to follow. For example, your Supplier Code says you will not allow child labor in your supply chain. How will you track this? How will your suppliers know this and give you assurance that they are not employing children? How will your Labor Standards Performance Team track any potential violations? How will they work with the sourcing team to make sure no purchase orders are issued to potential violators? Just as you have policies and procedures for your Company Code of Conduct, you need policies and procedures to implement your Supplier Code of Conduct.



## Instructions for Use of Tools

### *Supplier Code of Conduct Policy Statement*



Your policies do not have to be long and technical like legal documents. They should be clear and simple statements of the principles in your Supplier Code of Conduct. Use the toolkit item [Supplier Code of Conduct Policy Statement](#) to get started.



# Create Supply Chain Policies and Procedures



Supplier Code of Conduct Policy Statement



PS2 Procedure - Supply Chain



New Supplier Procedure Checklist

## *Supply Chain Procedures*



Your procedures for managing your supply chain should not be an isolated set of activities layered on to your existing business procedures. They should be integrated in the day-to-day operations of your company. Your sourcing, production and other departments need to be aware of the labor standards performance of the suppliers they work with and integrate this into their business decisions. Otherwise your suppliers may receive conflicting messages about the importance of their labor standards performance and it will become an isolated (or non-existent) set of activities at your suppliers.

Use the following toolkit items to get started on integrating the principles of your Supplier Code of Conduct into your operating procedures. You can customize and add to them as appropriate for your organization and the scope of your PS2 policy with respect to your supply chain.

***[PS2 Procedure – Supply Chain](#)***

***[New Supplier Procedures Checklist](#)***

## Supplier Code of Conduct Policy Statement

The following are the guiding principles which should be reflected in your Company's written policies with respect to PS2 and your supply chain. You should modify the statement according to your Company's organizational structure and any relevant labor laws in your country.

- Our Company will extend the principles of PS2 as feasible to our suppliers.
- We will notify our suppliers of the PS2 requirements concerning child labor and forced labor and minimize its presence:
  - We expect our suppliers not to employ workers under the minimum age for employment as defined by national law.
  - We expect our suppliers not to employ workers between the minimum age and 18 in dangerous work or work that interferes with their education or development.
  - We expect our suppliers not to employ forced labor.
  - We expect our suppliers to respect workers' rights to retain their personal documents and money.
  - We expect our suppliers to respect workers' rights to leave the workplace after work.
  - We expect our suppliers to respect workers' rights to resign.
- We will monitor our suppliers' performance related to PS2 requirements concerning child labor and forced labor.

## PS2 Procedures - Supply Chain

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Supply Chain. You should modify it according to your Company's organizational structure and operations.

### Guiding Principles

- Our Company will extend the principles of PS2 as feasible to our suppliers.
- We will notify our suppliers of the PS2 requirements concerning child labor and forced labor and trying to minimize its presence.
- We will monitor our suppliers for compliance concerning child labor and forced labor.

### **Guidelines for Operation**

1. Our Company's purchasing department will maintain a supply chain map of all suppliers that is updated on a quarterly basis. This map will be distributed to our Internal Labor Standards Performance Team as soon as it is updated.
2. Our Company will notify all suppliers of our PS2 and labor compliance policy and ask them to adopt these principles in their companies. Notification will include at least one letter from the General Manager and one joint letter from the Internal Labor Standards Performance Team and purchasing departments, as well as regular follow-up communications.
3. Each existing and new supplier will be rated by the Internal Labor Standards Performance Team using the SAI Rating System or another credible rating method.
4. New suppliers must meet a minimum score of \_\_\_\_\_ in order to become a supplier.
5. When evaluating a new supplier, the purchasing department will follow our Company's New Supplier Procedures Checklist.
6. Existing suppliers scoring 1 or 2 will be required to commit to a corrective action plan designed to move them up to one tier over a twelve-month period. Those failing to improve will be suspended until the corrective actions have been implemented. Those who continue to fail to improve within six months after the initial suspension will be terminated.
7. Our Company will give preference to suppliers scoring a higher labor standards performance rating.
8. We will implement a zero tolerance policy for all suppliers with respect to the PS2 principles of Child Labor and Forced Labor. Our Internal Labor Standards Performance Team will evaluate and help improve suppliers' performance in these principles through evaluations/audits, self-assessments and questionnaires, document reviews, trainings and toolkits.

## PS2 Procedures - Supply Chain

The following are guidelines for what to include as you construct your Company's procedures for following the PS2 principles for Supply Chain. You should modify it according to your Company's organizational structure and operations.

- 9.** Our Internal Labor Standards Performance Team will complete a risk assessment for each supplier and sub-contractor in the supply chain map, using the Supplier Risk Assessment Guidelines. Based on the risk assessment, the Team will work together with purchasing departments to select those suppliers who pose the highest risk and where our Company has the highest leverage. The Team will develop an annual supplier improvement plan for these “strategic suppliers” to guide them toward meeting PS2, including monitoring, training and technical assistance.
- 10.** Every six months, the Internal Labor Standards Performance Team will collect and review information from each strategic supplier that demonstrates evidence of meeting the requirements for PS2 and also for managing their suppliers. This may include: evaluations/audits, self-assessments and questionnaires, document reviews and interviews.
- 11.** Purchase orders will specifically make reference to PS2 and our labor policies.
- 12.** Where feasible, our Internal Labor Standards Performance Team will provide training and toolkits to help strategic suppliers make continual improvement toward meeting the requirements of PS2.



## New Supplier Procedures Checklist

This document can be used internally by the labor standards performance and sourcing staff as a checklist for evaluating new suppliers and their labor standards performance.

The purpose of this checklist is to ensure that labor standards performance and sourcing evaluations of new suppliers are done jointly. In addition, it ensures that from the first point of contact with potential new suppliers, they are receiving consistent information from the labor standards performance and sourcing people in your company.

### Key Elements:

- Determine whether the supplier meets a threshold level of labor standards performance to recommend initiation of business. We recommend a higher labor standards performance threshold for new suppliers, whereas with existing suppliers we recommend working with them to improve their labor standards performance if they are receptive.
- Once a supplier has been determined to meet the threshold level of labor standards performance, introduce the supplier to your company's labor standards performance policies and get their commitment

✓	Steps and Checklist	Date Completed
<input type="checkbox"/>	While exploring potential a new Supplier, the sourcing team will copy the Internal Labor Standards Performance Team on all correspondence with the Supplier. The sourcing team will also identify the person(s) at the Supplier to serve as the main contact for social performance issues and introduce them to the Internal Labor Standards Performance team.	
<input type="checkbox"/>	The Internal Labor Standards Performance Team will the New Supplier Kit, which consists of a cover letter, PS2 requirements, copy of SA8000 as best practice, SAI Rating Self-Assessment, etc.	
<input type="checkbox"/>	Review SAI Rating Self-Assessment and supporting materials from Supplier	
<input type="checkbox"/>	If the Supplier is SA8000 certified, skip to Step 11	
<input type="checkbox"/>	Based on the above, determine the likely labor standards performance ranking based on the self-assessment.	
<input type="checkbox"/>	Communicate with Sourcing department to determine level of interest from business standpoint.	
<input type="checkbox"/>	If there is high business interest and it appears that the Supplier will be at the lowest labor standards performance level, notify Supplier of potential problem.	
<input type="checkbox"/>	If there is a high likelihood that Sourcing will place orders with the Supplier, the Internal Labor Standards Performance team or trained representative from the Sourcing department or an external party will conduct an on-site review of the SAI Rating. This can be done as part of the normal sourcing visit to the supplier.	
<input type="checkbox"/>	Based on the results of the SAI Rating, the Internal Labor Standards Performance Team will issue approval or veto of the Supplier to the sourcing department.	
<input type="checkbox"/>	If the labor standards performance rating does not meet the threshold level and receives a veto, do not issue buying recommendation. If sourcing staff desires to initiate business despite the low rating, they must present a written appeal to the Internal Labor Standards Performance team, outlining the compelling reasons. If the labor standards performance and sourcing teams still disagree after the appeal, the case shall be forwarded to _____ [insert the appropriate deciding party in your Company].	

## New Supplier Procedures Checklist

This document can be used internally by the labor standards performance and sourcing staff as a checklist for evaluating new suppliers and their labor standards performance.

✓	Steps and Checklist	Date Completed
<input type="checkbox"/>	If buying recommendation is issued, all the supplier data on labor standards performance and business performance is maintained centrally. [Depending on the sophistication of the information technology in your company, this can be done manually or entered into the supplier management system. The key is to maintain the labor standards and business performance information in one place.]	
<input type="checkbox"/>	Company provides Supplier with Supplier Toolkit, which includes CEO letter, PS2, Supplier Sub-contractor Policy Letter, Supplier Complaints Management Procedure, worker communication tools, etc.	
<input type="checkbox"/>	Company and Supplier sign Supplier Social Responsibility Agreement	
<input type="checkbox"/>	Supplier forms its own Internal labor standards performance team responsible for monitoring and improving performance in its company in relation to PS2.	
<input type="checkbox"/>	Company schedules Code of Conduct audits going forward.	
<input type="checkbox"/>	Company and Supplier identify main areas of concern based on analysis of SAI Rating System.	
<input type="checkbox"/>	Company and Supplier work together on schedule and plan for improvement.	



# Communicate

CEO Statement to Suppliers

Supplier Letter from Labor and Sourcing Teams

New Supplier Intro Letter

Supplier Sub-Contractor Policy Letter

Worker Handout and Wallet Card

Supplier Complaints Management Procedure Letter

## Objective of this Step

Communication is a key part of an effective management system. So is senior management support. This is what takes you from just documenting policies and procedures to engaging people and motivating action. You need to make sure that your supply chain policies and procedures are understood at all levels of your company, as well as by your suppliers, their workers and external stakeholders. This is especially true for your suppliers – make sure they receive clear, consistent messages from all of your departments and your senior management. Make sure your suppliers understand that you consider them partners in improving labor standards performance – be clear about the roles and responsibilities of each partner, and find ways to work together to meet expectations.



## Instructions for Use of Tools


### *CEO Statement to Suppliers*





Your suppliers will be more likely to take your labor standards performance program seriously if they see that it has the support of senior management and the business departments in your company. This is a good opportunity for your Internal Labor Standards Performance Team to discuss the overall approach and strategy with your senior management and craft a coherent message. Use the toolkit item as a sample to get you started: ***CEO Statement to Suppliers***





# Communicate


 CEO Statement to Suppliers

 Supplier Letter from Labor and Sourcing Teams

 New Supplier Intro Letter

 Supplier Sub-Contractor Policy Letter

 Worker Handout and Wallet Card

 Supplier Complaints Management Procedure Letter

## Letters to Suppliers



Once your suppliers have received the CEO Statement, they will need further communications on your Company's policies and procedures. These need to detail your Company's requirements and your suppliers' responsibilities. Your suppliers need a clear picture of how you will evaluate them and track their progress related to labor standards performance. Ideally these communications should come from both your Internal Labor Standards Performance Team and your business departments. Use the following toolkit items to get started: [Supplier Letter from Labor and Sourcing Teams](#), [New Supplier Intro Letter](#), [Supplier Sub-Contractor Policy Letter](#)

## Communications to Workers and Other Stakeholders



As with your efforts to improve your Company's own labor standards performance, the input of workers and other stakeholders can be useful to your efforts to drive continual improvement in your suppliers. You should encourage your suppliers to establish their own communications with their workers and external stakeholders. Encourage them to establish their own grievance mechanisms. **Refer back to the toolkit items in the previous section, In Your Company: Procedures for Engaging External Labor Stakeholders and Worker Communications Toolkit.** Share these tools with your suppliers, as these can be easily modified for their own use.

Also, create a direct line of communication between your Company and your suppliers' workers and external stakeholders. You don't want to micro-manage or to undermine your suppliers' own efforts, so encourage their workers to go to their own management first. But you want to make sure that there is a way for you to learn about issues from suppliers' workers and external stakeholders if they are not effectively handled by the suppliers. Use the following toolkit items to get started: [Worker Handout and Wallet Card](#), [Supplier Complaints Management Procedure](#)



## CEO Statement to Suppliers

Below is a sample letter from your senior management to your suppliers, stating the principles of your labor standards performance program. You can modify the text below and print the letter on your company letterhead.



### Your Company Letterhead

Dear Supplier:

Our vision for [Company] is to become one of the most respected and admired companies in our industry. We aspire to conduct ourselves in an ethical, legal and socially responsible manner befitting a world-class company.

Corporate Social Responsibility, which spans both environmental and social issues, is a growing concern to investors, consumers and to all of us as people. Our [Company] Code of Conduct includes guidelines for labor standards performance which are based on the International Finance Corporation's Performance Standard 2. A key component of our overall Code of Conduct is the Supplier Code of Conduct that we expect you to follow. We are initiating the integration of our labor standards performance into all of our day-to-day business activities – inside our company and with our suppliers. We believe that improving labor standards performance must be a foundation of our long-term growth and profitability together.

While [Company] recognizes that there are different legal and cultural environments in which our suppliers operate, our Code of Conduct sets forth the basic requirements that all suppliers must meet in order to do business with [Company]. We hope that you will recognize the value of the Code of Conduct to bettering working conditions at your company and bettering your business overall. We will provide technical assistance, training and other development initiatives to help you implement the management systems to make continual improvements at your facility. We welcome your input and feedback every step of the way.

We are making a long-term commitment to continually improving labor standards performance in our supply chain. Internally, we are striving to make labor standards performance a routine part of our purchasing process and supplier evaluation. We are initiating programs to make sure you get a consistent message from our buyers and our labor standards performance team.

I thank you for your efforts in partnering with us as we strive for continual improvement, and for your continued dedication to our mutual success.

**[Signature of CEO]**

## Supplier Letter From Labor Standards Performance & Sourcing Teams

Below is a sample letter to suppliers, following up on the CEO statement and providing more information on your labor standards performance program. It is best to send jointly from your labor standards performance team leader and a representative from your sourcing department. You can modify the text and print the letter on your company letterhead.

### Your Company Letterhead

Dear Supplier, Importer, Trading Company or Agent:

We are writing as a follow-up to our CEO's letter to you dated \_\_\_\_\_. The purpose of this letter is to provide you with some more background and to initiate a plan of action.

Attached are the CEO letter, our [Company Name] Code of Conduct, and our Supplier Code of Conduct.

Our Company Code of Conduct covers how we deal with our own workers and all stakeholders. A key part of our Company Code is our Supplier Code of Conduct, that specifically addresses the labor standards performance of our suppliers.

We expect you, as a supplier, to establish your own company code of conduct and create a supplier code of conduct for your suppliers, based on ours.

Our Code of Conduct is based on the International Finance Corporation's Performance Standard 2: Labor and Working Conditions. PS2 is based on the international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

Our Code is rooted in a management systems approach which helps to embed policies and procedures into daily business and ensures systematic improvement in workplace conditions. We can work with you to implement these systems in your company in the most efficient way possible.

While [Company] recognizes that there are different legal and cultural environments in which our suppliers operate, our Code of Conduct sets forth the basic requirements that all suppliers must meet in order to do business with [Company]. In all our sourcing, we will use suppliers who meet minimum criteria for audits to our Code of Conduct, and give preference to those performing at the highest levels.

At [Company], implementing our Code of Conduct has led to substantive improvements and we believe you will experience the same. We believe there are benefits in production and in marketing, including improved worker morale and retention, improved quality and productivity, market differentiation in reaching new customers, and more stable, long-term growth among existing customers.

We hope that you will recognize the value of the Code of Conduct to bettering working conditions at your company and bettering your business overall. We can provide technical assistance, training and other development initiatives to help you implement the management systems to make continual improvements at your facility. We welcome your input and feedback every step of the way.

We will be in touch soon to schedule a meeting or phone conference with you to get started on this important initiative.

**[Signature of both Sourcing and Labor Standards Performance Teams]**



## New Supplier Introduction Letter

Below is a sample letter to potential new suppliers, introducing your labor standards performance program. You can modify the following text and print the letter on your company letterhead.

### Your Company Letterhead

Thank you for your interest in becoming a supplier to **[Company]**. In evaluating potential suppliers, we consider a balance of quality, price, performance and labor standards performance.

As part of this New Supplier package, we are sending you:

- Our Supplier Code of Conduct – which is based on IFC Performance Standard 2: Labor & Working Conditions
- SAI Rating Self-Assessment

These are the steps that we will follow:

1. We ask you to complete and return the Self-Assessment. We will treat this as confidential.
2. If you are SA8000 certified, please notify us and provide us with a copy of the certificate, as this will qualify you for our highest labor standards performance rating and eliminate many steps in the following process. If you have another social certification or have recently completed an industry or corporate code audit, please provide us with documentation, as this may also speed the process.
3. If we are interested in placing orders based on our initial business and labor standards performance review, we will arrange to conduct an on-site review of the SAI Rating.
4. The purpose of our review is to verify your self-assessment and to determine your labor standards performance rating in our system.
5. Based on the business discussions and your labor standards performance rating, we will determine whether to place initial orders with you.
6. At this point you will receive our Supplier Toolkit, which includes our Supplier Social Responsibility Agreement for you to sign and return.
7. We will work with you to form an internal labor standards performance team and assist you in implementing management systems for labor standards performance.
8. We will work with you to develop a plan and schedule for on-going audits, training and implementing systems for continual improvement.

We are serious about our commitment to labor standards performance in our supply chain. We consider our suppliers to be essential partners in this effort. We look forward to receiving your Supplier Self-Assessment. Please feel free to contact us with any questions you may have.

**[Signature of both Sourcing and Labor Standards Performance Teams]**





## Supplier Sub-Contracting Policy Letter

This letter states your sub-contracting policy and should be sent to your new suppliers along with the Supplier Social Responsibility Agreement before any purchase orders are placed. It should also be sent to your existing suppliers along with the Supplier Social Responsibility Agreement. We recommend that this letter be sent from the head of sourcing or co-signed by the sourcing and labor performance standards team leaders.



### Your Company Letterhead

Dear Supplier,

Thank you very much for your commitment to producing for us in accordance with our Company Code of Conduct. We appreciate the investment you are making in your workplace and look forward to continual improvement and benefits for your business and its workers.

We take this opportunity to remind you that our Code of Conduct requires the effective management of sub-contractors related to PS2. We understand it may be necessary for you to use sub-contractors from time to time. However, we must know of their use and be assured that you are responsible for the labor standards performance in the sub-contractor facilities.

If you are using sub-contractors, they become an integral part of our supply chain. Therefore, they need to be included in a regular monitoring and auditing program. We ask that you report to us each sub-contractor that you hire to fulfill any production work on our behalf, as well as provide a contact person at the sub-contractor through whom we can communicate and implement our Code of Conduct.

You are expected to communicate our commitment, as well as your own commitment, to decent working conditions to each sub-contractor. You are also expected to effectively monitor and regularly report to us on your sub-contractor's compliance with our Company Code of Conduct. This will be factored into our regular performance review of your facility. Please make sure each sub-contractor receives a copy of our Company Code of Conduct, your Supplier Statement of Commitment, a copy of your Supplier Code of Conduct and a copy of your monitoring procedures.

For our part, we will work with you to actively engage your sub-contractors. We will help you communicate policies and implement an effective monitoring and remediation program. We will also include them in our monitoring schedule by conducting spot checks. We will also work with you to develop and implement a training program to help them towards continual improvement.

We hope that you will not view this as a burden on the production process, but rather an opportunity to help you build strategic relationships with your sub-contractors and draw upon our Company's labor standards performance resources. We hope that you will select sub-contractors that follow the best workplace standards and work with us to guide them toward continual improvement.

We understand your concern about potential circumvention. Per our Supplier Social Responsibility Agreement, we will not circumvent you to directly place orders with your sub-contractors.

Just as we expect you to meet our performance standards, we expect you to select sub-contractors who meet our minimum social performance criteria. If we find that your sub-contractor has significant non-compliances, we will reserve the right to suspend or discontinue production until the con-compliances are resolved.

We look forward to actively supporting you in your efforts to implement better working conditions throughout your supply chain. A representative from our company will schedule a visit with you shortly to discuss this sub-contracting policy, to develop a work-plan and to provide you with management systems tools to implement it effectively. In the meantime please feel free to contact me directly with any questions or concerns. Thank you again for your continued partnership with our [Company].

**[Signature of both Sourcing and Labor Standards Performance Teams]**

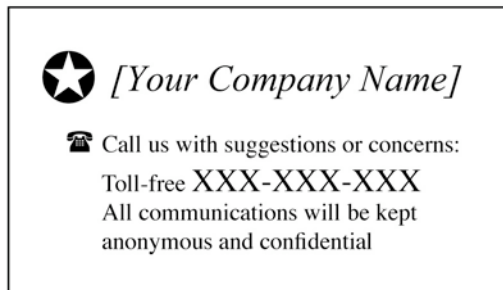
## Worker Handout and Wallet Card

This is a sample of a handout and card that can be distributed to the workers at your supplier facilities. It establishes a direct communication channel between you and the workers. It is important that the management at your suppliers is aware that you are distributing this card, but that they are not directly involved in any of the specific communications you receive from workers. You will need to modify the text and translate it into all of the languages spoken by the workers.

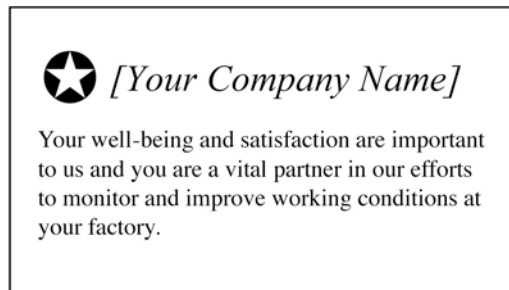
The example we are using here is that the workers would call a toll-free number in their country. However, you may need to modify the method of communication country-by-country. We suggest you distribute the PS2 Poster included in this Handbook with this handout and ask the suppliers to prominently display the PS2 poster.

**Suggested text for wallet-sized card:**

Front



Back



### Suggested text for the handout to your supplier's workers:

**[Company Name]** is a major customer of [Supplier Company Name]. We follow a Code of Conduct that is intended to provide you with safe and ethical labor standards and working conditions at your company. Your factory management has also committed to following this Code. Your well-being is very important to us. You are a vital partner in our efforts to monitor and improve working conditions at your factory.

We are happy to listen to your suggestions on how to improve the factory as well as any concerns or complaints you have about fellow workers, supervisors, managers, or factory conditions. We have set up a toll-free phone line XXX-XXX-XXX. We are available 24 hours a day, 7 days a week. Everything you tell us will be kept completely confidential. We look forward to hearing from you. Thank you for your part in making [Company] and [Supplier company name] both better businesses and better employers.

### **[Company Name] Code of Conduct**

Our Code of Conduct protects your rights in the workplace. The PS2 Poster that we have supplied states the main points of our labor standards and working conditions requirements. You may get the complete copy of our Code from your worker representative or factory management. If you prefer you can call us or get it online at [www.\\_\\_\\_\\_\\_](http://www._____).

## Supplier Complaints Management Procedure

Having a complaints management procedure for your suppliers is an important part of your management system. As we mention in the Handbook, complaints against your suppliers are likely at some point. How you handle these complaints is really important to your credibility and to the ultimate resolution of the problem. Below is suggested text for you to use as a public statement of your complaints procedures.

This statement of your complaints procedures should be sent to external stakeholders and posted for public viewing. You should notify your suppliers of this procedure. You may need to modify it to make sure it matches the details of your procedure.

### What to do if you have a concern or formal complaint about one of our suppliers:

We are committed to continually improving labor standards performance in our supply chain. We consider you a valuable partner in helping us monitor our suppliers and any companies they may be using as sub-contractors. If you have any concerns about one of our suppliers, this document outlines the procedures to file a formal complaint.

Concerns or formal complaints may be done through written documents, or through verbal channels such as our Company Code of Conduct Hotline. They may be forwarded directly toward relevant departments of our Company or toward external stakeholders such as NGOs or worker representative groups. We will accept written complaints in any language.

A formal complaint may be lodged by any interested stakeholder or stakeholder group, including a Company worker, a contract worker, an auditing body, a supplier or sub-contractor, a customer, or external party such as trade union or nongovernmental organization (NGO). It may be filed on a confidential basis to protect the anonymity of the interested party, but must include contact information in order to enable follow-up and reporting. If you are concerned about releasing your identity to us, we encourage you to file the complaint through a local NGO or trade union.

A formal complaint must be fully detailed and must include objective evidence that substantiates the alleged violation and contact information of the party filing the complaint, whether it is being filed directly or through a third party. We are also interested in concerns you may have so that we can address them before they become formal complaints.

Written complaints to Company may be mailed or emailed to:  
Company CSR Department  
Address / Fax / Email

### How we address your concern or formal complaint

Once received, your complaint will be fully investigated by our Company, and you will be advised of the outcome of your complaint in writing once this investigation has taken place.

The prime purpose of our complaint investigation is to determine whether or not the allegation is accurate, and if accurate, to find the root of the problem, to take corrective action and to prevent it from happening again.

## Supplier Complaints Management Procedure

Having a complaints management procedure for your suppliers is an important part of your management system. As we mention in the Handbook, complaints against your suppliers are likely at some point. How you handle these complaints is really important to your credibility and to the ultimate resolution of the problem. Below is suggested text for you to use as a public statement of your complaints procedures.

### ■ Step 1

Every formal complaint and concern is documented by the receiving person at our Company. It is classified as either a concern or a formal complaint.

### ■ Step 2

The complaint or concern is forwarded to the Company Labor Standards Performance Team and other relevant departments for evaluation. The supplier is notified of the complaint. The Labor Standards Performance Team then conducts an investigation, which may include analysis of audit reports, interviews with workers and local NGOs, supplier management and relevant Company departments, on-site visit, etc.

### ■ Step 3

If the Labor Standards Performance Team and other relevant Company departments cannot resolve a formal complaint, the case is forwarded to the Company Executive Committee, composed of members of the Board of Directors.

### ■ Step 4

Each step of the process is documented. We share the results for concerns and formal complaints with suppliers and encourage them to communicate them to all workers. For formal complaints, the documentation is provided to the originator of the complaint and interested parties. If the complaint was made through a third party, we ask the third party to forward the reports to the originator of the complaint.

### ■ Step 5

Brief descriptions of the formal complaints and resolutions will be posted publicly on our website with directions on where to obtain the full report.

## What we require of our suppliers

Each of our suppliers is required to implement a complaints management procedure for dealing with complaints they receive directly as well as those brought to our attention and forwarded to them. As part of this procedure, suppliers must post a “whistle-blower” policy that protects complainants from retribution. We will check during our audits and on-site visits to ensure that no one who files a complaint to us is punished in any way.

Every supplier must fully cooperate with us, or our representatives, as we investigate concerns or complaints.

Every supplier must keep records of complaints and responses and make them accessible to us, and stakeholders.

Every supplier must appoint a management representative responsible for ensuring that there is a confidential, accessible system for workers to voice grievances. Grievances may be lodged anonymously or workers may identify themselves and any co-complainant who wishes to be identified in a formal complaint.

## Supplier Complaints Management Procedure

Having a complaints management procedure for your suppliers is an important part of your management system. As we mention in the Handbook, complaints against your suppliers are likely at some point. How you handle these complaints is really important to your credibility and to the ultimate resolution of the problem. Below is suggested text for you to use as a public statement of your complaints procedures.

A worker may lodge a complaint through the elected worker representative or trade union representative, where one exists. Our whistle-blower policy provides that lodging complaints will not expose the worker to any risk of reprisal. Nevertheless, the worker representative shall take precautions to assure anonymity if the worker chooses not to identify himself/herself.

The worker representative, the worker, or any designated representative of the worker takes the complaint to the management representative who must respond within a reasonable, set period of time.

We encourage complaints to be resolved directly inside the supplier, according to the supplier complaints management procedures. However, as per the above, we have a system in place to handle complaints lodged directly with our Company.



# Measure and Improve

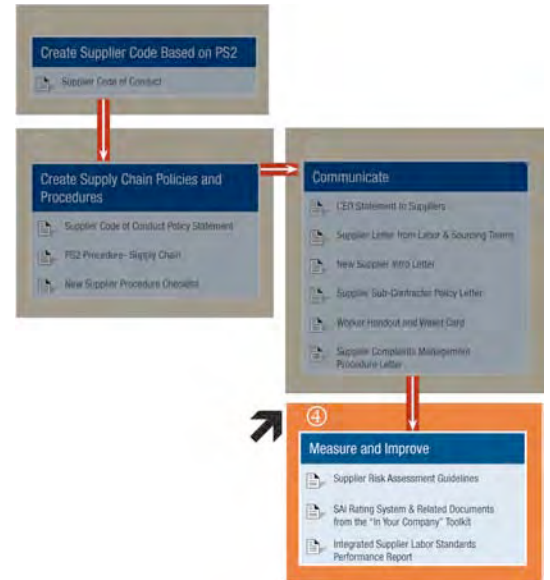
Supplier Risk Assessment Guidelines

SAI Rating System

Integrated Supplier Labor Standards Performance Report

## Objective of this Step

You've set your requirements for your suppliers, communicated them throughout your supply chain. Some will meet your requirements, some will not. Now what? How will you determine which of your suppliers is making efforts and actual progress? What do you do with those that are performing under expectations, or refuse to care? In your Company, you are working to "Measure and Improve" your own labor standards performance. You also need to do this with your suppliers – help them "Measure and Improve" their performance.



But realistically you will need to prioritize and focus your efforts. You can't do everything at once. So where do you start? You need some way to strategically allocate your resources. You need to understand where the risk is greatest for labor standards performance problems and where you can have the greatest impact.

## Instructions for Use of Tools


### *Supplier Risk Assessment Guidelines*




Before you can measure and improve the labor standards performance of your suppliers, you need to know who they are. Create a thorough supply chain map. Conduct a risk assessment – find out what your supply chain looks like, where you have the greatest risks of poor labor standards performance, where you should focus your resources to drive improvement. Use the following toolkit item to get you started: [Supplier Risk Assessment Guidelines](#)



# Measure and Improve

 Supplier Risk Assessment Guidelines

 SAI Rating System

 Integrated Supplier Labor Standards Performance Report

## *SAI Rating System*



Once you've mapped your supply chain and conducted your risk assessment, you can create a targeted work-plan for helping your suppliers improve. You may want to start by monitoring a select scope of your supply chain – perhaps those that pose the highest risk. **Refer back to the In Your Company toolkit item Auditing Guidance** – you can adapt this to auditing your suppliers.

But don't think of your PS2 supply chain management as just developing a monitoring or auditing program. You don't want to get caught in a cat-and-mouse game of trying to find code violations at your suppliers. You want to help them build capacity for continual improvement. Guide them toward the same Measure and Improve approach you are using at your own Company. Use the **SAI Rating System** to rate your suppliers in a process-based approach. Give them the **Self-Assessment** so that they can identify gaps in their systems.

Identify the areas for improvement and provide training, technical assistance and tools. Refer back to the tools you used for measuring and improving In Your Company – for example, the Worker Communications Kit, the Corrective Action Tracking forms and charts and the Training Plan. You can adapt a lot of these so that your suppliers can use them to measure and improve their own systems and processes.

## *Integrated Supplier Labor Standards Performance Report*



As you work to help your suppliers measure and improve, you'll want to track and report the progress to senior management and other colleagues. Use the opportunity to highlight not only the most important labor standards performance indicators, but also show their relation to other business measurements. This will increase the relevance of the report for your other colleagues. It can potentially demonstrate to them that measuring and improving labor standards in your supply chain can have a significant return on investment and a positive impact on business. A clear report which highlights the most relative data and shows the larger picture will have a much greater chance of being read and used by others outside the labor standards performance team. Use the following toolkit item to get you started:

[\*\*\*Integrated Supplier Labor Standards Performance Report\*\*\*](#)



## Supplier Risk Assessment Guidelines

The following table is a framework for analyzing the labor standards performance risk of individual suppliers.

Developing a map and overall risk assessment for your supply chain requires that you collect information supplier by supplier. You should try to complete this form for all of your direct suppliers, starting with those that are most important.

The information contained in this form can be useful in planning resource allocation based on the level of risk. This risk assessment also links to the SAI Rating System.

Depending on your industry and the nature of your supply chain, you may need to add or delete criteria, but this will get you started.

Criteria	Data	Notes
<b>Supplier Name</b>		
<b>Location Country</b> (group by country, alphabetical order)		
<b>Location City/Region</b>		
<b>Location Free Trade Zone or Special Economic Zone (yes/no)</b>		
<b>Type of company</b> (manufacturers, trading company, buying agent, importer)		
<b>Industry</b>		
<b>Product</b>		
<b>Manufacturing process or business activity</b>		
<b>Number of Employees</b>		
<b>SA8000 Certified (Yes/No)</b>		
<b>Certified by other organization or industry standard</b>		
<b>Fully compliant with rigorous Corp Code (yes/no: if yes, which company)</b>		
<b>Current Labor Standards Performance level in your system (SAI Rating System or other)</b>		
<b>Labor Standards Performance level status in previous cycle</b>		
<b>Percent of Their Production Capacity you Purchase</b>		
<b>Percent of Your Product that they Supply</b>		
<b>Presence of management systems for labor standards performance</b>		
<b>Presence of management systems for sub-contractors and suppliers</b>		
<b>Main nationality of workers</b>		
<b>Nationality of Factory Manager(s)</b>		
<b>Presence of Contract Labor</b> (foreign or domestic)		

 **Supplier Risk Assessment Guidelines**

The following table is a framework for analyzing the labor standards performance risk of individual suppliers.

<b>Criteria</b>	<b>Data</b>	<b>Notes</b>
<b>Dormitory</b>		
<b>Hazardous Materials Processes</b>		
<b>Date of Last Audit</b>		
<b>Auditing Organization</b> (internal/external)		

# Supply Chain CSR Report

This is an example of a report that would be provided to the CEO, the Executive Committee and/or the Board. It consolidates information on the labor standards performance of all your suppliers as well as their related business performance. We suggest that it be sent jointly from the Labor Standards Performance Team and Sourcing department.

## Your Company Letterhead

Memorandum

Date:

To: CEO, Executive Committee & Board of Directors

From: Labor Standards Performance Team and Sourcing Department

Re: Annual Report on Labor Standards Performance in our Supply Chain

Attached is the summary report of labor standards performance in our supply chain. The information is consolidated from our internal and external auditing over the last year.

We are looking at our supply chain from two angles: suppliers as a percent of total number and as a percent of production volume.

This Year [date]	Previous Year [date]
Total number of audits performed	Total number of audits performed
% of total number of suppliers	% of total number of suppliers
% of total production volume	% of total production volume

The following tables provide more detail on specific aspects of labor standards performance. Table 1 looks at the current and previous year ranking of suppliers by product category.

**Table 1 – PERCENT OF SUPPLIERS IN EACH LABOR STANDARDS PERFORMANCE RATING**  
*[Note on report-writing: Include brief analysis of numbers, possible explanations for trends, notable cases, possible explanations for differing performance by product group.]*

Rating (1-5)	% of Suppliers in Product Group 1		% of Suppliers in Product Group 2		% of Suppliers in Product Group 3		% of Total Suppliers	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year
5								
4								
3								
2								
1								

# Supply Chain CSR Report

This is an example of a report that would be provided to the CEO, the Executive Committee and/or the Board. It consolidates information on the labor standards performance of all your suppliers as well as their related business performance. We suggest that it be sent jointly from the Labor Standards Performance Team and Sourcing department.

**Table 2 – PRIMARY LABOR STANDARDS PERFORMANCE PROBLEMS**

*[Note on report writing: We suggest that you explain that a straight comparison of the percentages by labor standards performance problem might be misleading. Some issues like Health & Safety are much easier to audit for than others like Workers' Organizations.]*

Violations Found and Major Corrective Actions Issued for:	% of Suppliers in Sector 1		% of Suppliers in Sector 2		% of Suppliers in Sector 3		% of Total Suppliers	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year
Child Labor *								
Forced Labor *								
Working Relationship								
Human Resources Policy								
Working Conditions and Terms of Employment								
Workers' Organizations								
Non-Discrimination and Equal Opportunity								
Retrenchment								
Grievance Mechanism								
Health and Safety								
Non-Employee Workers								
Supply Chain								

*[Note on table above: \* Child Labor and Forced Labor are the elements, at a minimum, that PS2 requires companies to track in their suppliers. You may choose to include the other elements listed above as your labor standards performance program evolves and you expand the scope of your Supplier Code of Conduct. This expanded scope is in keeping with global best practices.]*

# Supply Chain CSR Report

This is an example of a report that would be provided to the CEO, the Executive Committee and/or the Board. It consolidates information on the labor standards performance of all your suppliers as well as their related business performance. We suggest that it be sent jointly from the Labor Standards Performance Team and Sourcing department.

**Table 3 combines the labor standards performance ratings of suppliers with their business key performance indicators (KPIs).**

*[Note on report writing: Table 3 is really important as it allows you to look at the business performance of all suppliers at each labor standards performance level. Tracking this will create the foundation for building a business case that suppliers with better labor standards performance typically have better key performance indicators. We suggest that you create a separate table for each product group and a consolidated table for your entire supply chain. You can also modify this table to set annual improvement targets for the aggregate labor standards performance. You may consider tracking three-year rolling performance: current year, previous year, next year.]*

**Table 3 - INTEGRATED KEY PERFORMANCE INDICATOR REPORT**

Labor Standards Performance Rating	% of Suppliers	% of Volume	Business Key Performance Indicators (1-5)					
			Average score for all suppliers at the labor standards performance rating					
	%	%	Price	Quality	On-time	Lead-time	R&D	Total Score
5								
4								
3								
2								
1								



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