



Making Private Standards Work for You

A guide to private standards in the garments,
footwear and furniture sectors



CBI
Ministry of Foreign Affairs



Norad

Disclaimer

The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO), the Norwegian Agency for Development Cooperation (Norad) or Centre for the Promotion of Imports from developing countries (CBI) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as 'developed', 'industrialized' and 'developing' are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process.

Mention of firm names or commercial products does not constitute an endorsement by UNIDO, Norad or CBI.

The opinions, statistical data and estimates contained are the responsibility of the author(s) and should not necessarily be considered as reflecting the views or bearing the endorsement of UNIDO, Norad or CBI. Although great care has been taken to maintain the accuracy of information herein, neither UNIDO nor its Member States assume any responsibility for consequences which may arise from the use of the material.

This document has been produced without formal United Nations editing.

It may be freely quoted or reprinted but acknowledgement is requested.

Making Private Standards Work for You

A guide to private standards in the garments,
footwear and furniture sectors



CBI
Ministry of Foreign Affairs



Norad

Vienna, 2010

ACKNOWLEDGEMENTS

This publication is the product of a project funded by Norad and implemented by UNIDO, in cooperation with CBI, Netherlands.

UNIDO, Norad and CBI gratefully acknowledge the dedicated work of Mariëtte van Huijstee, Thijs Kerckhoffs and Bart Slob of SOMO (Centre for Research on Multinational Corporations, Netherlands), who served as the main authors of the Guide and Müge Dolun Bora (UNIDO) for supervising and coordinating the project and contributing to the numerous drafts of the Guide.

This publication has been produced under the overall guidance of Lalith Goonatilake, Director, Trade Capacity Building Branch, UNIDO with support from Gerardo Pataconi (UNIDO) and Bernardo Calzadilla-Sarmiento (UNIDO). Michele Clara and Natasha Weisert of UNIDO provided substantive comments throughout the project.

The authors wish to thank Mathew Alexander, Solomon Sampathkumar and KV Emmanuel of the Indian Leather Industry Foundation (ILIFO) who conducted the survey and the subsequent case study interviews in India on leather and footwear sector; Ana Brescancini, Tania Christopoulos and Selim Rabia who conducted the survey in the furniture sector in Brazil; Mutlu Karatas who conducted the first survey of textile and apparel companies in Turkey and Ismail Seymen who undertook the case study interviews.

Special thanks are due to Diana Hubbard for editing the document and to Martin Kellermann for peer reviewing the Guide.

Research assistance was provided by Christophe Marianne, Carl-Johan Hedberg and George Elfond. Victoria Nussbaumer and Ryan Cutting provided excellent project administrative support.

The project has significantly benefitted from background papers provided by Pierre Hauselmann, Pepijn Van de Port, and Alan Bryden.

The comments and suggestions of the following experts are also gratefully acknowledged: Ahmad Ansari, Anne-Laure Linget, Lilowtee Rajmun, Benan Vey, Padmasiri Mannakkara, Eranthi Premaratne, Slim Khedher, Le Van Dao, Halina Ward, Vera Scholz, Beer Budoo, Martin Neureiter, Olimpia Panfil and Manuela Boesenhofer. Many of the above mentioned participated in the plenary Expert Group Meeting and the workshop on the preliminary draft.

ACRONYMS

ASTM	American Society for Testing and Materials
AWS	Alliance for Water Stewardship
BSCI	Business Social Compliance Initiative
CB	Certifying Body
CBI	Centre for the Promotion of Imports from developing countries
CDP	Carbon Disclosure Project
CEN	European Committee for Standardization
CIES	Comité International d'Entreprises à Succursales/International Committee of Food Retail Chains
CMR	Carcinogenic, Mutagenic or Toxic to Reproduction
CoC	Chain of Custody
ETI	Ethical Trading Initiative
FLA	Fair Labor Association
FLO	Fairtrade Labelling Organization
FSC	Forest Stewardship Council
GCI	Global Commerce Initiative
GMO	Genetically Modified Organism
GOTS	Global Organic Textile Standard
GRI	Global Reporting Initiative
GSCP	Global Social Compliance Programme
HCVF	High Conservation Value Forest
IBS	IFOAM Basic Standards (IBS) for organic production and processing
IEM	Independent External Monitoring
IFOAM	International Federation of Organic Agriculture Movements
ILO	International Labour Organization
ISO	International Organization for Standardization
KPI	Key Performance Indicator
MRA	Mutual Recognition Agreement
NGO	Non-governmental Organization
OHSAS	Occupational Health and Safety Assessment Series
PBT	Persistent, Bioaccumulative and Toxic
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
SAAS	Social Accountability Accreditation Services
SAI	Social Accountability International
SVHC	Substance of Very High Concern
TNC	The Nature Conservancy
UNCED	United Nations Conference on Environment and Development
UNIDO	United Nations Industrial Development Organization
vPvB	very Persistent very Bioaccumulative
WBCSD	World Business Council for Sustainable Development
WEF	Water Environment Federation
WELS	Water Efficiency Labelling Scheme
WRAP	Worldwide Responsible Accredited Production
WRI	World Resources Institute
WSI	Water Stewardship Initiative
WWF	World Wide Fund for Nature

Contents

Summary	7
1. Introduction: why this guide?	11
2. The landscape of private standards	17
3. Buyer codes of conducts	31
4. Strategies for developing country suppliers	39
5. Trends	55
6. In conclusion	65
7. Glossary of international norms and initiatives	67

Boxes

Box 1: IKEA's IWAY standard	21
Box 2: The Forest Stewardship Council (FSC)	24
Box 3: The Oeko-Tex certificate	25
Box 4: Social Accountability International and SA 8000	28
Box 5: The story behind buyer codes of conduct: brands under pressure – the Nike case	31
Box 6: The H&M code of conduct	35
Box 7: The Ethical Trading Initiative (ETI)	36
Box 8: The Fair Labor Association (FLA)	37
Box 9: Indian leather company 'ILC' has not yet encountered any social and environmental buyer requirements	40
Box 10: Initial compliance costs at Indian leather footwear company 'Shu'	42
Box 11: Five things you should start doing when faced with a private standard – if you haven't already done so	43
Box 12: Turkish sportswear company 'Sporty' adopts a reactive strategy towards private standards	44
Box 13: Turkish textile company 'Yasmin' develops a code of conduct	46
Box 14: Some reference tools for developing a code of conduct	47
Box 15: Some available sources of training support	48
Box 16: Some available instruments and tools for implementing a social and/or environmental management system	49
Box 17: Forest Stewardship Council (FSC) certification of Brazilian furniture company 'Furnitura'	50
Box 18: A message from developing country suppliers to global buyers	52
Box 19: From voluntary standards to legislation – the case of organic agriculture	56
Box 20: The impact of the REACH regulation on buyer-supplier relationships	57
Box 21: Carbon footprint labels – some examples	59
Box 22: Harmonisation and benchmarking – the Global Social Compliance Programme	63





Summary

Global brand producers and retailers increasingly require their suppliers from developing countries to comply with certain social, environmental and safety norms. These norms are increasingly referred to as ‘private standards’. Compliance should, of course, not be a major problem for developing country producers when national laws and regulations already incorporate these standards. However, private standards imposed by producers of global brands and retailers may also go beyond national and local laws, and/or contain further conditions related, for example, to health and safety issues. A proactive strategy on the part of local manufacturers will make it easier for them to cope with such standards and will also lead to significant benefits, including competitive advantages, improved efficiency and, ultimately, more exporting opportunities.

This guide aims to provide producers in the footwear, garments and furniture sectors with some insights into the landscape of private standards and with guidance for turning private standards to their advantage. The information presented here is based on questionnaires and interviews with a sample of exporting companies from the footwear sector in India, the textiles and garments sector in Turkey, and the furniture sector in Brazil.

THE LANDSCAPE OF PRIVATE STANDARDS

It is important to stress that private standards are something other than the technical regulations and national, regional or international voluntary standards such as might be encountered in trading with any partner. Private standards focus on social, safety and environmental issues and are required by brand producers and retailers when they source their products. These standards come in various shapes and sizes. For example, not all private standards have the same focus and not all are of equal importance; labour issues seem more prevalent in the leather and garments sector, while requirements for compliance to certain environmental concerns are more common in the furniture sector. In addition, standards may be applicable to the production site and/or the product itself. Buyer codes of conduct usually refer primarily to production sites, while certificates and product labels most often

imply compliance with requirements related to both the production site and the product itself.

More variations between private standards are outlined in chapter 2, while chapter 3 shows the common denominators among the individual requirements in some of the buyer codes of conduct most often cited when carrying out our survey.

STRATEGIES

When a supplier has the necessary basic qualifications to export, such as scale and capacity, and also respects local and national laws, as well as the technical regulations and Sanitary and Phytosanitary (SPS) measures of importing markets, the company may well be in a position to develop a business relationship with global brands and/or retailers. The buyer involved will often require the supplier to comply with one or more additional private standards on social and environmental issues in order to ensure its own reputation as a globally responsible brand and to avoid any potential negative publicity.

Faced with this situation, a supplier can react in one of two ways – by adopting either a reactive or a proactive approach. The reactive approach implies that the supplier will comply with a new set of buyer demands each time it enters into a new business relationship. The proactive approach implies that suppliers adopt a more ambitious trajectory. This latter process starts by developing a vision and commitment, is followed by the introduction of and compliance with a set of serious social and environmental standards and ends with external verification in order to authenticate the new improved standards attained. By doing this, the enterprise will also benefit from increased competitive advantage, improved efficiency and a wider client base, to name just some of the benefits involved.

TRENDS

In the context of globalised manufacturing, it is clear that the content and focus of private standards will continue to evolve over the coming years. Private standards are constantly progressing, as evidenced by the dynamic relationship between these standards and technical regulations. Some private standards have emerged from basic laws while others have come from the opposite direction and have been translated into legislation. With regard to content, it is anticipated that ‘carbon footprinting’, in particular, will become more important. This principle goes beyond the energy efficiency of the end product since it includes

greenhouse gas emissions over the entire life cycle of a product, from raw materials through to disposal. Developing country suppliers will be increasingly pressured to limit their carbon footprint because of their business partners' commitment. The social and environmental concerns of brands and retailers have also led to a stricter requirement for compliance with their codes of conduct further down the value chain. Since buyers are increasingly aware of the risks to their reputation inherent in breaches of workers' rights, human rights violations and environmental degradation, their direct suppliers will need to have more control over what is happening with their own suppliers and/or sub-contractors in order to ensure the traceability of the end products.

A final – but still nascent – trend relates to the harmonisation and benchmarking of private standards as a response to the overwhelming growth in their number and variety. Yet, notwithstanding this multiplicity of private standards, new ones continue to emerge on a regular basis. From a supplier's perspective, harmonisation and benchmarking of private standards is especially welcome as this greatly simplifies compliance and leads to cost savings for both the buyers and the suppliers.



Introduction: why this guide?



Today, more and more companies in developing countries and emerging economies are becoming global producers. The liberalisation of consumer markets provides these companies with opportunities for exporting their products to global markets where they are increasingly required to comply with 'private standards', a phenomenon on the rise. Also known as (business) values, norms, ethics, codes, practices, guidelines, principles or morals¹, private standards are considered to be one way of promoting social development and environmental sustainability.

It is the role of the United Nations Industrial Development Organisation (UNIDO) to promote industrial development for poverty reduction, socially inclusive globalisation and environmental sustainability. The aim of this Guide is to provide some clarity in terms of the copious, but not readily accessible, information available on private standards, as well as to outline a strategic approach for suppliers in developing countries faced with this challenge.

THE BACKDROP

From a supplier perspective, private standards come to the fore when selling to globally operating brands and retailers. However, before coming to terms with the matter of private standards, a supplier entering the market for the first time will need to fulfil some basic qualifications in order to qualify as a potential supplier to these brands and retailers.

First and foremost, the enterprise must respect local and national legislation. Next, it needs the necessary scale and capacity to export, including product quality, competitive prices, sufficient volume (to meet large orders), and it should be capable of timely delivery; all this, in addition to complying with technical regulations and Sanitary and Phytosanitary (SPS) measures² in the target market. Compliance with

1 P. van de Port (Vrije Universiteit Amsterdam) during UNIDO Expert Group Meeting, Vienna, 8-9 May 2008.

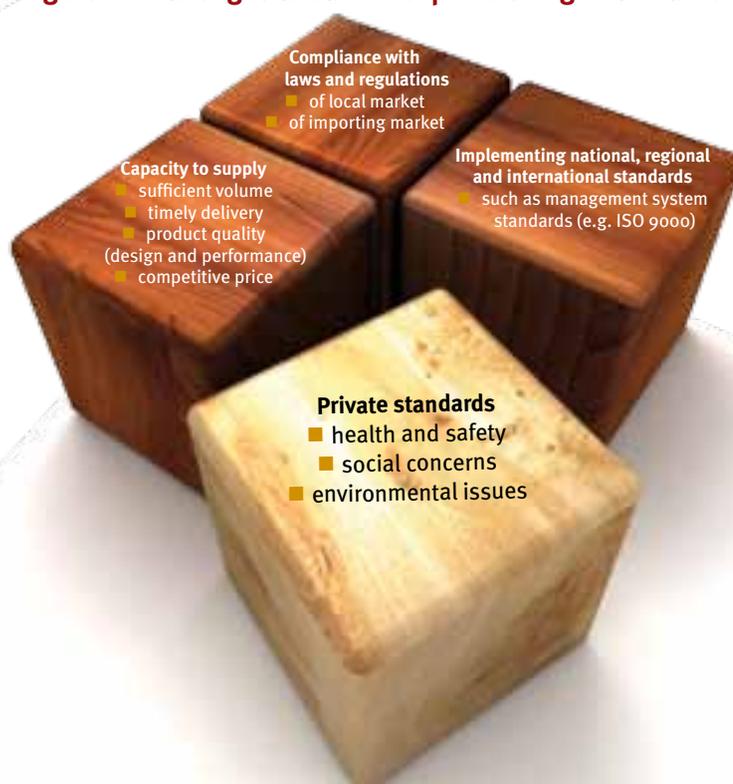
2 The World Trade Organization's Technical Barriers to Trade (TBT) Agreement sets the basic rules so that regulations, standards, testing and certification procedures do not create unnecessary obstacles, while the Sanitary and Phytosanitary Measures (SPS) Agreement governs how governments can apply food safety and animal and plant health measures.

the basic qualifications often involves the introduction of a quality management system, such as ISO 9000.

Once developing country producers fulfill these technical conditions and, in addition, can comply with private standards, access to international supply chains should be much easier and thus create new export opportunities. However, if exporting companies fail to comply, they will probably find themselves excluded from certain exporting channels. Should this happen, private standards will actually end up functioning as a trade barrier.

Faced with this scenario, this Guide aims to provide producers in the leather, garments and furniture sectors, who wish to sell to major retailers and brands, with information on the complex landscape of private standards. It provides some strategic guidance to enable suppliers in developing countries to make sure that private standards operate to their advantage. It should also be helpful for exporters in other sectors.

Figure 1: Challenges ahead for exporters to global markets



EMERGENCE OF PRIVATE STANDARDS

The growing importance and influence of private standards has some clear causes. Consumers in developed economies, as well as civil society organizations in those parts of the world, are showing growing concerns about the social and environmental conditions prevailing in countries participating in the supply chains of products that are sold into their markets. As cases of severe breaches of workers' rights, human rights violations and environmental degradation caused by corporate activity reach the public, consumer confidence in the responsible conduct of the major brands and retailers decreases.

At the same time, these cases of misconduct indicate that national governments in developing countries often fail to enforce national and international norms and regulations. Consequently, globally operating companies find themselves faced with the challenge of responding to this governance gap.

Furthermore, as consumer awareness on production and consumption patterns grows, the desirability of differentiation in the market place in relation to social and environmental production criteria also increases. These developments have contributed to the response from large brands and retailers who are setting stricter standards within their supply chains with the aim of improving the social and ecological performance of developing country producers along the whole length of these chains. In essence, many multinationals use private standards as an instrument of supply chain management and as a mechanism to gain marketing advantage over rivals.

Nowadays, the proliferation of private standards which originated in Europe and the United States of America is increasingly spreading to brands and retailers in the Asia-Pacific and Latin American regions. It will probably spread even further around the globe as markets become more developed.

PRIVATE STANDARDS VERSUS OTHER EXPORT REQUIREMENTS

Suppliers to globally operating brands and retailers face a wide array of requirements, including **private standards**, **mandatory technical regulations** in importing markets and **national, regional or international voluntary standards**. It is often hard to distinguish these requirements from each other so this section offers definitions of these different categories of requirements.

In the case of **technical regulations**, such as certain safety regulations and chemical restrictions (for example, REACH – Registration, Evaluation, Authorisation and Restriction of Chemicals), the responsibility for proving conformity often lies with the importer of that product. In practice, however, the responsibility for proving compliance is transferred down the supply chain through business-to-business contracts. Thus, exporters in developing countries find themselves confronted with these requirements, which they may misinterpret as being private standards.

Private standards are also confused with the **international voluntary standards** that are developed by international standards development organizations, such as the International Organization for Standardization (ISO) and the Codex Alimentarius. These requirements may relate to production processes, product design and performance. Although the standards developed by these organizations are voluntary, they are not considered ‘private’ because they are prepared by the international standardization community and are based on international consensus among member bodies, which are governmental, parastatal or non-governmental. Such international voluntary standards can be part of the contract between a supplier and a buyer.

As a subset of voluntary standards, **product design and performance standards** are also a significant element of contracts between suppliers and buyers. For example, there are numerous tests for textile performance that have been established (and are periodically reviewed) by standards organizations, such as the American Society for Testing and Materials (ASTM, www.astm.org), or the European Committee for Standardization (CEN). Information on such standards is widely available and consequently they are not examined in this Guide. Even though technical regulations and international voluntary standards may be just as important as the social and environmental requirements of brands and retailers, this Guide focuses on the latter and makes use of the following definition of private standards as:

Voluntary initiatives not mandated by government, that:

- focus on social, environmental and safety issues;
- set requirements for products and/or production processes; and
- may be developed by specific companies, company consortia, and/or by civil society organizations.

CONTENTS OF THIS GUIDE

The Guide focuses on private standards in the garment, leather and furniture sectors. These sectors were selected because they appear in the top five developing country exporting sectors in international trade statistics. The food sector is excluded since considerable knowledge already exists on the role and functioning of private standards in this area. Safety issues are less prominent in this Guide, as they are less significant in our selected sectors than in the food sector. The insights provided on private standards in the three selected sectors will focus on social and environmental issues, and are based on questionnaires and interviews with exporting companies in these sectors in India, Brazil and Turkey. Again, these countries were selected because each of them appeared in the top five exporting countries for one of the sectors.³

The guide covers the following subjects:

- An overview of the landscape of private standards, providing exporting companies with information on the different types and requirements of private standards (Chapter 2)
- A deeper insight into buyers' codes of conduct, including the common points in their requirements (Chapter 3)
- Insight into the strategies that developing country producers follow when confronted with private standards, including costs and benefits of compliance (Chapter 4)
- An analysis of emerging trends in private standards (Chapter 5)
- A 'wrap up' section, highlighting the key messages of the report (Chapter 6)
- A glossary of international norms and initiatives (Chapter 7)

³ More information on research methods and selection can be found in the background paper available at www.unido.org/privatestandards



The landscape of private standards



Defining ‘a private standard’ is almost impossible for there exists a multitude of norms, guidelines, codes and initiatives with different types of communication and verification mechanisms that are collectively considered as private standards. In fact, most private standards are not ‘standards’ in the strictest sense of the term. Even within these various types of standard, there are wide differences with regard to the application and governance required, their substantive focus, level of stringency, and auditing processes. In this chapter, an attempt is made to capture this variety in private standards by providing an overview of a broadly representative set of such standards.

The 17 standards included in this chapter⁴ were selected on the basis of survey research among developing country exporters⁵, combined with some widely recognized standards in this area. In Table 1 on the cover of this guide, the selected standards are classified according to five characteristics: sector, type, focus, application, and conformity assessment. Below, the variations in these, and several other areas are explained.

TYPES OF STANDARD

Several types of private standard can be distinguished and can be roughly divided into **buyer codes of conduct**, **certificates**, and **product labels**. Compliance with a **buyer code of conduct** is often required by brands and retailers, such as H&M, IKEA or Wal-Mart. Suppliers and other exporting companies are requested to adhere to the requirements outlined in those codes of conduct. As a result, compliance is often a

4 The selected private standards are Social Accountability (SA) 8000, Forest Stewardship Council (FSC), Oeko-Tex, Fairtrade Labelling Organization (FLO), Global Organic Textile Standard (GOTS), Worldwide Responsible Accredited Production (WRAP), Business Social Compliance Initiative (BSCI), Fair Labor Association (FLA), and the codes of conduct of Nike, Adidas, Marks & Spencer, H&M, Deichmann, Pier 1, IKEA, Wal-Mart, and Gap Inc.

5 The surveys covered 37 furniture exporters in Brazil, 29 textiles/apparel exporters in Turkey, and 39 finished leather/footwear exporters in India. In Turkey, a further four companies were consulted in the latter part of the study. These companies were asked to provide insights into the private standards with which they are confronted. The standards most often cited in each of these sectors are included in this chapter.

prerequisite for initiating and/or continuing a business relationship with such a global company. More in-depth information on buyer codes of conduct in our sample is provided in Chapter 3.

A certificate can also be issued on the basis of a private standard, such as the Forest Stewardship Council (FSC) and Social Accountability International standards denoting that the auditing process has been successfully completed against the requirements in the standard. Certification can be undertaken for products as well as for management systems. Although a certificate is sometimes requested by a buyer, the certification process is often initiated by suppliers in order to differentiate themselves in the market. The certificates most often mentioned in the surveys are described in more detail in the text boxes in this chapter (Boxes 1, 2 and 3).

Products can also be labelled for the consumer in order to differentiate them with regard to environmental and social performance criteria established in a standard. For example, the Oeko-Tex label stands for skin-friendly clothing or textiles. Product labelling often also involves certification of a company’s working methods. In fact, such certification is coupled with all the product labels in our sample.

Table 2: Standards most often cited by type and sector

	Certificates	Certificates and product labels	Codes of conduct
Textiles	Worldwide Responsible Accredited Production (WRAP)	Oeko-Tex, GOTS and Fairtrade	Business Social Compliance Initiative (BSCI), Fair Labor Association (FLA), H&M, Marks & Spencer, and Gap Inc.
Leather and footwear	SA8000	n/a	Nike, Adidas, and Deichmann
Furniture	n/a	Forest Stewardship Council (FSC)	Pier 1, IKEA, and Wal-Mart

SECTOR

The importance and prevalence of private standards vary among sectors. As mentioned earlier, consumer concerns about health and safety, as well as social and environmental conditions in the supply chain of different products, have been one of the major drivers behind the proliferation of private standards. More so than in other industrial sectors,

this makes brands and retailers in textiles and garments, leather and furniture, who have in the past faced considerable negative publicity, more aware of the importance of setting standards for the social and ecological performances of their suppliers.

Table 3: Number of exporters in the sample requested to comply with codes of conduct and the most commonly encountered certificates by sector

	Compliance required with Buyers codes of conduct	Certificates most often requested
Furniture (total: 37)	24%	Forestry Stewardship Council (FSC): 24%
Footwear (total: 39)	90%	SA8000: 44%
Textiles and Apparel (total: 29)	72%	Oeko-Tex: 90% Global Organic Textile Standard (GOTS): 48%

The surveys conducted among developing country exporters demonstrate that Brazilian furniture exporters are confronted with far fewer private standards than the Indian leather and footwear exporters and Turkish textiles exporters (see Table 3). This might be explained by the fact that textiles and footwear have been the sectors that have experienced the longest and strongest public pressure. However, this is not to imply that the wood and furniture sectors have escaped public pressure entirely. Concerns about the disappearance of rainforests worldwide have affected wood and furniture companies. The establishment of the Forestry Stewardship Council (FSC) certification scheme has responded to this concern and 24% of Brazilian furniture exporters now have FSC certification. Although this figure is lower than the percentages of the certificates most commonly held by Turkish textile exporters (90% Oeko-Tex, 48% Global Organic Textile Standard – GOTS) and Indian leather exporters (44% SA 8000⁶), it is noteworthy that, in a relatively less demanding market in terms of buyer codes of conduct, 24% of suppliers in Brazil still have FSC certification.

6 Approximately a further 25% of Indian leather exporters expect to become SA8000 certified within the next two years, which would mean that almost 70% of them would be SA8000 certified by 2012.

Some standards have been specially developed to address issues in a specific sector, while other standards are cross-sectoral, meaning that they are applied and can be adopted by companies in very different sectors. For example, while FSC certification was originally developed for the wood and wood processing sectors, SA8000 has a cross-sectoral application as it focuses on labour conditions at manufacturing sites in many different sectors.

FOCUS

When it comes to the content of private standards, some focus more on labour issues while others are mainly concerned with environmental and chemical issues. Again, this is not a 'black and white' divide. For example, while the Business Social Compliance Initiative (BSCI) code of conduct is mainly concerned with labour conditions in the supply chain, it also lays down environmental requirements. The buyer codes of conduct reviewed for this section were also mainly concerned with labour, mostly dedicating just one paragraph to the environment, with the exception of the IKEA and Wal-Mart codes, where environmental topics are more thoroughly addressed. The FSC certification scheme combines environmental and social concerns (see Box 2), while Oeko-Tex (Box 3) and the Global Organic Textile Standard (GOTS) concentrate on ecological, as opposed to social and/or labour issues. The themes behind private standards are clearly correlated with those social and environmental issues that have received most attention in their respective sectors.

Even when the focus of two private standards is the same (e.g. labour issues), and the elements they include are also comparable (e.g. child labour, freedom of association), the stringency of the requirements may still vary with the individual standard. For example, requirements on the abolition of child labour may differ in the minimum age for workers (e.g. 14 or 15 years old). Some requirements may basically entail compliance with national laws, while others go beyond the expectations of national governments.

Furthermore, the stringency between requirements within a standard may differ. While some requirements are rather absolute, meaning that a company/supplier has to comply with certain requirements in order to start or continue a business relationship, other requirements stress the need to make progress on a certain issue within a specific period of time (see IKEA IWAY standard, Box 1).

Box 1: IKEA's IWAY standard

IKEA is the largest home furniture retailer in the world. As of August 2009, the chain had 301 stores in 37 countries, most of them in Europe, North America, Asia and Australia. IKEA has formulated formal social and environmental requirements for its suppliers in the IWAY standard, which is applicable to all external suppliers and service providers.

The IWAY code has six initial, basic requirements which are absolute musts before a business relationship can be formalised. They relate to the prevention of child labour; forced and bonded labour; severe environmental pollution; severe safety hazards; keeping records on working hours and wages; and providing workers with accident insurance. A supplier must comply with these six basic requirements before making its first delivery to IKEA. After this, within the following 12 months, the supplier must have implemented the remaining requirements, which cover further issues related to the environment; chemicals; hazardous and non-hazardous waste; fire prevention; worker health and safety; housing facilities; wages, benefits and working hours; discrimination; freedom of association; and harassment, abuse and disciplinary actions.

IKEA includes social and environmental requirements in its basic contract with suppliers, much in the same way that conditions like agreements on delivery volumes and timing are part of the contract. Suppliers are thus fully aware of the buyer's requirements at the moment the contract is signed. The costs of compliance are to be borne entirely by the supplier. The obvious benefit of complying with IKEA's code is that the supplier gains access to a customer who buys in large volume. Other benefits from compliance with the IWAY standard are sustaining the supplier's work force, better preparedness to comply with future requirements of other new buyers, increased competitiveness, savings (e.g. energy/waste), inventory improvement, and increased efficiency. IKEA comments that "Complying with our requirements is like cleaning your garage" and describes itself as a "demanding customer". Next to the social and environmental requirements, IKEA has high quality and delivery-security demands. It is for the supplier to decide whether it feels the investment needed to meet the requirements of the IWAY code is worth the effort and to ensure that it can still maintain an adequate profit margin.

IKEA monitors compliance with its code through audits. As a standard procedure, an audit will be done before the first delivery to check the minimum compliance with the six IWAY initial requirements and, again, 12 months after the contract enters into force, to check compliance with the remaining requirements. Then, once the supplier is approved, an audit will take place at least every 24 months although unannounced audits may be performed earlier.

The company employs some 80 auditors who perform audits continuously, announced and unannounced. In addition, it has a monitoring group that checks the quality and consistency of its auditors. Furthermore, as an external check, IKEA also uses third party auditors to verify itself. IKEA will check on compliance with its supplier requirements by asking for verification, as well as 'real life' checks and interviews. The company does not actually prescribe *how* the supplier should comply – only *what* the requirements are. This means that the type of verification may well differ from supplier to supplier. "It's about the requirement as such", not about the process used to comply.

If non-compliance is encountered with the six basic IWAY requirements, IKEA will stop delivery immediately although the contract itself may not be terminated immediately if there is reason to believe that the supplier will make the necessary adjustments. Where non-compliance with other requirements is found, suppliers will be given time to make improvements while delivery continues. The company might give advice to suppliers and is open to discussion on how compliance might be achieved. Ultimately, however, compliance is considered to be the supplier's responsibility.

More and more buyers are introducing initiatives similar to the IWAY standard. On this subject, IKEA notes "Suppliers can share the audit reports with other clients but they should not use them in their marketing because things may change. We, ourselves, will never share results with competitors." IKEA encourages suppliers to set up a system of compliance to make it easier to comply with similar initiatives. Once there is a monitoring and verification system in place, audits will take less time.

Sources: www.ikea.com and Interview with J. Skjelmoose, Sustainability Manager at IKEA, on 20 April 2010

APPLICATION

Another important aspect of private standards concerns the scope of application: some apply to business processes at the production site (e.g. SA 8000), while others also include requirements related to the products themselves (e.g. Oeko-Tex).

Private standards that apply to a production site in its entirety, such as SA 8000, include requirements on business practices, such as health and safety requirements for workers and living wages. Where the standard involves certification, it is the company that becomes certified, not a specific product. When complying with this type of standard, either all business processes – including all production lines – are certified, or none.

Private standards that include product requirements, such as the absence of certain hazardous materials, often involve labelling of the product, by which it is differentiated from other products in its product group. A company can choose to make only products according to this standard but, in principle, could also produce according to this standard and, at the same time, maintain regular product lines as well (such as producing ‘regular’ t-shirts and ‘organic’ t-shirts).

The application of private standards to products or production sites is not a clear cut issue; it is more of a sliding scale. For example, while the Oeko-Tex standard proposes labelling textile products in accordance with its requirements, it also offers certification of production sites. Furthermore, compliance with product requirements implies that changes in production processes have been made and this, in turn, can have an impact on corporate governance and other business processes. For example, the FSC chain of custody certification places high demands on the traceability of the certified wood and involves separate production lines and trained personnel.

Among the private standards selected for this chapter, none solely applies to the product. Instead, they either apply to the production site, or include a combination of product and production site requirements. This suggests that most private standards that lay down social and environmental requirements will also include production site requirements.⁷

⁷ Other private standards may be specifically targeted at setting product requirements, such as quality or design requirements but these fall outside the scope of this Guide.

Table 4: Private Standards most often applied, by sector

	Production site standards	Production site and product standards
Textiles	WRAP, Fair Labor Association (FLA), BSCI, H&M, Marks & Spencer and Gap Inc.	Fairtrade, Oeko-Tex and GOTS
Leather and footwear	SA8000, Nike, Adidas and Deichmann	n/a
Furniture	Pier 1, IKEA and Wal-Mart	FSC

The basic categories of private standard were described above and relate to their type, focus, and scope of application. But the differences between private standards do not end here. Other variables concern the way the standard is governed, the extent to which the standard refers to international norms, and the method of conformity assessment.

GOVERNANCE

As previously explained, private standards are either developed on a cross-sectoral basis or are more precisely targeted at a specific sector. Furthermore, various ‘stakeholders’ (i.e. actors with a ‘stake’ in the social and/or environmental problems at hand) may be involved in the development and governance of the standard. Some standards are company specific, such as H&M’s code of conduct. Others, such as the Business Social Compliance Initiative (BSCI), are initiated by a group of companies, and yet others have been developed in cooperation between companies, non-governmental organizations, trade unions and/or governments. Some standard owners (the entity who writes the standard) also get involved in the accreditation of third parties to certify the standard or they themselves may have a subsidiary company which certifies the standard. Examples of the latter are the FSC and Social Accountability International (SAI). They originally established accreditation departments to ensure the governance of their schemes, and these have now become independent, not-for-profit companies. In general, initiatives with involvement of civil society carry more customer recognition and public support in western countries.

Box 2: The Forest Stewardship Council (FSC)

Founded in 1993, the FSC⁸ is a non-profit initiative for responsible forest management, developed in partnership with industry, social and environmental groups. The Council developed the first large certification scheme for sustainable forest management⁹ and aims to improve social and environmental practices in forest management worldwide. As of 1 January 2010, FSC-certified forests covered 120 million hectares worldwide (3% of the total global forest area)¹⁰. The FSC does not, itself, certify forest managers and companies, rather it accredits certification bodies to do so. The certification involves product labelling, making it possible for consumers, as well as buyers, to recognise FSC-products, demonstrating that they have been produced in a responsible manner.

The FSC standard is performance based and requires effective, specifically described and verifiable measures to ensure sustainable forest management. The system provides for two types of certification: forest management certification, which ensures that a forest area or plantation is managed to high standards covering social, environmental and economic issues; and chain of custody certification, which traces the wood from those forests through all stages of processing and distribution. The FSC forest management standard is based on ten principles: 1) compliance with all applicable laws and international treaties; 2) demonstrated and uncontested, clearly defined, long-term land tenure and use rights; 3) recognition and respect of indigenous peoples' rights; 4) maintenance or enhancement of the long-term social and economic well-being of forest workers and local communities and respect of workers' rights in compliance with International Labour Organization (ILO) conventions; 5) equitable use and sharing of benefits derived from the forest; 6) reduction of the environmental impact of logging activities and maintenance of the ecological functions and integrity of the forest; 7) an appropriate and continuously updated management plan 8) appropriate monitoring and assessment activities to assess the condition of the forest, management activities and their social and environmental impacts; 9) maintenance of High Conservation Value Forests (HCVFs), defined as environmental and social values that are considered to be of outstanding significance or critical importance; and 10) in addition to compliance with all of the above, plantations must contribute to reduce the pressures on and promote the restoration and conservation of natural forests.

Wood and paper processing companies can be required by their buyers to use inputs that are FSC certified. This means that a supplier needs to obtain the FSC Chain of Custody certificate (CoC). This so-called CoC certification refers to the path taken by raw material from being harvested from an FSC-certified source through processing, manufacturing, and distribution until it is a final product ready for sale to the end consumer.

The FSC has defined the following steps for completion before a company is granted CoC certification:

- Contact an FSC-accredited certifier
- Submit an application to the certifier, which will be used to determine whether certification is feasible
- Complete an onsite audit
- Certification approval, which means the facility and processes are considered adequate and leads to signing a contract in which the terms of assessment are agreed
- Annual audit

Only certified producers are allowed to label products with the FSC trademark, making it possible for consumers to identify products that provide an assurance of social and environmental responsibility. The certificate helps to protect the buyer's brand and thus their reputation.

Source: Forest Stewardship Council, 2010, www.fsc.org.

8 The FSC certificate was mentioned the most often by Brazilian furniture exporters: 9 out of 37 producers (24%)
9 Visseren-Hamakers, I. J. and P. Glasbergen. 2007. Partnerships in forest governance. *Global Environmental Change* 17(3-4): 408-419

10 United Nations Economic Commission for Europe and the Food and Agriculture Organization of the United Nations, *Forest Products Annual Markets Review 2007-2008*, page 113, <<http://timber.unece.org/fileadmin/DAM/FPAMR2008.pdf>>

Box 3: The Oeko-Tex certificate

The Oeko-Tex certificate¹¹ is limited to companies in the textile and clothing industry and gives proof of the human and ecological safety of textiles. Oeko-Tex has established several product classes, with corresponding requirements and tests, based on the degree to which the product comes into contact with the skin: the closer to the skin, the stricter the human and ecological requirements. The product classes are the following:

- Textiles and textile toys for babies and small children up to the age of three (e.g. underwear, romper suits)
- Textiles which, when used as intended, have a large part of their surface in direct contact with the skin (e.g. underwear, bed linen)
- Textiles which, when used as intended, do not come into contact with the skin, or only have a small part of their surface in contact with the skin (e.g. jackets, interlining materials)
- Furnishing materials for decorative purposes (e.g. table linen and curtains)

The tests for harmful substances are based on a test catalogue which includes the list of mandatory tests according to Oeko-Tex and the limit values of substances used in the production of textiles. When the Oeko-Tex certificate is issued by the relevant institute or certifying body, it confirms that the requirements of the Oeko-Tex Standard 100 and of a common product class have been successfully tested. Certification involves extensive laboratory tests to prove that all components, including accessories, comply with the specified test criteria without exception. The certificate issued is valid for 12 months and the certified manufacturer is then entitled to mark successfully tested products or article groups with the Oeko-Tex label and is also permitted to use other forms of advertising relating to the standard.

The certification process starts with an application in writing from a manufacturer to one of the authorised testing institutes. The testing and certification of textile products at all stages of processing is done by independent bodies located exclusively in the member institutes in Europe and Japan so as to ensure a consistently high level of testing. The tests, as well as the certification system, are based on three principles, namely:

- Appropriateness, which refers to the potential of harmful substances and is based on the principle that the more textile comes into contact with the skin, the higher the human ecological requirement will be.
- Modular principles, which make it possible to certify textile products at all stages of the processing chain. Moreover, duplicate tests can be avoided by the use of certified source materials.
- Comprehensive security, which means that textile products may only be certified if all components meet the requirements of the product class.

Source: Oeko-Tex, 2010, www.oeko-tex.com

REFERENCE TO INTERNATIONAL NORMS

Private standards are often inspired by widely recognised international norms and initiatives meant to promote social and/or environmental responsibility. The best known and cited initiatives are the Core Conventions of the International Labour Organization (ILO), the Universal Declaration of Human Rights, the Rio Declaration on Environment and Development, the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, and various ISO Standards, such as ISO 14001 and ISO 26000. A description of these international norms and initiatives is included in the glossary in Chapter 8.

¹¹ The survey of Turkish textiles and garment manufacturers shows that almost all – 90% – of the suppliers comply with the Oeko-Tex standard. Another standard often mentioned by suppliers is the Global Organic Textile Standard (GOTS). Almost half the suppliers participating in the survey comply with the GOTS requirements.

Even though many private standards refer to one or all of the above international norms, they vary considerably as to the degree of commitment required. Some stipulate compliance with the exact provisions of specific clauses or conventions in these international norms, while other standards state that they are based on one or more international norms. Furthermore, the stringency of the wording of the provisions is an indication of the degree of commitment they require; some provisions allow more flexibility in their interpretation than others.

CONFORMITY ASSESSMENT

A standard can have no impact in terms of market access if compliance is not required, verified and communicated. In basic terms, conformity assessment embraces those activities which determine whether the requirements of the standard are met. The most common examples include testing, auditing, certification and suppliers' declarations of conformity.

Depending on the application of the standard, the conformity assessments are either related to the product and/or the production site. Conformity assessments of the social and environmental aspects of products require procedures that are followed in the whole chain of custody – the channel through which products are distributed from their origin to their end use. Given the growing scope and complexity of products that are covered by private standards, such as furniture produced from sustainably managed forest, or bio-textiles from organic cotton, all actors in the value chain face increasing conformity assessment costs.

In many cases, brands and retailers which require their suppliers to comply with certain conditions monitor this compliance by means of audits. These audits are either conducted by the supplier itself (internal audit), the brand which owns the standard, or by an external party (consultants, independent body or accredited parties). In general, it is argued that independent and third party accredited audit systems instil greater confidence that the standards are being applied consistently across suppliers, thus creating a level playing field.

An auditor assessment of a company's social and ecological performance generally involves:

- Physical observation of all the departments and machinery at the production site

- Verification of documents (e.g. payslips, birth certificates)
- Interviews with company employees at all levels

After data collection, the auditors prepare a report which incorporates the audit findings and possibly a corrective and preventive action plan. Both the auditor and the production site manager discuss the corrective actions and agree on the steps required to ensure adherence to the requirements, including a timeframe for implementation.

Exporting companies sometimes show concern that audits will divert management time and resources, disrupt workflow, and/or challenge planning processes.¹² Although there may be disadvantages involved with buyer audits, successful social audits bring significant benefits as well, such as improvements in the production process and increased profitability through exporting large volumes to globally operating brands and retailers with significant market shares (see Chapter 4).

The costs of auditing against private standards can either be borne by the supplier, the buyer, or both and they vary according to the particular standard. As a general rule, audits by buyers against their codes of conduct are covered by the buyer (e.g. Nike Code of Conduct), while costs for certification are mostly covered by the supplier (e.g. FSC). However, there are exceptions to this rule.

¹² World Bank, Strengthening implementation of Corporate Social Responsibility in global supply chains, p. 18 <http://siteresources.worldbank.org/INTPSD/Resources/CSR/Strengthening_Implementatio.pdf>

Box 4: Social Accountability International and SA 8000

In 1997, Social Accountability International (SAI) started to develop a cross-sectoral standard for auditing and certifying corporate responsibility known as SA 8000.¹³ This standard focuses on the social performance of a company and, in particular, of manufacturers and suppliers. The SA 8000 is continuously developed and revised in close cooperation with companies, consumer groups, non-governmental organizations, trade unions, governmental agencies and certification bodies. It includes principles on Child Labour, Forced Labour, Health and Safety, Freedom of Association and the Right to Collective Bargaining, Discrimination, Discipline, Working Hours, Compensation, and Management Systems. These principles are based on the core ILO Conventions, the Universal Declaration on Human Rights and the most relevant Conventions of the United Nations.

Should suppliers be obliged or wish to become SA 8000 certified, they must assess their practices and policies against the requirements of the standard. The standard is verifiable and the verification process is evidence-based, which means that the burden of proof is on the supplier. As a result, suppliers should maintain appropriate records and ensure access to their premises and to reasonable information required by the auditor in order to demonstrate conformance to the requirements. In addition, the supplier should pledge to make reasonable efforts to ensure that the requirements of this standard are being met by its own suppliers and subcontractors within its sphere of control and influence.

When a supplier wishes to seek SA 8000 certification, the process starts with an application to an auditing firm or certification body accredited by the Social Accountability Accreditation Services (SAAS). These are the only organizations entitled to assess compliance with the standard and, if appropriate, to issue an SA 8000 certificate. The SAAS recommends contacting at least three such auditing firms to compare the cost of certification services. The fee is determined by each individual auditor and varies according to the size, scope and location of the factory, and the number of days the auditor needs to conduct the audit. The fee typically ranges between US\$500 and US\$1,500 per day. Global costs associated with obtaining certification include:

- The cost associated with taking corrective and preventive action in order to qualify for compliance; After this, an organization would seek verification of its compliance
- The cost of preparing for the audit
- The cost of an independent audit by an SAAS-accredited Certifying Body
- The cost associated with taking corrective actions to resolve problems (if non-conformances have been identified)

If a certificate is issued, the facility is required to make its certification public. The certificate is valid for three years, with surveillance audits necessary every six months. If problems are found during a surveillance audit, or a complaint is received, the auditors may return sooner.

The Social Accountability International organization offers practical training with the aim of improving understanding of the standard and the social performance of suppliers. It also organises CSR Awareness Seminars, based on best practices, on integrating CSR into existing business operations. As of 31 December 2009, SAAS accredited bodies had certified a total of 2,103 facilities, with around 1.2 million employees. These facilities are spread over 63 different countries and 66 types of industries.

Source: Social Accountability International, 2010 www.sa-intl.org; Social Accountability Accreditation Services website, 2010 www.saasaccreditation.org.

¹³ The Indian survey shows that the private standard most often referred to is the Social Accountability 8000. Around 44% of the suppliers were SA8000 certified and this percentage is expected to rise within the next two years up to almost 70%.





Buyer codes of conducts



In this chapter, buyer codes of conduct are examined in more detail. These codes comprise the largest group of private standards identified through the exporters' surveys and they are also the fastest growing group of standards, as more and more individual companies develop their own codes of conduct. However, they are also the least well known and analysed type of private standard, which may be attributable to the fact that each individual code has a limited scope of application – namely, it is a pact between the buyer company and its supply chain. Nevertheless, all these buyer codes combined have an enormous outreach, which certainly justifies in-depth analysis.

Box 5: The story behind buyer codes of conduct: brands under pressure – the NIKE case

Since the early 1990s, a large number of sporting goods manufacturers have been under fire for allegedly tolerating poor working conditions in their supplier firms in a number of developing countries. The US-based Nike Inc. was at the forefront of the issue. A number of civil society groups called the company to account because of extremely poor working conditions in several of its supplier factories in South East Asia. At first, the Nike Board did not pay too much attention. However, when the conflict reached the front page of the New York Times, both the company's share price and its sales figures fell. In May 1998, Nike decided to insist on serious improvements in working conditions at suppliers' factories by means of stricter controls and prohibiting the use of child labour. At the same time, the company revised its code of conduct to include an increase in the minimum age of employees to 18 years, a condition which even went beyond the ILO guidelines. However, negative reports of working conditions in factories in Indonesia, where a third of Nike shoes were manufactured, continued to surface and the company's supply chain continued to be scrutinised. In 2001, Nike funded a research report on conditions in its factories in Indonesia entitled "Workers' Voices: An Interim Report on Workers' Needs and Aspirations in Nine Nike Contract Factories in Indonesia". Nike openly acknowledged the unacceptable working conditions in its factories in Indonesia and undertook to address the situation, including making supervisors responsible for monitoring matters such as sick leave and wages. Other initiatives introduced as a result of the report were the establishment of an auditing department and increased transparency with regard to its supplier base.

Source: Van Tulder and Van der Zwart. International Business-Society Management, 2006.

Table 5: Common denominators in buyer codes of conduct

Common topics in buyer codes	Requirements most often included in buyer codes
Child labour	<ul style="list-style-type: none"> ■ Codes cite Minimum Age Convention of the International Labour Organization (ILO 138) and UN Convention on Rights of the Child ■ Minimum working age of 15 - or 14 for developing countries not included in article 2.4 of ILO convention 138 - even when national provisions state younger age ■ Compliance with any local or national legislation that stipulates a higher age than 15 ■ Documentation confirming date of birth of workers
Forced labour	<ul style="list-style-type: none"> ■ No forced, prison, bonded or involuntary labour ■ No taking away of employee's identification papers or passport ■ Employee should be free to leave
Non-discrimination	<ul style="list-style-type: none"> ■ No discrimination in recruitment and employment practices on the grounds of race, religion, belief, gender, ethnic background, disability, political affiliation, national origin, sexual orientation, material status ■ Recruitment and employment practices should refer to hiring, compensation, access to training, benefits, promotion, termination and retirement
Wages	<ul style="list-style-type: none"> ■ Must be at least equivalent to or higher than minimum wage laid down by local or national legislation ■ Must be at least equivalent to or higher than the industry benchmark wage ■ Overtime must be compensated ■ No deductions from wages on disciplinary grounds
Working hours	<ul style="list-style-type: none"> ■ Normal working week should not exceed 48 hours ■ Overtime should be on a voluntary basis and should not exceed 12 hours in any single week ■ Total working week should not exceed 60 hours ■ Where the provisions of national or other applicable law improve on these conditions, then the latter prevails ■ Some codes also stipulate at least one day's rest in any seven day period

Common topics in buyer codes	Requirements most often included in buyer codes
Freedom of association	<ul style="list-style-type: none"> ■ Freedom for employees to join or organise a workers' association and to engage in collective bargaining ■ No disciplinary action is to be taken if employees join or organise an association ■ Some codes also stipulate that, even where freedom of association is not permitted under national legislation, the employer should not prevent its workers from organising or joining an association
Health & safety	<ul style="list-style-type: none"> ■ Compliance with all applicable laws and regulations on health and safety ■ Employer should provide a safe and healthy workplace ■ Employer should take pro-active measures to prevent accidents and injuries ■ Some codes stipulate specific measures, e.g. emergency exits, firefighting equipment, water, sanitation, lighting, ventilation, first aid kits and safety training
Harassment	<ul style="list-style-type: none"> ■ Verbal, sexual, physical, or psychological harassment is not permitted ■ The respect and dignity of employees must be ensured
Contract labour	<ul style="list-style-type: none"> ■ Some codes stipulate that employees must be issued with a written contract
Housing	<ul style="list-style-type: none"> ■ Some codes include requirements on housing facilities for employees, which may include the following: <ul style="list-style-type: none"> ■ respect of applicable legal requirements on dormitories, facilities and living space ■ fire safety ■ segregated showers and toilets for men and women
Environment	<ul style="list-style-type: none"> ■ Compliance with all applicable laws and regulations on environmental matters ■ Some buyer codes of conduct refer to a separate policy document on environmental matters ■ Include provisions on pollution (air and water), limited toxic substances, hazardous waste ■ Efficient and responsible use of natural resources

SIMILARITIES AMONGST BUYER CODES

In view of the proliferation of buyer codes, it is certainly advisable that exporting companies come to terms with the content of these codes, which provide insights into the buyer requirements with which they are expected to comply. The buyer codes of conduct most often mentioned in the surveys conducted in Turkey, India and Brazil were selected for analysis.¹⁴ This exercise resulted in the identification of the most common topics and requirements included in the codes. Table 5 shows these features of buyer codes.

DIFFERENCES IN BUYER CODES

Buyer codes show great similarity in the aspects they address and there is also a clear convergence in the requirements they lay down. Nevertheless, the codes do differ in some respects. Examples of additional requirements are, for example, related to maternity leave, a free meal for workers every day, or ventilation systems in production areas. Furthermore, some buyers may be more demanding than others on specific points. For example, while the one company may refer only to national legislation, others may demand compliance with stricter international norms. In some instances, buyer requirements may even be conflicting. For example, conflicting requirements with regard to the demarcation of emergency exits have been documented, with one buyer demanding green demarcation and the other yellow. Given these differences, a supplier entering into a new business relationship may incur additional compliance costs even though it already complies with one or more other codes.

Fortunately, there is a trend towards streamlining the requirements in buyer codes of conduct, which is further elaborated on Chapter 5. An inside view into the specifics of these codes is provided in Box 1 – The IKEA IWAY Standard and Box 6 – H&M’s Code of Conduct. These case studies are based on online company information, combined with interviews with representatives of IKEA and H&M.

¹⁴ The codes of conduct of the following multinational corporations have been analysed: Nike, Adidas, H&M, M&S (incl. the Ethical Trading Initiative (ETI)), Deichmann, Pier 1, IKEA, Wal-Mart and Gap Inc.

Box 6: The H&M Code of Conduct

The Swedish multinational garment company, H&M, sources its clothes and other products from about 700 suppliers who, in turn, use subcontractors. This means that there are around 2,700 production units and hundreds of thousands of people involved in the manufacture of H&M products.

When a potential supplier approaches the company, or when H&M is in need of more production capacity, it starts to identify new suppliers. The first step is to look at what the supplier is producing, what other brands are sourcing from that supplier and how the management is operating. If a supplier is considered suitable, local staff of H&M invite the company's management to discuss inter alia the quality systems used by H&M and working methods. To qualify as an H&M supplier, a company must comply with some minimum requirements on Corporate Social Responsibility (CSR), such as not using child labour¹⁵ and paying minimum salaries according to local laws. Moreover, H&M recognises that not all its suppliers meet every single requirement from the outset. In this case, it will seek a commitment from the supplier that it will implement changes as necessary. Where a new supplier already has its own code of conduct or a certificate, such as SA 8000, this is "a bonus", as it indicates that there are likely to be fewer points on which that supplier will need to improve and also that it has the right mindset. The supplier has to sign up to various commitments before starting business with H&M and one of these is signing up to H&M's Code of Conduct¹⁶. The process is then followed up by H&M going through the list of necessary requirements that need compliance, including social and environmental standards, with the new supplier.

H&M prefers to do business with suppliers that have export experience, whether they have in house production units or whether they outsource to subcontractors. The H&M Code of Conduct applies to their "direct suppliers, other business partners and manufacturers of goods or services for H&M and their downstream subcontractors".

The company monitors adherence to the code by both the supplier and any subcontractors and employs a team of 60 full-time auditors. These auditors perform announced and unannounced audits every 18 to 24 months, with follow up visits every 6 to 12 months, depending on the condition of the factory. An audit involves interviewing the management and employees, visiting the factory and reviewing the necessary documents, such as attendance and salary records. The factory visits can also take place during the weekend and at night to see if production is running to schedule, to compare operating hours with time records, and to detect unreported overtime. Moreover, visits are sometimes scheduled on pay day to check whether the wages register corresponds with the amounts that the workers have been paid.

In addition to these safeguards, H&M is a member of the Fair Labor Association (FLA), which also audits some of the H&M suppliers and, in this way, actually monitors H&M's own auditing procedures. All audit costs are borne by H&M and, according to the company, many suppliers even look on the auditing as "free consulting services". The audit results are not yet shared with other brands but, should another brand contact H&M on this matter, it might share its general thoughts about such a supplier with that other brand.

Should one of those suppliers not meet these requirements, H&M will start to work together with that company on an action plan to improve working methods within a certain time limit. This commitment is part of the business relationship between H&M and its suppliers and is followed up with visits and a grading mechanism.

If a supplier or a subcontractor fails to remedy the infraction within an agreed time line, or when violation is frequently reported, H&M will consider terminating the business relationship. Such a drastic measure might be accompanied with an exit strategy, depending on the importance of the business relation between H&M and the supplier.

Sources: www.hm.com and interview with P. Karlsson and M. Karlsson, Managers at H&M Far East Trading Office in Istanbul, Turkey on 6 May 2010.

15 The code of conduct states that in case "a supplier does not accept our policy on child labour, we will not continue to co-operate with this supplier".

16 This code of conduct is based on the UN Convention on the Rights of the Child and the ILO's conventions on Working Conditions and Rights at Work.

MULTISTAKEHOLDER INITIATIVES

In addition to monitoring adherence to their own code, some buyers may join a multistakeholder initiative that conducts additional monitoring. These initiatives involve multiple actors with a 'stake' in the social and/or environmental problems in question, such as civil society organizations, trade unions, and/or governmental authorities, alongside business actors. Multistakeholder initiatives provide independent verification on compliance with the social and/or environmental requirements laid down in codes of conduct. Examples of these initiatives are the Ethical Trading Initiative (ETI), (see Box 7) and the Fair Labor Association (FLA, see Box 8). When a buyer is a member of such an initiative, its suppliers may face two different audits: one by the buyer, and one by the multistakeholder initiative. For example, since Adidas and Nike are members of the FLA, their suppliers are audited by FLA, in addition to the buyers' own audits. Such audits by multistakeholder initiatives are usually carried out unannounced.

Box 7: The Ethical Trading Initiative (ETI)

The Ethical Trading Initiative (ETI) is an alliance of companies, non-governmental organizations (NGOs) and trade unions aimed at improving working conditions in global supply chains. It is mainly focused on the UK market but is open to companies in other countries.

Participating companies commit themselves to the ETI's Base Code, which is based on ILO conventions, and to its implementation by signing up to ETI's Principles of Implementation. Member companies report annually on their efforts and the results they are achieving at farm or factory level.

Each year, the ETI Secretariat, together with representatives from its trade union and NGO membership, conducts random validation visits to a minimum of 20% of its reporting members. The purpose of these visits is to check that the company's management processes and systems for collecting data for its annual report are consistent and reliable. The visits also help build dialogue with member companies about the progress they are making as well as any problems that arise.

Once company annual reports have been reviewed by the ETI Board, the Secretariat provides detailed feedback to each company, identifying areas where progress has been made and those where further action is required. If member companies do not make sufficient progress, or fail to honour their membership obligations, ETI terminates their membership.

Source: www.ethicaltrade.org

Box 8: The Fair Labor Association (FLA)

Incorporated in 1999, the Fair Labor Association (FLA) is a collaborative effort of socially responsible companies, colleges and universities, and civil society organizations to improve working conditions in factories around the world. The FLA has developed a Workplace Code of Conduct, based on ILO standards, and created a practical monitoring, remediation and verification process to achieve those standards.

Companies that join the Association commit to establishing internal systems for monitoring workplace conditions and maintaining code standards, as part of a rigorous system of Independent External Monitoring (IEM) and public reporting on the conditions in their supplier factories. The FLA accredits independent third-party monitors and engages them to conduct unannounced audits annually of a group of randomly selected factories that supply products to FLA-affiliated brands. To ensure transparency, the results of the IEM audits are published on the FLA web site and in the FLA Annual Public Report. The FLA is the only labour rights initiative to publish the results of its systematic monitoring efforts.

The Fair Labor Association also responds to workplace labour violations through its Third Party Complaint mechanism. Anyone – a worker, advocate, company, or individual – can contact the Fair Labor Association to report code violations at a factory supplying products to an affiliated company. Complaints are kept confidential and rigorously investigated. When violations are found, the FLA publicly reports them and works with all stakeholders to find sustainable solutions.

The FLA requires that companies work with the factories to ensure that violations of the Code are corrected through the development and implementation of a remediation plan. The Association reports on remediation efforts and, in addition, conducts verification audits to confirm ongoing progress in a sample of audited factories.

Source: <http://www.fairlabor.org/>



Strategies for developing country suppliers



When exporting to global markets, suppliers in developing countries will – sooner or later – be required to comply with private standards. Faced with this situation, exporting companies can respond in one of two ways: by adopting a reactive strategy or a proactive strategy, with the latter ultimately enhancing the exporter’s competitive advantage in the market place. However, before considering these strategies, exporting companies need to meet some basic qualifications that will be determining factors in setting up a business relationship with global brands and retailers.

These basic qualifications are described below, followed by a description of a reactive and a proactive strategy. The strategic approaches outlined are mirrored in real life examples given in the boxes, based on in-depth interviews with selected suppliers included in the surveys on which this Guide is based.

MEETING THE BASIC QUALIFICATIONS NEEDED IN ORDER TO TRADE

Irrespective of their location in the value chain, developing country producers will, first and foremost, need to fulfil a set of basic qualifications in order to trade. These are:

- sufficient scale (i.e. the ability to deliver orders in the volumes required)
- competitive price
- good quality
- consistency and reliability
- ability to meet the target markets’ mandatory technical regulations and SPS measures including health and safety regulations (i.e. to pass customs inspections and achieve pre-market product approval if applicable)

In terms of social, environmental and safety issues, all companies are called upon to respect the laws that apply to them. This is a given. From a more strategic viewpoint, since many national laws are based on the same internationally agreed standards and conventions as private standards, compliance with national laws will often take a company a long way in meeting the requirements of private standards, if and when they are faced with them.

Clearly, many producers in developing countries have not yet encountered private standards. These companies are often found further down the value chain (e.g. subcontractors of exporting companies) and might be selling through wholesalers or distributors, or they may be producing for local, regional or other markets that are less demanding in terms of social and environmental production conditions. However, even a company that has not yet been confronted with private standards can already meet a large portion of compliance criteria without being externally audited or certified, as illustrated by the case in Box 9.

Box 9: Indian leather company 'ILC' has not yet encountered any social and environmental buyer requirements

ILC¹⁷ indicates that it complies with all local laws and regulations but does not adhere to any buyer codes of conduct since it has not so far been required to do so. The company employs its own internal auditors to verify that it meets local norms and regulations and feels that the norms contained in any buyer code of conduct would already be reflected in existing national legislation. Since it is complying with these local norms and regulations and, thus, already maintains an acceptable level of social standards, it should not be a major problem for the company to adhere to a buyer code if required to do so in future. ILC says that it is prepared to comply with a code of conduct, if this is a precondition attached to the placing of new orders. The company recognises that private standards are important for buyers, who need to be able to confirm that the factories from which they source do, as a minimum, comply with local norms. If ILC is called upon to comply with a buyer code, the company anticipates that compliance costs would include consultant fees, training, auditor's fees, welfare measures provided for employees, and documentation.

¹⁷ Real names are not used for the companies referred to in this chapter for reasons of confidentiality.

**PRIVATE STANDARDS:
GETTING INVOLVED AND KNOWING WHAT LIES BEFORE YOU**

Many global brands and retailers will only consider entering into a business relationship with a supplier that fulfill the above basic qualifications. If this is the case, the company may become a (potential) supplier and it is at this point that it needs to properly understand the requirements involved in aspiring to achieve compliance with a buyer’s code of conduct.

Private standards involve both costs and benefits. Most of the costs should more properly be looked on as investments since, in the long run, they can result in higher returns. These investments do not only create export opportunities because brands and retailers require compliance, they will often also contribute to enhancing the company’s competitiveness and can make operations more efficient. For example, improved health and safety measures might result in a decrease in absenteeism. Virtually all the companies interviewed for this guide indicated that their competitiveness has improved as a result of efforts to improve social and environmental conditions at their production sites since these changes have, in turn, enabled them to attract new clients. Furthermore, many companies indicated that their efforts have boosted employee morale, with subsequent rises in productivity.

Table 6: Investments in versus benefits of private standards

Investments / Costs	Outputs / Benefits
<ul style="list-style-type: none"> ■ Infrastructure investments (refurbishment/ renovations) 	<ul style="list-style-type: none"> ■ Improved efficiency and productivity
<ul style="list-style-type: none"> ■ Additional organizational units/ departments for managing compliance 	<ul style="list-style-type: none"> ■ Starting or maintaining business relationships with high volume/ high value buyers
<ul style="list-style-type: none"> ■ Additional labour costs (for new employees, training, wages) 	<ul style="list-style-type: none"> ■ Attaining preferred buyer status
<ul style="list-style-type: none"> ■ Software and hardware investments (e.g. new safety equipment, information technology, documentation systems) 	<ul style="list-style-type: none"> ■ Improved corporate image ■ Improved employee welfare and motivation (lower absenteeism, lower number of work-related accidents)
<ul style="list-style-type: none"> ■ Consulting and auditing fees 	<ul style="list-style-type: none"> ■ Higher profitability

When first confronted with private standards, producers in developing countries may face dilemmas or tradeoffs between continuing their ‘business as usual’ and their buyers’ requirements. A major problem encountered by suppliers is the trade off between buyer demands in terms of product prices and delivery times, on the one hand, and

demands in terms of labour conditions, on the other. For example, many buyer codes of conduct prescribe a maximum number of working hours per week, per employee in relation to labour rights and norms. Yet, if buyer demands in terms of production time and volume remain high, suppliers may face a trade off between respecting norms on maximum working hours and the company's productivity level. Employees may be required to be more productive in less time and, unsurprisingly, this is not always a welcome development for those employees. Another common complaint is that the norms imposed by the predominantly western buyers may not naturally match the local culture. For example, one of the companies in our survey indicated that its buyers pose restrictions on using temporary contract labour although, in reality, its (mostly female) workers tend to prefer temporary, instead of permanent, work contracts and wish to work on a piece rate basis.

Many suppliers face problems when dealing with private standards for the first time (see Box 10). When private standards pose requirements that go beyond national law, compliance may require unforeseen investment, as well as knowledge and experience the company does not yet possess. In all cases, establishment of a management and documentation system to comply with a buyer's standards starts with five basic steps (Box 11).

Box 10: Initial compliance costs at Indian leather footwear company 'Shu'

Shu indicated that the cost of compliance with the standards of its client company – a high end apparel brand – were high in the beginning. The client started its audits while production was still in the start-up phase. As Shu was only just starting operations, it was not fully conversant with some of the requirements of the client's code of conduct and was, in fact, failing to comply on some of the points examined. However, the auditors provided a timeframe of three months to take corrective measures to ensure compliance and this allowed Shu the time needed to implement the required measures. Steps taken included the marking of walkways, the creation of safe assembling spaces, the provision of certain additional safety measures in the factory premises, and facilities for training outside the factory. The total cost involved in this initial phase was Indian Rs.1.5 million (around US\$32,000). The recurrent costs of compliance with buyer codes of conduct relate to documentation, additional manpower, training of new employees, audit fees and consultant fees, amounting to Rs.700,000 (around US\$15,000) per year.

Companies are advised to monitor the costs, investments and benefits attached to private standards from the moment they start implementing the social and environmental requirements, as this will create a

record of the resulting benefits measured against the costs incurred. For example, in addition to the five basic steps recommended in Box 11, it is also good practice to keep records of electricity and water bills, and to set up a basic traceability system in terms of flow of goods from raw material suppliers through sub-contractors to final despatch of the product from the company. Setting up a traceability system involves identifying the production chain, as well as the basic documentation needs at each stage. It is quite feasible to start by setting up a simple manual system.

Box 11: Five things you should start doing when faced with a private standard – if you haven't already done so

1. Ensure you have copies of all relevant local laws and regulations that apply to your sector (incl. health and safety, environmental, and labour regulations)
2. Study the standard and identify the additional requirements
3. Make an internal audit list
4. If you do not have one, start a basic documentation system including as a minimum:
 - copy of all worker IDs
 - record of hours worked by each employee
 - record of salary earned by each worker
5. Designate a staff member to be trained and to be responsible for achieving and maintaining compliance with laws and regulations

PRIVATE STANDARD STRATEGIES

The fundamental rationale for exporting companies from developing countries who need to comply with social and/or environmental buyer requirements is simple. Basically, they have to accept that private standards and buyers codes of conduct are not going to go away and, if they wish to start or continue a business relationship with these buyers, they will need to comply with their codes of conduct. To put it differently – either suppliers comply with their (potential) buyer's requirements within an agreed timeframe or their contract will not materialise or will terminate after a certain time. This reality can be tackled in either a reactive or proactive manner. The latter course is recommended since the proactive strategy will bring with it competitive advantages in the long run.

REACTIVE STRATEGY

The reactive strategy basically refers to a supplier company implementing only the minimum requirements needed in order to comply with buyer demands. As individual buyer codes are unique (notwithstanding their similarities, see Chapter 3), and, more importantly, buyer demands are moving targets since customer demands are constantly evolving, this means suppliers will continuously be confronted with new requirements. From the supplier's perspective, the consequence is that, even when the company complies with one or more buyer codes of conduct, each new buyer added to the client portfolio will still mean additional compliance costs and additional audits.

Box 12: Turkish sportswear company 'Sporty' adopts a reactive strategy towards private standards

Sporty produces sports- and casual wear. Its buyers include major brands like Nike, Next, Reebok, Quicksilver, Adidas, Timberland, and Puma. Sporty does not have its own code of conduct but adheres to all its customers' codes of conduct.

The company started to comply with these codes simply because its clients demanded it did so. It has experienced economic, as well as capacity, difficulties in reaching compliance. Apart from training of employees, examples of expenditure incurred by Sporty to comply with buyer codes are the following:

- setting up a kindergarten in response to Adidas' requirements
- establishing a new storage system for dangerous waste, as per H&M requirement
- making additional fire exits in different locations of the factory, as per Reebok's requirements

When asked about the benefits of compliance, the company asserts that there have been no particular benefits apart from continuity in orders from global brands. In fact, in the interview, the company raised the following question: "How responsible are these global buyers if they dictate their standards upon us?" (translated from Turkish).

The case of 'Sporty' in Box 12 is typical of a company which adopts a reactive strategy. It is apparent that this company does not 'own' its social and environmental practices, nor has it internalised a social or environmental commitment. Instead, it follows up on buyer demands whenever they arise. In other words, it responds to demands instead of anticipating them. By continuing to lag behind its buyers' demands, Sporty will incur new costs each time a buyer adds new requirements, or each time a new buyer comes in. A much more positive and rewarding approach to private standards is offered by the proactive strategy, which is outlined below.

PROACTIVE STRATEGY

When confronted with private standards, the initial most obvious reaction may be to become compliant with buyer demands in the ‘piecemeal’ manner outlined above. Once an exporting company is successful in its compliance with one global buyer, markets often open up and the company may well then encounter opportunities to increase its client base even further. This means that the company will be faced with more and more private standards, in which case adopting a proactive strategy will prove more efficient and effective in the long run.

By following such a strategy, the developing country producer and/or exporting company assumes ‘ownership’. Instead of passively waiting for additional buyer requirements to materialise, the company actually starts to anticipate future requirements. The basic rationale behind this strategy is to minimise confrontation with unexpected requirements and additional compliance costs each time a new buyer comes in, while capitalising on the benefits offered by introducing an efficient management system.

This means adhering to some of the more ambitious social and environmental standards and thus requires some expertise and investment. Consequently, this strategy may be particularly suited to companies that have reached considerable production volumes and are ready to streamline their business processes. In addition to the benefits listed in Table 6, the additional benefits when compared with the reactive strategy are streamlining and simplifying compliance with buyer requirements and demonstrating social and environmental performance in the market place, something which may well attract new customers.

A proactive strategy may take multiple forms depending on each company’s individual circumstances and its associated strengths, weaknesses, opportunities and threats. There may be no such thing as a blueprint for a proactive strategy but there are many tools and instruments to help develop such a strategy (see Boxes 14, 15 and 16). Nevertheless, every proactive strategy will include the elements described below:

1. Vision and commitment
2. Implementation
3. External verification

1. Vision and Commitment

A proactive strategy will only work if it has the commitment of top management. Since such a strategy involves considerable investment and requires persistence and consistency, its success should not be dependent on one or just a few members of the workforce but requires the active involvement of top management. This is the prerequisite for integrating the strategy into the company culture and business processes.

As a starting point for the proactive strategy, management will need to commit to a vision of the company's social and environmental performance. A good way to formalise this vision is to develop an own code of conduct, which lays out the company's social and environmental commitments (see Box 13 for an example of a Turkish textile company that has followed this route).

Box 13: Turkish textile company 'Yasmin' develops a code of conduct

An interesting example of an exporting manufacturing company with a proactive approach is Yasmin. This company has developed its own code of conduct in its efforts to incorporate social responsibility into its corporate culture. The company management is convinced that "to ensure continued access to these important export markets, producers have no alternative but to make the necessary investment to comply with the requirements of private codes of conduct and quality standards." Its code covers the major social and environmental topics. Some buyers pose additional requirements to Yasmin's own code, compliance with which involves additional costs. Apart from its code of conduct, the company is SA 8000 certified – being the first and only textile company in Turkey to hold this certificate – and this gives it a considerable competitive advantage and preferred supplier status with some major global brands.

Developing a code of conduct helps the company to regain control and start streamlining production processes proactively and in an ambitious manner. However, some buyers will not be satisfied with such commitment alone; they will still want to verify it by means of their own (independent) auditors. But, an ambitious code of conduct signals a company's commitment towards buyers and may raise their interest in the company and help attract new customers. In Box 14, several reference tools for developing a code of conduct are listed.

Box 14: Some reference tools for developing a code of conduct

The Ethical Trading Initiative (ETI), an alliance of companies, trade unions and voluntary organizations aimed at improving the lives of people that produce consumer goods, has developed the **ETI Base Code** for common use. It is available at www.ethicaltrade.org > Resources

The Fair Labor Association (FLA), a collaborative effort of socially responsible companies, colleges and universities, and civil society organizations to improve working conditions in factories around the world, has developed a workplace code of conduct for common use. It is available at www.fairlabor.org > About us > Workplace code of conduct

In the publication 'Route to Social Compliance', the Société Générale de Surveillance (SGS) presents a **model code of conduct** that companies may use to develop their own policy (pages 27-31). The publication can be downloaded from the SGS website at www.sustainability.sgs.com

2. Implementation

Once the company's vision and commitment on the social and environmental dimensions are developed, it will need to develop a plan and procedures to implement those commitments. This will most probably involve staff training. Furthermore, it will involve monitoring. Companies are advised to develop a couple of key performance indicators (KPIs) to track their progress from the start of implementation – the baseline – onwards and these might include indicators on productivity, employee sick leave, work related accidents, employee satisfaction, energy efficiency, effluent water quality, etc. This exercise will provide insights into the costs and benefits of the social and environmental measures and will also help to build the business case, which involves collecting data to demonstrate the profitability of an investment.

Box 15: Some available sources of training support

UNIDO's Responsible Entrepreneurship Achievement Programme (REAP) enables SMEs to integrate social and environmental aspects into their core business strategy. Based on the Ten Principles of the UN Global Compact, as well as international standards in the social and environmental domains (e.g. ISO 14001, ISO 26000, SA 8000, and the Occupational Health and Safety Assessment Series – OHSAS 18001), REAP provides a structured framework for training and counselling in combination with analytical software, which can be used to gather, process, and evaluate firm-level data to track and report on progress during Corporate Social Responsibility (CSR) implementation. For more details, see <http://www.unido.org/reap>.

For companies from developing countries interested in exporting to the European Union, the Centre for the Promotion of Imports from developing countries (CBI), which aims to help strengthen the competitive capacity of SME exporters and producers in developing countries, provides training and coaching. More information can be obtained at www.cbi.eu.

Some global brands and retailers offer training and capacity building to their suppliers for implementing their codes of conduct. Some business associations and chambers of commerce also provide training. Suppliers are advised to obtain more information and to see whether these training options are available to them.

Once a monitoring system is in place, the company may consider reporting on its performance and progress. This may streamline external audits even further and, subsequently, may be used in external communication. Reporting increases the transparency of the company, an aspect which is increasingly valued by buyers, customers and authorities alike.

As many tools and instruments are already available to help companies develop a social and/or environmental management system, this Guide will not repeat the effort. Instead, Box 16 lists some useful instruments recommended by well established organisations and initiatives.

3. External verification

Once the developing country supplier has developed a solid code of conduct and put in place management systems for implementation and monitoring, the company should be able to stand the test of external verification.

The final step in a proactive strategy is for the company to seek independent external verification of social and environmental performance through an accredited certification body. This can also be subsequently used for external promotion. Certification offers benefits but is a costly and ambitious project requiring exporting companies to be at a relatively advanced stage in improving the social and/or environmental aspects

Box 16: Some available instruments and tools for implementing a social and/or environmental management system

The international Organization for Standardization (ISO) is finalising an international standard providing guidelines for social responsibility named **ISO 26000**, to be released at the end of 2010. The standard offers guidance on socially responsible behaviour and possible actions. In contrast to other ISO management system standards, it cannot be used as a basis for certification. Information is available at www.iso.org/sr

The United Nations Global Compact (a UN-led voluntary business initiative for learning and reporting on corporate social responsibility) has developed several practical guides and instruments to assist companies in achieving social compliance. The **UN Global Compact Management Model** can be particularly useful and can be downloaded from www.unglobalcompact.org > 'About Us' > Tools and resources.

Another useful instrument developed by the Global Compact is the self-assessment tool. This is available at <http://www.globalcompactselfassessment.org>

The Fair Labor Association has developed an **Assessment Portal** that offers a wide range of tools to assess the level of code compliance of companies and suppliers. The portal offers both general and specific assessments to give companies and suppliers a snapshot of their current labour compliance status. Information can be accessed at ap.fairlabor.org.

Companies may also find guidance in the requirements and implementation measures outlined by **certification schemes**. Without necessarily applying for certification, companies may use the schemes as guidance for developing their own code and management system, whilst at the same time preparing for possible certification in the future.

For specific guidance on environmental management systems, the **United Nations Environment Programme** is a useful starting point. Practical publications can be downloaded from: www.unep.org/resources/business/Publications

The Global Social Compliance Programme (GSCP) is a business driven global platform to promote knowledge exchange and best practices in order to build comparability and transparency between existing systems. The Programme has also developed some insightful **environmental implementation guidelines**. All GSCP reference tools can be downloaded on the right side of the home page at www.gscpnet.com.

For guidance on reporting of social and environmental performance, the Global Reporting Initiative (a multistakeholder network based organization that has developed and continues to improve a social reporting framework and guidelines) is an authoritative source. The **GRI reporting framework and guidelines** are available at www.globalreporting.org/ReportingFramework.

of their business processes. Box 17 provides an example of the costs and benefits associated with compliance.

In most sectors of the economy, there are one or more social and/ or environmental certification schemes available. For example, research for this Guide showed that the Forest Stewardship Council (FSC) certificate is dominant in the Brazilian wood sector, SA 8000 in the Indian leather

sector, and Oeko-Tex in the Turkish textile sector. Such certificates serve as an external communication and marketing tool, demonstrating high social and/ or environmental standards that may attract new customers. Furthermore, some buyers may recognise certain certifications as best practice and this enables a company holding such certification to reduce the number of buyer audits it requires. This is the case, for example, of companies that are members of the Business Social Compliance Initiative (BSCI), who recognise SA 8000 as best practice.

Box 17: Forest Stewardship Council (FSC) certification of Brazilian furniture company 'Furnitura'

Furnitura is certified according to the FSC scheme (see Box 1). The company cited marketing objectives as the main reason for obtaining certification. Having achieved the certification, Furnitura found that it was recognised as a company that respects the environment and behaves responsibly towards its community. This was true not only of Furnitura's current buyers but also of prospective buyers. As one of the few FSC certified companies in Latin America, Furnitura has gained a competitive edge through certification.

The case of Furnitura provides an insight into the costs associated with FSC certification. For FSC certified wood, the processing of timber needs to be transparent at all times, allowing for the complete traceability of the raw material. This is a complex matter and results in higher production costs. For example, the sawmill used should be different to the one used for non-certifiable wood. Other related costs are extra human resources to monitor the process, and costs for buying additional sawmills to separate the certified timber. Furnitura estimates that the costs associated with achieving FSC certification are between 3% and 5% of total product costs.

Certification can be an expensive process. In addition to implementing the social and environmental requirements, which may be an expensive exercise in itself, there are the fees of the certifying body and its auditors. While costs may fall considerably once initial investments have been made and certification is received, there are recurrent costs in retaining and updating the certification. These cannot always be transferred to the buyer. Even though buyers prefer certified suppliers, they are often not willing to pay a higher price for the product.

The outcome of a cost-benefit analysis of certification will vary according to the individual company. Compliance may entail more changes for some companies than for others. Moreover, some firms will emerge from certification with a greater competitive advantage than others. Every company considering certification must decide for itself whether the benefits outweigh the costs.

SUPPLIERS' EXPERIENCE WITH PRIVATE STANDARDS

The survey and interviews with exporting companies in the Brazilian furniture sector, the Indian footwear sector, and the Turkish textile sector indicated that private standards are a reality which has to be confronted when seeking to export to global markets. Although complaints about the costs involved are abundant (also see Box 12), most companies can identify clear benefits as well, including improvements in their internal business processes, increased competitive advantage and employee welfare (see Table 6). Private standards thus incur costs, investments and benefits for developing country exporting companies.

A proactive strategy will help these companies to reduce unforeseen compliance costs and to take advantage of market opportunities. Nevertheless, some problems and dilemmas over private standards are hard to overcome in a situation where buyers continue to pressurise developing country suppliers into lowering their prices and shortening delivery times. Buyers thus have an active role to play in facilitating compliance with their private standards. In Box 18, this supplier message to brands is further developed.

Box 18: A message from developing country suppliers to global buyers

Suppliers often indicate that buyers are not willing to pay more for goods that are produced in accordance with social and environmental buyer requirements. As such, the costs associated with improving conditions may translate into falling profit margins for the supplier or, alternatively, the social and environmental buyer requirements will be viewed as 'cosmetic'. The following quote from Moss (2009) illustrates this point very well: 'The compliance department pushes suppliers to meet social standards. They want suppliers to reduce overtime and pay a living wage. They audit to verify compliance. Then the sourcing department comes in and pushes for cheaper prices and faster delivery. If a brand sends a mixed message, the supplier will listen to the sourcing department. Why? Because the supplier will listen to the department that is issuing the purchasing order. The only way for a brand to send a consistent message to suppliers is if there is internal agreement inside the brand on the content and tone of that message. Brands need to have complete internal agreement between the departments before they can present a unified front to suppliers. It is impossible for companies to send a consistent message to suppliers unless social compliance measures are integrated into both the sourcing and merchandising departments' supplier evaluation system'.

To balance out the costs involved in guaranteeing compliance, it is important that buyers and suppliers not only commit themselves to improving certain social and/or environmental issues but also commit to a long-term business relationship. Moreover, buyers could contribute to the suppliers' compliance costs or both parties could undertake joint investment in certain assets. Other issues for consideration by buyers when wishing to introduce specific supplier requirements concern cross-cultural differences and the availability of information on the buyer's requirements in the native language of the suppliers. Poor translations and ignorance of the cultural differences between suppliers and buyers, such as the fear of losing face when indicating that something has not fully been understood, can lead to misunderstandings.

Sources: C. Moss. 2009. Key performance indicators for social compliance in the supply chain in D. Leipziger. SA8000. 2009. – The first decade. E.R. Pederson and M. Anderson. Safeguarding corporate social responsibility (CSR) in global supply chains: how codes of conduct are managed in buyer-supplier relationships in Journal of Public Affairs 6 (3/4): 228–240 2006. The Chartered Institute of Purchasing & Supply and Traidcraft Exchange. 2010. Win/win: achieving sustainable procurement with the developing world.





Trends

5

Private standards in the garment, furniture and footwear sectors are similar in many ways. However, there are differences in focus and emphasis. In order to distinguish themselves, retailers will constantly adapt, sharpen or even loosen their standards, as a reflection of the demands, needs and expectations of their stakeholders. New standards are constantly being introduced, different stakeholders are progressively getting involved in the development and implementation of these standards and their relationship with regulatory frameworks is observed closely. As private standards increase their role in many industries, some important trends can be identified. In this chapter, some of the main trends that are likely to impact on the development and implementation of private standards in the next three to five years are described.

DYNAMIC RELATIONSHIP BETWEEN TECHNICAL REGULATIONS AND PRIVATE STANDARDS

Over the past 30 years, many standards in the area of consumer health and safety have evolved into legislation. On the other hand, many legislative requirements have translated into stricter private requirements. This dynamic relationship between technical regulations and private standards is illustrated by the requirements on the labelling of organic products which have been converted into legislation in the European Union and the US (see Box 19) and by the impact of the EU REACH regulation for the registration, evaluation and authorisation of chemicals on buyer-supplier relationships (see Box 20).

Box 19: From voluntary standards to legislation – the case of organic agriculture

Organic agriculture is a production management system that promotes and enhances biodiversity and soil activity. It is a system that relies on ecosystem management rather than external agricultural inputs. The system excludes the use of synthetic inputs, such as synthetic fertilizers and pesticides, veterinary drugs, genetically modified organisms (GMOs), preservatives, additives and irradiation. Although methods of organic farming may vary slightly, they largely follow the standards set forth in the IFOAM Basic Standards (IBS) for Organic Production and Processing.

In 2007, the European Union decided to develop specific legislation on the organic production, labelling and import of food products. This legislation, which is laid down in three different directives, is based on the requirements first established by the voluntary IFOAM (International Federation of Organic Agriculture Movements) standards. Currently, in spite of the requirements of other organic labels, all products marketed as organic in the EU must, as a minimum, comply with the mandatory EU standards. Organic products that do not comply with the directives cannot be sold as organic in the EU.

The current legislation does not cover cosmetics and textiles. Nonetheless, the example of organic standards shows that, what is voluntary today, may in future be required by law.

It is expected that this type of dynamic relationship will continue since many buyer representatives perceive technical regulations as being too weak and international voluntary standards as too slow to adapt to the prevailing situation mainly because of lengthy stakeholder discussions in technical committees. On the other hand, regulators may perceive the multiplicity of private schemes as a case for further (smarter) regulation, especially when it comes to consumers' exposure to health and safety and environmental risks, areas where market forces are unlikely to deliver the desired level of compliance.

Box 20: The Impact of the REACH regulation on buyer-supplier relationships

The REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulation 2006 requires EU based manufacturers and importers of chemicals to gather hazard information and to assess risks. REACH also requires prior authorisation of the use of some particularly hazardous substances and restricts the marketing and use of certain chemicals and mixtures.

The key part of REACH affecting the textiles, footwear and furniture sectors is certain provisions on substances in *articles*¹⁸, if these substances are intended for release and if they are substances of very high concern (SVHCs)¹⁹.

Since EU importers must conform with the REACH regulation, suppliers are, and increasingly will be, requested to provide information on:

- chemicals used in the production of the article
- whether these chemicals are intended for release from the article (e.g. through washing of a shirt)
- whether more than one tonne of the chemical is used per year, if that chemical is intended for release
- where SVHCs are present in the product, is this at levels in excess of 0.1% by weight

One of the responses to the REACH regulation came from the Oeko-Tex Association, which has published revised and expanded test criteria, limits and by-laws for its Oeko-Tex Standard 100 product certification process in order to meet some of the requirements of the REACH regulation. It is clear that, while non-EU based manufacturers will not be required to register chemicals or obtain certification of REACH compliance, they will feel the impact of REACH in their business-to-business relationships with EU-based buyers.

Source: <http://guidance.echa.europa.eu>, 2010.

18 An article is 'an object which during production is given a special shape, surface or design which determines its function to a greater degree than does its chemical composition'. Items such as a shirt, a shoe or a handbag are therefore articles because their shape and design are what is important rather than the chemicals that they are made from or contain.

19 SVHCs are substances whose use is subject to authorisation and possibly restriction. They are categorised as Carcinogenic, Mutagenic or Toxic to Reproduction (CMR), Persistent, Bioaccumulative & Toxic (PBT) and very Persistent very Bioaccumulative (vPvB). Substances are included on the candidate list for authorisation after agreement by a formal procedure that they fulfil the criteria of Article 57 of REACH (Substances of Very High Concern – SVHC). The candidate list for authorisation will be published on the European Chemical Agency's website. This list will be updated every time a decision on inclusion of a substance has been taken.

NEW SUSTAINABILITY CONCERNS: WATER AND ENERGY EFFICIENCY

In the past few years, many new demands related to climate change and the sustainable use of resources, such as energy and water, have emerged as a result of international concerns about sustainability. It is anticipated that new international protocols will come into force and that these will require national commitments and implementation plans. Buyers are responding to these concerns by already factoring energy, water and carbon into their codes and requesting their suppliers to take certain mitigating measures.

Water efficiency and rating for water-using products is an emerging concern for governments and civil society alike. In July 2006, Australia put into effect one of the first national Water Efficiency Labelling Schemes (WELS) which requires certain water-using products to be labelled for water efficiency. In mid-2008, the Water Stewardship Initiative (WSI) and The Nature Conservancy (TNC) and Pacific Institute established an Alliance for Water Stewardship (allianceforwaterstewardship.org), which is bringing together many stakeholders in environmental and social advocacy such as the World Wide Fund for Nature (WWF), water authority associations, such as the Water Environment Federation (WEF), and other water-based initiatives, such as Water Witness, in an effort to establish globally recognised standards. Through the Alliance, the basic options for a water stewardship scheme developed by the WSI have been widely reviewed by major NGOs, government and industry stakeholders. Core standards have now been established as the basis for piloting the certification and verification process.

Energy efficiency is a concern shared by developed and developing countries alike, as energy is not only a sustainability issue but also a major part of production costs. Today, almost all major developed countries and many developing countries have some voluntary product-based energy efficiency standards. Developing a management system-based energy efficiency standard is, however, a more recent initiative supported by UNIDO (ISO 50001).

In addition to standards and labelling schemes that relate only to the efficiency of the end products, a variety of standards, labels and certification programmes examining environmental impact throughout the entire life-cycle of a product are currently being developed. Looking at the total life cycle helps to identify 'hot spots' and inefficiencies, be they at the raw materials sourcing, production, transportation or

consumption stage. One of the key criteria in lifecycle analysis is greenhouse gas emissions, the kind of analysis widely known as ‘carbon footprinting’.²⁰ These instruments analyse and present information on the greenhouse gas emissions of products in an attempt to identify major sources of emissions in supply chains. Once the emissions from different parts of a supply chain have been identified, it is hoped that actions will be taken to reduce them in a timely and cost effective manner. Some examples of carbon footprint labels in the textile and footwear sectors are mentioned in Box 21.

Box 21: Carbon footprint labels – some examples

Timberland, an outdoor footwear and apparel company, now labels its footwear with details of the energy used in making the shoes, the portion that is renewable, and the factory’s labour record. Since a large portion of Timberland’s emissions come from within the supply chain and are thus beyond the company’s direct control, an effort is underway to ensure that the brand is working with suppliers to help reduce those emissions. Part of that process includes reporting the size and scope of the emissions and Timberland currently reports product-related footwear factory emissions on a quarterly basis.

Similarly, Continental Clothing, a UK fashion retail outlet has claimed the world’s first carbon footprint label for clothing after working with the Carbon Trust to launch a Carbon Reduction Label for textile products. The new label gives details of the carbon footprint of the entire life cycle of the clothes, from raw materials and manufacturing, through to consumer use and disposal. The Carbon Reduction Label for textiles will be displayed on a range of printed t-shirts and sweatshirts and will inform the consumer of the total life cycle footprint as well as his or her own contribution through washing, drying and ironing.

Sources: Timberland, 2010 www.timberland.com/corp/index.jsp?eid=7500061233&page=pressrelease; Continental Clothing, 2010 www.continentalclothing.com/page/carbon_footprinting.

Carbon accounting and product labelling are new instruments of supply chain management that may affect developing country export opportunities, even though many of these countries may not be directly subject to national greenhouse gas reduction commitments. Developing country suppliers within global value chains will be pressured to limit their carbon footprint because of their counterparts’ commitments. The ability to manage their carbon footprint will either constitute a strong

²⁰ Examples of carbon accounting methodologies are the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Measurement Protocol, ISO 14067, and PAS 2050 -Assessing the life cycle greenhouse gas emissions of goods and services.

competitive advantage or will force certain actors out of the market. According to a recent study conducted by the CDP (Carbon Disclosure Project) on 34 leading global manufacturers who are also member companies²¹ and their 634 suppliers, 6% of the companies would deselect suppliers today for failure to properly manage carbon emissions. In addition, the majority – 56% – also stated that they actually expect to deselect some suppliers in future for failing to meet carbon footprint management criteria set by them.

TRANSPARENCY AND TRACEABILITY ACROSS THE VALUE CHAIN

Consumers today increasingly demand the right to have answers to questions such as: What am I wearing or using? Where did it come from and how was it made? How much energy went into it? What kind of chemicals are in it? Who assembled/sewed it together?

All the trends mentioned in this Guide effectively imply higher transparency within value chains and traceability of products. The implementation of social, environmental and safety standards depends on an effective traceability system which ensures that answers to the above questions can be easily given. In other words, traceability is the ability to verify the history, location, or application of an item by means of documented and recorded identification.

Nonetheless, a common impression among buyers and suppliers is that the lowest parts of the value chain, which are crowded with numerous sub-contractors, is the least ‘compliant’. This perception is also supported by the survey of Turkish textile and apparel exporters undertaken for this Guide. Companies that export ready-made products comply more frequently with buyer codes than companies which export raw materials and/or semi-finished products. Ninety-two per cent (92%) of producers of ready-made products, compared with 56% of non ready-made producers (see Table 7), were in compliance with the caveat that some raw material producers (e.g. organic cotton) may encounter private standards more often than producers of semi-finished goods.

21 See https://www.cdproject.net/CDPResults/CDP-Supply-Chain-Report_2010.pdf

Table 7: Compliance of Turkish ready-made and non ready-made textile and apparel exporters with buyer codes of conduct and social and environmental certification

	% of companies complying with one or more buyer codes of conduct	% of companies with one or more social and/or environmental certificates
Non ready-made²³ (total: 16)	56%	Oeko-Tex: 88% Other certificates: 38%
Ready-made²⁴ (total: 13)	92%	Oeko-Tex: 92% Other certificates: 85%

As some brands and retailers become stricter about the compliance of major suppliers’ sub-contractors, the pressure to comply with private standards is increasingly transmitted down the chain. This results in the need to deepen knowledge about what happens beyond the traditional boundaries of an organization or company. Consequently, traceability requirements imply the establishment of a higher level of cooperation and exchange of information beyond the immediate trading partners and across the whole supply chain. This need for a high level of coordination also encourages buyers and sellers to establish closer relationships. Once a company can comply with the standard of a large retailer, it is likely that the retailer will wish to maintain that relationship over a long period of time.

At the same time, the need for better risk management by brands can result in consolidation of their supplier base and lead to sourcing from a smaller number of compliant companies. Since a smaller number of vertically integrated suppliers meeting high volume orders means fewer risks and lower costs, new entrants can find it increasingly difficult to enter the supply chains of these brands and retailers. During the interviews conducted for this Guide, two opposing risk-management strategies by buyers were identified: cutting out intermediaries and sourcing directly from a limited number of vertically-integrated suppliers versus buying only through trusted intermediaries/local agents who can then be held solely accountable if non-conformities are discovered with any of the suppliers in question. While it is difficult to discern where the trend is heading, it is clear that buyers will continue looking for diminishing risk.

22 Producers of raw materials and/ or semi-finished goods.

23 The companies in this group might also be active in the semi-finished and raw materials segments alongside their exports of ready-made products.

HARMONISATION AND BENCHMARKING

Clearly, buyers and producers are faced with many overlapping but non-aligned standards. According to some estimates, more than 1,000 codes of conduct and management systems exist²⁴. This results in increased management costs and complexity for all stakeholders, including buyers, certification companies and, of course, suppliers.

Since there seem to be many points in common in terms of the basic requirements of both private and public standards, harmonisation would seem to be an achievable and desirable objective. The elaboration of such ‘meta’ standards has been discussed in many fora in recent years. In theory, international management system standards, such as ISO 14000 or ISO 26000, were developed precisely to deal with the problem of multiplying standards. Notwithstanding this objective, the number of schemes has, in fact, continued to increase.

As development of such ‘meta standards’ has been found to be more difficult than expected, several benchmarking schemes have been set up aiming at the creation of reference tools which describe emerging best practice. The ISEAL Alliance, a global association for social and environmental standards, has been developing a Code of Good Practice for Setting Social and Environmental Standards which was first launched in 2004. It has also been involved with brokering Mutual Recognition Agreements (MRAs) between its founding members, such as the International Federation of Organic Agriculture Movements (IFOAM) and the Fairtrade Labelling Organization (FLO). There is still a significant amount of diversity, however, since negotiating Mutual Recognition Agreements between different schemes is an overwhelming task given the number of interests involved and the variation in weight and resources brought to the negotiating table by the different actors.

Safety standards are most probably leading the pack in progressing towards increased harmonisation, as seen in benchmarking initiatives in the food safety sector. However, concerns regarding the inclusiveness of standard-setting processes will surely continue and it will take a significant amount of time and effort to reach meaningful harmonisation and streamlining of existing schemes.

²⁴ World Bank, 2003. Company Codes of Conduct and International Standards: an Analytical Comparison, Parts I and II.

Box 22: Harmonisation and Benchmarking – the Global Social Compliance Programme

One of the leading efforts in terms of harmonisation comes from the Global Social Compliance Programme (GSCP), which brings together retailers and brand manufacturers across the globe and from a wide variety of sectors within the consumer goods industry. The GSCP is hosted and facilitated by the Consumer Goods Forum. This Forum was created in June 2009 by the merger of the Comité International d'Entreprises à Succursales/the International Committee of Food Retail Chains (CIES), the Global Commerce Initiative (GCI) and the Global CEO Forum. The Consumer Goods Forum is governed by its Board of Directors, which includes an equal number of CEOs and chairpersons of manufacturers and retailers. Forum member companies have combined sales of EUR 2.1 trillion.

To promote convergence and the definition of a shared, global and sustainable message to suppliers, the GSCP has been building a set of reference tools that describes best practice and provides a common interpretation of fair labour and environmental requirements and their implementation. This approach aims at fostering transparency and trust and thereby comparability between private standards. This will ultimately enable mutual recognition between existing schemes using the GSCP reference tools as a benchmark as well as the sharing of audit results. Buying companies will then be in a position to reinvest resources into supplier training and capacity building, focusing less on audits and more on developing supplier-owned solutions to social and environmental non-compliances.

The GSCP reference tools include a reference code, reference audit process and methodology, reference guidelines for auditing competence, and reference tools on company and scheme management systems. A further step, Data Sharing, looks at facilitating the transfer of information, including audit results, between existing systems through developing protocols for data and information sharing. The recognition of audit processes and results by company to company will be enabled by an equivalence process which will allow companies/schemes to assess their own tools, system and methodology against the reference tools (self assessment) and to share this assessment, once validated, with each other (equivalence assessment).

All final reference tools are openly available and can be accessed on the GSCP website (www.gscpnet.com), along with drafts available for public consultation.

Sources: www.ciesnet.com; www.gscpnet.com



In conclusion



This Guide demonstrates the importance of private standards for developing country producers who would like to start or continue a business relationship with a global brand and/or retailer. It is likely that such standards will become even more important in the future. This implies that suppliers will need to prepare themselves to face private standards. Even though compliance with most requirements may not be too difficult, since many correspond with existing local and national regulations, private standards may pose additional requirements. This is particularly so in the case of additional requirements that go beyond laws and regulations, are dynamic, and vary among brands and retailers. This is why a proactive strategy in dealing with private standards is desirable. Such a strategy will not only create exporting opportunities but will also lead to competitive advantages and more efficiency in a company's business operations. It is hoped that suppliers will take this message to heart, making sure that they do not miss the boat but instead are able to turn private standards to their advantage.

While this Guide seeks to provide support mainly to existing or would be suppliers of globally operating retailers and brands in the apparel, footwear and furniture sectors, it also provides some lessons for other actors, among whom will be developing country producers from other sectors, and also buyers, training and capacity building organizations, and governments. Overall, a more coherent and practical approach is needed to help suppliers to become more sustainable and efficient. Harmonisation and benchmarking of private standards, in particular, will simplify compliance with these standards by suppliers and will also have a positive effect on product prices for consumers as it will help to bring down the costs of labelling, certification and auditing. In view of this, all stakeholders in this process are urged to work towards and contribute to the harmonisation of private standards, while still upholding their ambitions for improving the social and environmental conditions in global supply chains.



Glossary of international norms and initiatives



This glossary lists in alphabetic order the main international norms and initiatives promoting social and/or environmental responsibility which provide background to many private standards.

AGENDA 21

Agenda 21 is a comprehensive plan of action to be implemented globally, nationally and locally by organizations of the United Nations system, governments, and major groups (including business and industry) in every area in which humans impact on the environment.

The Agenda was adopted by more than 178 governments at the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil, from 3 to 14 June 1992, together with the Rio Declaration on Environment and Development (see below), and the Statement of Principles for the Sustainable Management of Forests.

www.un.org/esa/dsd/agenda21

ILO CONVENTIONS

The International Labour Organization (ILO) is a United Nations agency with a tripartite structure (governments, workers and employers) that was established for the purpose of setting international labour standards. These minimum standards are legal instruments setting out universal basic principles and rights at work. They apply to workers everywhere, working in any type of organization and are intended to prevent unfair competition based on exploitation and abuse. ILO standards are developed by tripartite negotiation at the international level among governments, workers and employers, and are adopted by a vote of the three constituents. ILO instruments are kept up to date through a review process and through the jurisprudence of a formal supervisory mechanism that interprets the meaning and proper application of ILO standards. ILO Conventions and Recommendations, together with the ILO Declaration on Fundamental Principles and Rights at Work 1998 and the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy 1977 (last revised 2006) constitute the most

authoritative guidance on labour practices and some other important social issues. The ILO seeks to promote opportunities for women and men to obtain decent and productive work, which it defines as work performed in conditions of freedom, equity, security and human dignity.

The Core Conventions of the ILO are on Forced Labour, Freedom of Association and Protection of the Right to Organise, Right to Organise and Collective Bargaining, Equal Remuneration, Abolition of Forced Labour, Discrimination (Employment and Occupation), Minimum Age, Worst Forms of Child Labour.

www.ilo.org

MILLENNIUM DEVELOPMENT GOALS

In September 2000, building upon a decade of major United Nations conferences and summits, world leaders came together at United Nations Headquarters in New York to adopt the United Nations Millennium Declaration, committing their nations to a new global partnership to reduce extreme poverty and setting out a series of time-bound targets – with a deadline of 2015 – that have become known as the Millennium Development Goals.

www.un.org/millenniumgoals/

UNITED NATIONS GLOBAL COMPACT

The Global Compact is an initiative of the United Nations directed at business organizations and was launched in 2000. Open to any organisation, participants commit to align their strategies and operations with 10 principles in the areas of human rights, labour, environment, and anti-corruption and to take action in support of broader UN goals. The Global Compact is a voluntary platform where organizations are required to report annually on efforts to implement the principles through policies and practices. The United Nations Global Compact has developed tools and guidance materials across all principle areas in order to assist participating organizations. No membership fees are required.

www.unglobalcompact.org

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

These are guidelines for multinational enterprises drawn up by the Organisation for Economic Cooperation and Development (OECD). The

guidelines embody what OECD governments have agreed to be the basic components of responsible corporate behaviour and explain how governments expect companies to behave. The guidelines address the following areas: disclosure; employment and industrial relations; environment; combating bribery; consumer interests; science and technology; competition; and taxation.

www.oecd.org/daf/investment/guidelines

UNIVERSAL DECLARATION OF HUMAN RIGHTS

The Universal Declaration of Human Rights (Universal Declaration) was adopted by the UN General Assembly in 1948 and is the most widely recognised human rights instrument. It provides the basis for human rights law, and elements of it represent international customary law binding on all states, individuals and organizations. The Universal Declaration calls on every individual and every organ of society to contribute to securing human rights.

The International Bill of Human Rights consists of the Universal Declaration on Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, and their optional Protocols to the Covenants, one of which aims to abolish the death penalty. In addition, seven core international human rights instruments form part of international human rights law, dealing with the elimination of all forms of racial discrimination; elimination of all forms of discrimination against women; measures to prevent and eliminate torture and other cruel, inhuman or degrading treatment or punishment; rights of the child, involvement of children in armed conflict, sale of children, child prostitution and child pornography; protection of migrant workers and their families; protection of all persons from enforced disappearances; and rights of persons with disabilities. Taken together, these instruments form the basis for international standards for universal human rights.

www.ohchr.org/en/udhr/

RIO DECLARATION ON ENVIRONMENT AND DEVELOPMENT

The Rio Declaration on Environment and Development, often shortened to the Rio Declaration, is a short document produced at the 1992 United Nations Conference on Environment and Development (UNCED).

The Rio Declaration consists of 27 principles and is intended to guide sustainable development around the world.

www.unep.org

ISO 9001

ISO 9001 is an international standard that sets requirements for quality management systems. It is maintained by ISO, the International Organization for Standardization, and administered by accreditation and certification bodies. The rules are updated, as the requirements motivate changes over time.

A company or organization that has been independently audited and certified to be in conformance with ISO 9001 may publicly state that it is 'ISO 9001 certified' or 'ISO 9001 registered'. Certification to an ISO 9001 standard does not guarantee any quality of end products and services; rather, it certifies that formalised business processes are being applied.

www.iso.org/iso/iso_9000_essentials

ISO 14001

ISO 14001 is an international standard that sets requirements for environmental management systems. It is maintained by ISO, and administered by accreditation and certification bodies. The rules are updated, as the requirements motivate changes over time.

ISO 14001 specifies the generic requirements of an environmental management system. The underlying philosophy is that, whatever an organization's activity, the requirements of an effective environmental management system are the same. Because ISO 14001 does not lay down levels of environmental performance, the standard can be implemented by a wide variety of organizations, whatever their current level of environmental maturity. However, a commitment to compliance with applicable environmental legislation and regulations is required, along with a commitment to continuous improvement – for which the standard provides the framework.

Like ISO 9001, a company or organization that has been independently audited and certified to be in conformance with ISO 14001 may publicly state that it is 'ISO 14001 certified' or 'ISO 14001 registered'.

www.iso.org/iso/iso_14000_essentials

ISO 26000

The International Organization for Standardization (ISO) is in the process of finalising an international standard providing voluntary guidelines for social responsibility named ISO 26000. It is expected to be released at the end of 2010. The standard offers guidance on socially responsible behaviour and possible actions. In contrast to ISO management system standards like ISO 9000 and 14001, it cannot be used as a basis for certification.

www.iso.org/sr

Table 1: The Landscape of Private Standards

		Social Accountability 8000 (SA8000)	Forest Stewardship Council (FSC)	OEKOTEX	Fairtrade Labelling Organisation (FLO)	Global Organic Textile Standard (GOTS)	Worldwide Responsible Accredited Production (WRAP)	Business Social Compliance Initiative (BSCI)	Fair Labor Association (FLA)	Nike	Adidas	Marks & Spencer (and ETI)	H&M	Deichman	Pier 1	IKEA	Wal-Mart	Gap Inc.	
Sector	Textiles/Apparel			X		X			X	X	X		X						X
	Footwear								X	X	X			X	X				
	Furniture		X													X			
	Cross-sectoral	X	X		X		X	X				X			X		X		
Type	Certificate	X	X	X	X	X	X												
	Product label		X	X	X	X													
	Code of conduct							X	X	X	X	X	X	X	X	X	X	X	X
Focus	Environmental			X		X													
	Labor	X					X	X	X	X	X	X	X	X	X				X
	Cross-cutting		X		X											X	X		
Application	Product		X	X	X	X													
	Production site	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X
Conformity assessment	Buyer (owner of standard)									X	X	X	X	X	X	X	X	X	X
	Third party (accredited certification bodies, test labs)	X	X	X	X	X	X	X	X	X	X		X	X	X	X	X	X	

Design, layout and production by Phoenix Design Aid A/S, Denmark. ISO 14001/ISO 9000 certified and approved CO₂ neutral company – www.phoenixdesignaid.dk. Printed on environmentally friendly paper (without chlorine) with vegetable-based inks. The printed matter is recyclable.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Telephone: (+43-1) 26026-0, Fax: (+43-1) 296926-69
E-mail: unido@unido.org, Internet: <http://www.unido.org>