Good Practices for Complying with Licensors' Social and Environmental Requirements

A Practical Guide for Licensees

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About This Report

DISCLAIMER

The views expressed in this guide are solely those of the authors at BSR and not any group that BSR consulted with or that participated in developing this guide. The good practices that appear within are based solely on the professional experience and judgment of BSR staff.

Following these guidelines does not imply factory or licensee approval by participating companies nor will it guarantee factory or licensee approval. In addition, company requirements may change at any time, and specific licensor and retailer contractual requirements may differ. This guidance document does not replace any contractual requirements or training or guidance documents that are specific to any individual licensor or retailer.

ABOUT THE AUTHORS

This guide has been developed by BSR in consultation with the International Licensing Industry Merchandisers' Association (LIMA) and the BSR Licensing Working Group.

ABOUT BSR

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

ABOUT LIMA

Founded in 1985, the International Licensing Industry Merchandisers' Association (LIMA) is the primary trade organization for the worldwide licensing industry. LIMA's mission is to work with all segments of the industry for the advancement of professionalism in licensing through research, national and international seminars, trade events, and publications. It has members in 35 countries; offices in New York, London, Munich, Tokyo, Shanghai, and Hong Kong; and representatives in Europe, India, Italy, Spain, and Australia. For more information please visit www.licensing.org.

ABOUT THE LICENSING WORKING GROUP

The Licensing Working Group brings together licensors and licensees to develop tools and resources to help the industry advance social and environmental standards, address the root causes behind noncompliance, and promote compliance that is managed systematically across the entire licensing supply chain. The members of the Licensing Working Group include: Hasbro, LIMA, NBCUniversal, Time Warner, and The Walt Disney Company. This guide was made possible by funding from Licensing Working Group members.

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How to Use This Guide

This guide serves as a starting point for licensee executives and professionals to understand how they can meet licensors' requirements related to social and environmental compliance. It also provides guidance on how licensees can improve working conditions within their direct and contract manufacturing operations and supply chains.

The primary audience for this guide includes licensees and their suppliers, subcontractors, and agents, and others involved in the production of licensed products.

Licensors and retailers are encouraged to send this guide to licensees as a source of information on meeting licensors' and brands' expectations for social and environmental compliance within the supply chain. The authors of this report also encourage feedback on this guide and participation in the Licensing Working Group. To share your thoughts and get involved, follow this link: www.bsr.org/en/about/inquiry-form.

» **Section 1** focuses on licensors' expectations.
» **Section 2** focuses on practical tips for integrating social and environmental compliance into your business relationships with suppliers.
» **Section 3** focuses on practical tips for identifying and understanding compliance risks.
» **Section 4** focuses on practical tips for tracking and disclosing factory information to licensors.
» **Section 5** focuses on practical tips for monitoring suppliers' social and environmental compliance.
» **Section 6** focuses on remediation steps to help improve working conditions.
» **Section 7** describes ways that you can get involved and collaborate with others in the licensing industry.
» **The appendix** includes an alphabetized list of organizations and other resources that can assist your company's social and environmental compliance efforts.

1. Summary of Licensors' Standards and Expectations for Licensees

Licensors' brand reputation is linked to the working conditions in factories where licensed goods are manufactured. As a result, licensors have an interest in requiring licensees to uphold social and environmental standards.

Many licensors have established codes of conduct, which define principles and requirements that licensees must uphold. These codes of conduct typically also apply to licensees' subcontractors. In addition, many retailers have established similar requirements.

1.1 Overview of codes of conduct

Codes of conduct are descriptions of expectations of business conduct related to human rights, labor standards, working conditions, occupational health and safety, environmental management, business integrity, and anticorruption. These codes are generally based on the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work and related conventions on core labor standards. Codes of conduct also typically reference local labor laws.

Codes of conduct describe the standards that manufacturers are expected to uphold within their facilities. In many cases, licensors also require oversight of compliance by suppliers, subcontractors, and agents. In addition, some codes of conduct specify management systems requirements and continuous improvement principles for achieving responsible social and environmental

performance. Many companies have their own code of conduct; in addition, many support or endorse global standards and/or industry specific codes.

1.2   Description of the main issues and concerns

Widespread instances of substandard working conditions continue to be a challenge for the licensing industry, particularly in the developing world, but also in developed countries. The following issues are known to occur—some more frequently than others. However, this is not an exhaustive list.

Human Rights and Labor Standards	Occupational Health and Safety	Environmental Compliance	Business Integrity and Anticorruption
» Child labor and forced labor » Incorrect payment of wages and benefits » Excessive overtime and insufficient rest days » Harassment by supervisors	» Lack of machine guarding (risk of injury) » Substandard chemical management practices (risk of injury and illness) » Fire safety (risk of injury)	» Missing required permits » Air and water pollution in excess of local legal requirements	» Falsification of records » Bribery of factory inspectors

These conditions continue to persist in some cases despite the existence of labor laws banning them; adoption by sourcing countries of ILO conventions; inspection by government labor inspectors; more than a decade of factory monitoring by major global brands, retailers, and licensees; and activist attention and media coverage. There are many potential causes for these persistent challenges including lack of licensor, licensee, and factory knowledge and capabilities; intense pressure on pricing; and systemic issues within each sourcing location. This guide attempts to address the first issue, i.e., knowledge and capabilities, by providing guidance to licensees.

Licensees who can demonstrate that they meet licensors' social and environmental compliance requirements may benefit from less frequent or less resource-intensive compliance audits and from maintaining and growing business relationships with licensors. In addition, they may avoid negative consequences, such as a reduction or termination of business.

1.3   Summary of expectations for licensees

Licensors expect licensees to have a process by which they assess whether conditions in their manufacturing facilities comply with all applicable laws, regulations, and relevant standards, including licensors' codes of conduct. In addition, licensees are responsible for ensuring that their suppliers, agents, and subcontractors involved in the production of licensed goods comply as well.

In practice, licensees are expected to take actions to monitor and promote compliance in their supply chain. These actions are described in detail in the following sections.

1.4 Guidance on adopting a code of conduct

A code of conduct provides clarity to potential and current suppliers, subcontractors, and agents about your expectations for social and environmental compliance. You should adopt an industry standard code of conduct, if relevant, or you may seek to adopt a licensor's or retailer's code of conduct. If a review of existing codes of conduct determines that none are suitable for your company, you could create your own code of conduct aligned with the needs of your customers, the standards of your peers, and internationally accepted good practice.

PRACTICAL TIPS FOR LICENSEES

» Ask your licensor which standards or industry codes they will accept and adopt the most relevant one (i.e., avoid creating a new code, if possible).

» Ask your licensors what you can do to proactively demonstrate compliance.

» Review licensors' and retailers' programs to identify key themes. For example, some licensors emphasize specific issues, such as environmental permits, more than others.

» Review licensors' and retailers' implementation requirements to make sure you have implemented all relevant policies and procedures.

» Seek clarification if there are differences in your licensors' or retailers' codes of conduct.

» Make sure you have assigned people, systems, and resources to implement policies and to track compliance with them.

» Collaborate with other companies in the licensing industry to avoid recreating the wheel. For example, you could join a future training or workshop run by the Licensing Working Group: www.bsr.org/en/our-work/working-groups/licensing-working-group.

RESOURCES AND REFERENCES
This partial list of resources will help you get started (see the appendix for details).

Industry Codes of Conduct

» LIMA Code of Business Practices: page 27

» ICTI CARE Code of Business Practice: page 26

» Global Social Compliance Programme Reference Code: page 26

» Ethical Trade Initiative Base Code: page 25

» Social Accountability International SA8000 Standard: page 28

Licensor Codes of Conduct

» The Walt Disney Company: http://corporate.disney.go.com/media/corporate/compliance/languages/Code_of_Conduct_English.pdf

» Mattel: http://corporate.mattel.com/pdfs/GMPoverview.pdf

» Hasbro: www.hasbro.com/corporate/corporate-social-responsibility/Global-Manufacturing-Ethics-Principles.cfm

» Time Warner: www.timewarner.com/our-company/corporate-responsibility/global-supply-chain/ethical-sourcing-guidelines/

2. Examine Your Business Practices for Areas for Improvement

Licensees play a critical role in promoting compliance with social and environmental standards in their supply chains. By implementing policies and procedures related to factory selection, purchasing processes, compliance monitoring, and remediation, licensees can contribute to improved social and environmental performance.

2.1 Communicate your code of conduct and implementation requirements

Communications play an important role in setting expectations and maintaining focus on compliance. You should provide suppliers, subcontractors, and agents with information about your requirements as early as possible and as consistently as possible throughout the relationship.

PRACTICAL TIPS FOR LICENSEES

» Publish your code of conduct to a public website or supplier portal, and include links to it within initial and follow-up communications to factories.

» If you typically conduct business in person, then bring physical copies with you and explain and discuss your company's commitment to social and environmental standards.

» Communicate with licensors about challenges in meeting their expectations. Be sure to discuss these challenges with both licensing as well as compliance staff.

2.2 Include compliance as part of your factory selection and contracting processes

One of the most efficient methods for ensuring compliance is to include oversight of social and environmental standards in the selection and contracting process for factories.

The following practices can save you time and effort later on by establishing expectations for performance at the start of business relationships and building relationships with factories that have the commitment and capabilities to uphold social and environmental standards.

PRACTICAL TIPS FOR LICENSEES

» Establish a preapproval process for all entities involved in production of licensed goods. Prior to agreeing to do business with a factory or signing any contracts, review previous audit reports (if available) or require factories to conduct an audit that demonstrates compliance with an acceptable level of performance. Before selecting suppliers or placing orders, ask licensors the following questions:

  ▪ Has the licensor audited this facility in the past?
  ▪ If so, how recently and what were the results?
  ▪ If there were substantial noncompliance findings, how and when were they remediated?
  ▪ Has the facility ever been terminated for noncompliances?
  ▪ Does the licensor approve this facility to produce licensed products?

» Include a clause in your contracts with factories requiring compliance with national and local laws and regulations and international social and environmental standards, as well as your code of conduct.

» Also, include clauses allowing auditors access to the factory and requiring a facility to notify you about the use of subcontractors prior to production.

» Require agents to fulfill similar responsibilities in reviewing factory compliance prior to establishing contracts or placing orders.

2.3   Review factory cost structure against contract terms

Businesses that are stable, efficient, and economically sound are the ones best capable of complying with social and environmental obligations. Weak businesses may be tempted to "cut corners" on social responsibilities to save on costs.

PRACTICAL TIP FOR LICENSEES
Make sure the companies on which you rely for goods and services are operated on a sound business basis, with adequate resources to ensure that they can uphold social and environmental codes of conduct.

2.4   Reduce order changes to minimize impacts on excessive overtime

Changes to orders late in the production process can have a negative impact on compliance. For example, if specifications for orders change, which occurs often, but shipment deadlines remain fixed, factories may try to meet the deadlines by requiring longer shifts, resulting in excessive overtime for workers. You should review the prevalence of order changes and work with your customers and staff to minimize order changes where possible. When overtime is necessary, make sure the factories stay within legal limits and pay all legally required overtime premiums. In addition, as stated previously, carefully monitor the use of subcontractors, who tend to be used to meet tight deadlines.

PRACTICAL TIP FOR LICENSEES
Provide guidance to production staff and supplier managers about avoiding order changes through better planning and coordination.

2.5   Reward business partners that perform well on business needs and on compliance

One of the main challenges for social and environmental compliance is a perceived lack of sufficient incentives. However, noncompliance can contribute to real costs, including poor quality, work stoppages, and termination of orders.

To make a stronger business case to factories, subcontractors, and agents, consider rewarding business partners that demonstrate consistently high performance on social and environmental compliance. For example, you could implement a preferred factory program that encourages buyers to place orders with top-performing factories, or you could offer better contract terms and conditions to top-performing factories.

2.6   Build and maintain long-term relationships with key business partners

Social and environmental compliance continues to be a long-term priority for the licensing industry. Establishing effective compliance systems takes time and resources. However, the highly variable and in some cases "low-touch" nature of

licensing relationships can create challenges in managing working conditions and in working together to provide effective oversight of compliance.

Long-term business relationships can help overcome some of the barriers to improved compliance. For example, strong, long-term relationships make coordination easier, lead to increased trust, and create possibilities for shared investments and benefits from improved working conditions.

PRACTICAL TIPS FOR LICENSEES

» Choose business partners who share your company's commitment to social and environmental compliance, and build long-term relationships with them.

» Many licensors have a zero-tolerance threshold for nontransparency, i.e., providing false information. It is better to disclose instances of noncompliance and the actions you are taking to remediate them than to provide a false picture of better compliance.

2.7 Consider social and environmental issues when designing products

Some companies are beginning to design their products differently to minimize their environmental footprint, avoid human rights violations, and to account for the long-term availability and sustainability of their raw material sources. Involving product designers in a discussion of what resources are necessary to make products on a large scale, where the materials come from, and what the social and environmental implications are can help avoid negative impacts. You can help your designers evaluate alternatives that have a lighter social and environmental footprint.

2.8 Assess current practices and identify areas where you can improve

The first steps toward meeting licensors' expectations are to assess the strengths and weaknesses of your current management practices and to identify areas for improvement. The table on the following page provides a description of minimum expectations and good practices that are the foundation of a social and environmental compliance program for the licensing industry. Use it to identify areas of improvement for your company.

Self-Assessment and Improvement Matrix

Topic	Minimum Expectations	Good Practices
Commitment A policy on social and environmental compliance, such as code of conduct for manufacturing and sourcing	Your company has an official document that specifies your company's commitment to upholding social and environmental standards.	The policy is well known throughout your company, and employees consider it a key component of your company's culture.
Understanding Understanding the main compliance issues and how they manifest in your operations and supply chain	Your company can identify all the manufacturers of licensed product and identify trends in noncompliance.	Your company actively seeks a robust understanding of the supply chain and the main compliance issues.
Engagement Communicating and coordinating with decision makers on compliance	Plant managers and supplier executives are *aware of and support* compliance objectives. Facilities *cooperate* with monitoring and remediation activities	Plant managers and supplier executives are *actively involved* in oversight of social and environmental compliance. Facilities *implement* management systems improvements and proactively communicate compliance challenges and progress.
Oversight Applying resources to compliance	Licensee executives are updated on compliance status regularly. Suppliers, subcontractors, and agents acknowledge code of conduct expectations before orders are placed and cooperate with monitoring and remediation.	Suppliers, subcontractors, and agents participate in capability-building activities, for example, training programs and seminars.

Licensors can help you understand your company's current strengths and weaknesses with regard to social and environmental compliance. Arrange a meeting to discuss your current management practices and to seek feedback about areas of improvement.

TOOLS TO ASSIST WITH SELF-ASSESSMENT

» **In your own operations:** SAI Social Fingerprint, www.socialfingerprint.org/
» **In your purchasing management:** BSR & Global Compact "Supply Chain Sustainability: A Practical Guide to Continuous Improvement," http://supply-chain.unglobalcompact.org/

3. Map Your Supply Chain

Compliance risks include those related to your own operations, those of your business partners, and the sources of materials used in products.

3.1 Avoid placing production in restricted countries

National governments, including that of the United States, restrict imports from some countries as part of counterterrorism or antinarcotic programs. The restrictions can be comprehensive (all products) or selective (specific types of products). In addition, some licensors prohibit manufacturing of their licensed product in specific countries for reasons of legal compliance or poor social and environmental compliance.

PRACTICAL TIPS FOR LICENSEES

» Ask your licensors if they have restrictions against manufacturing in any specific countries.

» Consult official government websites for information about country-specific sanctions. For example, the Office of Foreign Assets Control within the U.S. Department of the Treasury provides a list of Sanctions Programs and Country Information: www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

3.2 Understand how risks vary by geography

In general, factories in both the developed and developing world have noncompliance issues. However, in developing countries, the relative lack of enforcement creates additional challenges for achieving compliance. There are several useful lists and rankings commonly used as proxies for the likelihood of noncompliance risks in different countries or regions. The resources listed below can help you decide where to focus your compliance efforts:

» OECD members versus non-OECD: www.oecd.org/document/58/0,3746,en_2649_201185_1889402_1_1_1_1,00.html/

» Transparency International Corruption Perceptions Index: www.transparency.org/policy_research/surveys_indices/cpi/2010/results/

» Freedom House: www.freedomhouse.org/template.cfm?page=363&year=2011/

» UN Human Development Index: http://hdr.undp.org/en/statistics/hdi/

» Social Hotspot Database: http://socialhotspot.org/

» Country- and issue-specific reports and resources:

  - Amnesty International: www.amnesty.org/en/human-rights/

  - Human Rights Watch: www.hrw.org/world-report-2011/

  - US State Department: www.state.gov/g/drl/rls/hrrpt/

  - Trade Unions: http://survey.ituc-csi.org/

» World Bank Governance Indicators: http://info.worldbank.org/governance/wgi/index.asp

It is also important to consider risks inherent to the different types of products and production processes as well as the historical performance of specific

suppliers. Ask your licensors if they can share information about risks to help you prioritize your compliance efforts.

3.3   Monitor key raw material sources and risks

There is mounting evidence, public exposure, and government regulations about significant social and environmental compliance concerns related to the extraction and processing of raw materials in "upstream" supply chains for consumer goods—an emerging area of focus in the licensing industry. Even the largest licensors are challenged to identify and understand social and environmental issues related to raw materials, and they are still learning how to deal with them.

Licensees should be aware of these concerns and seek to understand whether licensors have specific requirements related to raw materials. While licensors may have varying or evolving expectations of licensees in the management of raw material issues, government regulation alone may require that licensees take action.

Raw Materials and Associated Social and Environmental Risks

Material	Risk	Location
Beef, palm oil, and soy	Deforestation and habitat destruction Poor working conditions	South America and Southeast Asia
Cocoa	Use of child labor	Western Africa
Cotton	Use of child labor Health impacts from pesticide use Water resource depletion	Uzbekistan
Pig iron	Use of forced labor	Brazil
Rare earth minerals	Severe environmental and health impacts	China and Southeast Asia
Seafood	Depletion of fisheries	Global
Tantalum, tin, and tungsten	Trade contributes to conflict and human rights abuses	Democratic Republic of the Congo
Timber (paper and packaging)	Deforestation and habitat destruction Poor working conditions Negative impact on indigenous or forest-dependent peoples	South America and Southeast Asia
Petrochemicals and energy production	Unsafe working conditions, including security of staff and property Climate change	Global

Note: This is not a comprehensive list.

PRACTICAL TIPS FOR LICENSEES

»   Seek to understand the sources of raw materials (both in terms of geographies and the industry structure).

»   Be aware of issue hot spots, and stay informed about their developments.

»   Contact licensors to see if they can offer policies or guidance.

It can be difficult and time-consuming to track the sources of raw materials and to monitor social and environmental compliance issues at facilities when you have no knowledge of or contact with them. A number of commodity- and product-specific initiatives can help:

» Responsible Sourcing Network (a project of As You Sow): www.sourcingnetwork.org

» Round Table on Responsible Soy Association: www.responsiblesoy.org

» Round Table on Sustainable Palm Oil: www.rspo.org

» Sustainable Agricultural Network Certification Standard for Cattle Farms: http://sanstandards.org/sitio/

» Forest Stewardship Council: www.fsc.org

4. Declare Facilities to Your Licensor

As part of their social and environmental compliance programs, many licensors require licensees to provide information about the facilities where licensed products are produced. In addition, this declaration may be linked to customs requirements, and some licensors may require it for customs purposes. Be aware that licensors may have different (and more extensive) requirements for declaring facilities.

4.1 Know what your licensor considers to be "in scope" for declaration

Licensors have established a variety of requirements related to disclosure. Licensees must be prepared to disclose factory names, locations, conditions, and more, including:

» Finished goods manufacturers

» Any location where licensor intellectual property is present

» Subcontractors for production and other purposes

» Component or raw material suppliers for specific items and commodities

» Embellishment suppliers, e.g., printing and embroidery

» Packaging, packing, warehousing, and shipping suppliers and service providers

PRACTICAL TIPS FOR LICENSEES
Consult with licensors and refer to licensing agreements carefully to know what you are required to disclose and when.

4.2 Identify names and locations of facilities that are making a licensor's branded product

Licensors should maintain accurate and up-to-date records of the facilities that are making licensor-branded products. This licensors' contract requirement often helps them oversee compliance. This identification should include:

» Facility names

» Any aliases or "doing business as" names

» Address, including any floor or building numbers

» Phone number

» Email address

PRACTICAL TIPS FOR LICENSEES

» Maintain documentation of all facilities and entities that play a role in making a licensor's branded product.

» Familiarize yourself with licensee requirements and systems for disclosing factories, including whether and how you should proactively communicate with licensors to provide them with factory information.

» You should be able (at a moment's notice) to provide licensors with a list of suppliers, subcontractors, and agents related to a specific contract with a licensor.

4.3 Monitor use of any subcontractors

Require suppliers, subcontractors, and agents to inform you before subcontracting any elements of the production process. Employee recruitment firms are at particular risk of violating human rights and labor standards. Require notification when suppliers use them.

It can also be helpful to keep a list of waste haulers, logistics providers, and other third parties used by factories. Although most licensors don't require to be notified of these, they too present risks of noncompliance with social and environmental standards, and the best practice is to include all business partners in a risk assessment.
Require suppliers, subcontractors, and agents to conduct an audit of subcontractors before placing orders.

PRACTICAL TIPS FOR LICENSEES
Consult with licensors before selecting suppliers or placing orders by asking the following questions:

> » Has the licensor audited this facility in the past? Or does the factory have a recent audit they can share?
> » If so, how recently and what were the results?
> » If there were substantial noncompliance findings, how and when were they remediated?
> » Has the facility ever been terminated for noncompliances?
> » Can production of licensed products take place at this facility?

A number of membership databases that contain detailed facility information, including social and environmental compliance audit results, can be useful for accessing and maintaining records, including recent compliance data, on suppliers, subcontractors, and agents:

> » SEDEX (any industry or product type): www.sedexglobal.com
> » Fair Factories Clearinghouse (any industry or product type): www.fairfactories.org/Main/Index.aspx
> » EICC (electronics): www.eicc.info
> » GESI (electronics): www.gesi.org
> » Better Work (apparel): http:www.betterwork.org/EN/Pages/newhome.aspx

5. Assess Facilities' Social and Environmental Compliance

Factory monitoring can be conducted by licensors' audit staff, licensee audit staff, third-party auditors, multi-stakeholder initiatives, or industry groups. The scope, duration, and focus of audits can vary substantially. It is critical to understand licensors' audit requirements and procedures and to assist suppliers, subcontractors, and agents to understand and prepare for these audits.

Some good practices for monitoring include:

- » Require an audit or review previous audit results *well before* entering into contracts and placing orders with a supplier.
- » For suppliers with whom you have ongoing relationships, require an audit on a regular basis, for example, every six months to a year, or less frequently, depending on the risk of noncompliance, status of management practices, and compliance history. Licensor requirements for the frequency of audits may vary.
- » Social and environmental compliance audits require a specific set of skills, expertise, and training. Quality audit experience is not sufficient. In general, companies with a dedicated social and environmental audit function can conduct and follow-up on audits more consistently and with more influence with factory management. However, building and maintaining an audit function takes time and resources, and at the start, it may be necessary to rely on external firms that specialize in social and environmental audits.
- » Social and environmental responsibility is a long-term priority for the industry. Consider building up your compliance monitoring team in countries or regions where you expect to be sourcing from over the next several years.
- » When a licensor requests an audit of your suppliers, review the monitoring history and discuss with the licensor the best course of action given this history.

5.1   Social compliance audits

Social compliance audits typically focus on labor standards and occupational health and safety issues. These can include (but are not limited to):

Labor Standards and Human Rights

- » Freely chosen employment (no forced, bonded, involuntary, prison labor)
- » Child labor and young workers
- » Working hours, wages and benefits
- » Humane treatment
- » Non-discrimination
- » Freedom of association
- » Collective bargaining
- » Grievance systems
- » Worker/management committees
- » Harassment

Occupational Health and Safety Issues

» Occupational safety

» Fire safety

» Emergency preparedness

» Occupational injury / illness

» Industrial hygiene

» Physically demanding work

» Machine safeguarding

» Living conditions

A social compliance audit should be based on good practices, including: 1) management interviews, 2) worker interviews, 3) physical inspection of facilities and dormitories, and 4) document reviews.

1. MANAGEMENT INTERVIEWS

During management interviews, auditors review the policies and implementation processes for ensuring social compliance with management.

» Auditors should assess management's understanding of and commitment to social compliance.

» In addition, auditors should assess whether and how social compliance policies are implemented, and whether in fact they are put into practice through procedures, responsibilities and management review. For example, auditors should seek to determine whether management has issued directions to human resources staff to check new workers' identification papers to ensure they meet minimum age requirements and whether management holds HR accountable for doing so.

» In addition, auditors should seek to understand if management is being open and honest about their compliance challenges.

2. WORKER INTERVIEWS

Workers are the central focus of social compliance: Their experience in the workplace and the extent to which they enjoy their rights and fulfill their responsibilities comprise the "heart and soul" of social compliance. Confidential worker interviews are vital for understanding the situation on the production lines. A social compliance audit based on good practice will have the following features:

» Workers are randomly selected by the audit team.

» Interviews are conducted without factory supervisors or managers present.

» Interviews are conducted by auditors in the local language and in private and comfortable settings.

» Workers are protected from retaliation for participating in interviews.

» Interviews can be conducted on- or off-site.

» Selection of interviewers should account for gender and cultural norms about who interviews whom, i.e., female auditors interviewing female workers.

3. PHYSICAL INSPECTION

The audit team will tour the facility inspecting production lines, administrative areas, inbound and outbound logistics and warehouses, maintenance bays, water treatment facilities and waste handling areas, chemical storage areas, canteens, onsite clinics, and onsite or adjacent dormitories. Auditors will be checking for specific compliance items, as well as the general state of the facilities. They will focus in particular on any potential health and safety hazards,

e.g., blocked emergency exits. In addition to following appropriate policies and procedures, and using the appropriate equipment, running a well-maintained and orderly facility is essential for demonstrating compliance.

4. DOCUMENT REVIEWS
Auditors will review facility record keeping systems and records to assess compliance. In particular, they will focus on reviewing payroll documentation and pay slips, personnel records, and accident and injury logs. Many factories have ongoing challenges with maintaining accurate and up-to-date records that enable them to demonstrate compliance. Keeping an organized, accurate, timely, and complete set of records is essential for demonstrating compliance.

REALITY CHECK
Facilities exhibit a wide range of compliance, but experience shows that, particularly in developing countries, you should expect to see some violations. However, there is also a too-common practice of keeping a false set of books, which can be very detailed and sophisticated, to satisfy audit requirements.

» There are a wide range of noncompliance issues. Licensees should keep their eyes wide open when visiting and auditing factories.

» Ensure that whoever conducts the audit is seeking facts and is not expected to deliver a specific result.

» Ensure that auditors are specifically trained by a social audit firm or a brand or retailer with a long history of social compliance, and preferably have some form of certification such as IRCA or SA8000 (see page xref of the appendix).

» Be suspicious of audit results that are fully compliant if this is in a geographic locale or industry that typically has compliance violations. Bribery, double books, and hiding a portion of the workforce are very common in some instances.

5.2   Environmental compliance audits

Environmental compliance audits are intended to assess a facility's environmental management system and performance. They are similar to social compliance audits, in that they use management interviews, physical inspection, and document reviews; however, the focus is on a different set of topics, including:

» Environmental permits

» Pollution prevention controls

» Management of hazardous substances, wastewater, and solid waste

» Control of airborne emissions

» Specifications on product contents

» Management of energy and water resources for conservation and efficiency

Many of the topics covered by an environmental compliance audit are highly technical. It is critical that a facility's staff with knowledge and responsibility for environmental management be available to assist the audit team in preparation for and while conducting the audit, e.g., accompanying the audit team during the facility tour and providing documentation.

5.3   Interpreting an audit report

At the close of an audit, an auditor will typically issue a preliminary report that details specific findings of noncompliance and the steps the facility must take to remediate the noncompliance. Auditors may also offer guidance about the types of actions a facility can take to address the noncompliance findings.

TYPICAL COMPONENTS OF AUDIT REPORTS

» Facility information, such as factory name, key contacts, location, site layout, types of products made, demographics of the workforce, and other contextual information

» Details about the audit itself, including names of the audit team members, the date and duration of the audit, whether it was announced or unannounced, and a summary of the audit activities

» Audit findings, which include evidence and analysis related to the code of conduct requirements

» Licensor and customer contact information

5.4   Controls related to corruption, bribery, and fraudulent records

Corruption is a serious issue that can negatively affect customer-supplier relationships. It is an invisible problem that makes the compliance audit approach less effective at identifying compliance issues.

Some anticorruption program features include:

» A company-wide statement of zero tolerance for corruption, which is included in and applied through supplier codes of conduct, contractual requirements, and training

» Education for staff members

» Procedures for reporting and handling suspected cases of bribery and other instances

» Controls on purchasing practices, including regular reviews (e.g., internal audits) of contracting and payment processes

5.5   Reality check: The limitations of auditing

After 15 years of social auditing, many licensors, retailers, brands, and supply chain compliance experts agree that there are limits to what social audits can identify and achieve. For example, most audits are a snapshot in time and do not always provide a sense of the overall capabilities of a facility to comply with code of conduct standards over the long term. In addition, most audits do not identify the root causes of labor violations; to identify root causes, it is necessary to use audit approaches that take a "management systems" point of view.

» Audits themselves don't drive improvement; think of them as a needs assessment but not a solution.

» Audits can be viewed as "patriarchal"—a top-down approach to finding problems; seek ways to include factory employees in the assessment and resolution process.

» Despite these limitations, social audits are widespread and easily executed. In the absence of widely accepted alternatives, they offer a common approach to understanding working conditions and provide a road map for improvement.

PRACTICAL TIPS FOR LICENSEESS

» Ask your licensors who they will accept audit reports from. Some licensors will accept audit reports conducted by other firms or companies (if they are timely and conducted by trained and credible parties).

» Understand the scope of licensors' monitoring programs. For example, some focus only on labor standards. If environmental compliance is part of the audit, identify the specific issues that will be checked, e.g., environmental permits, water usage and discharge, waste disposal, etc.

» Audits can be a time and resource burden. Effort spent helping your facility managers and supplier managers prepare for audits will save time.

» Consult with licensors or social audit firms about developing your own monitoring program.

» Understand the circumstances under which the audit was conducted.

» Review the audit procedures to ensure they meet licensor requirements and follow good practice.

6. Remediate and Improve Working Conditions

Compliance with social and environmental expectations is not a one-time achievement. It is an ongoing priority requiring continuous action and follow-up. Licensees are responsible for working with factories to translate audit findings into action plans that meets licensor requirements.

Corrective action plans help define and track remediation goals and actions. They detail specific actions to remedy noncompliance findings, and they assign owners and deadlines to ensure accountability for achieving compliance. The chart below illustrates some possible corrective actions:

Typical Components of Corrective Action Plans

Sample Corrective Action Plan Elements

» The items below illustrate some possible corrective actions.

Code of Conduct Section	Action Item	Deadline	Owner	Notes
Child Labor	Change policy related to identification papers	30 days	Head of HR at Factory X	Documentation check sufficient to close noncompliance finding
Child Labor	Verify minimum age for new employees prior to signing contracts	30 days	Head of HR at Factory X	Onsite verification required to close noncompliance finding

Licensees should review audit reports in order to:

» Identify any top priority compliance issues contained in the report.
» Review areas of noncompliance with the factory and obtain a written commitment from the factory about how they will address the issues.
» Follow-up with the factory to track the remediation actions.
» Share the details of the audit findings and corrective action steps with the licensor.

PRACTICAL TIPS FOR LICENSEES
Investigate the root cause of noncompliance findings, and work with the facility management to remedy the issues, e.g., inconsistencies found during the audit. Is "underpayment" or "excessive hours" the root cause of the findings? If licensee knows what is needed to address the issues, they will be able to create a remediation plan.

In addition to audits, consider other techniques for identifying and resolving noncompliances:

» Support the operation of credible and effective labor unions.
» Where labor unions are not viable, support the creation and maintenance of participatory worker councils and grievance systems.
» Promote training for factory supervisors and other relevant factory employees.
» With factories, identify positive and negative incentives for good social and environmental performance.

7. Looking Forward

Over the past several years, the topic of environmental and social compliance has risen on business leaders' agendas, particularly for leaders in the licensing industry. More companies in the licensing industry are defining strategies and implementing programs that address the root causes of noncompliance with social and environmental standards.

The Licensing Working Group invites you to participate with us in promoting environmental and social standards throughout the licensing industry. Building on a series of webinars and seminars and the guide you are currently reading, the Licensing Working Group will continue to make resources, advice, and networking opportunities available to industry participants.

To get involved:

» Visit our website at: www.bsr.org/en/our-work/working-groups/licensing-working-group.

» Send a link to this guide to your coworkers, licensees, and retailers to begin a discussion about how to improve your company's approach.

» Contact us for more information: www.bsr.org/en/about/inquiry-form.

Appendix: Summary of Resources

The following organizations focus on aspects of social and environmental compliance. Their inclusion in this document does not imply an endorsement of their organizations or programs.

Better Cotton Initiative (BCI)

Description: BCI aims to promote measurable improvements in the key environmental and social impacts of cotton cultivation worldwide to make it more economically, environmentally, and socially sustainable. Because of increased civil society and media pressure around cotton cultivation, BCI has been working with organizations from across the cotton supply chain and interested stakeholders to facilitate a solution for the mainstream cotton sector.

Code of Conduct: The BCI Production Principles describe the broad areas under farmers' control that they need to address for the production of "better" cotton. They address both social and environmental issues.

Participating Buyers: adidas, Asda, Hemtex, H&M, IKEA, KappAhl, Levi Strauss & Co., Lindex, Marks & Spencer, Migros, Nike, and Sainsbury's Supermarkets. www.bettercotton.org/index/188/bci_members.html

Industry Focus: Apparel and home goods

Website: www.bettercotton.org

Better Work

Description: Better Work is a unique partnership between the International Labour Organization (ILO) and the International Finance Corporation (IFC) dedicated to reducing poverty and providing a fair framework for globalization in developing countries through a comprehensive process for assessment, remediation, and in-factory training tools. Companies have access to a streamlined and more cost-effective process to get information about supplier compliance and to track efforts to fix problems. Better Work Buyers' Forums are held at the international and in-country level. These forums provide buyers with an opportunity to provide feedback into Better Work expansion plans and tools, and to engage in constructive dialogue with relevant stakeholders including national governments, unions, and manufacturer associations. There are active in-country forums in Cambodia, Jordan, and Vietnam, and they are currently exploring expansion efforts in Indonesia, Morocco, Nicaragua, Haiti, and Lesotho.

Code of Conduct: None.

Participating Companies: Includes Abercrombie & Fitch, adidas, Children's Place Retail Stores, Gap, H&M, Jones Apparel Group, Levi Strauss & Co., Marks & Spencer, Phillips-Van Heusen, PUMA, Sears, Shane-Hunter, Walmart, and The Walt Disney Company. www.betterwork.org/public/global/international-buyers/participating-buyers-1

Industry Focus: Currently apparel but expanding

Website: www.bsr.org/consulting/working-groups/better-work.cfm

Business Social Compliance Programme (BSCI)

Description: BSCI is the common European platform of retailers, industry, and importing companies for monitoring and improving social standards in all supplier countries and for all consumer goods.

Code of Conduct: The BSCI Code of Conduct: www.bsci-intl.org/our-work/bsci-code-conduct

Participating Companies: More than 700 company members, including Batavia, Delhaize Group, El Corte Ingles, Focus Nordic, Karstadt Warenhaus GmbH, Medisana, Pepe Jeans London, Royal Ahold NV, Singer, and Tristar Europe, among others. www.bsci-intl.org/about-bsci/participants-intro

Industry Focus: Multi-industry

Website: www.bsci-intl.org

Electronic Industry Citizenship Coalition (EICC)

Description: EICC is an industry initiative that aims to improve management systems, labor standards, occupational health and safety, and environmental impacts of the global electronics industry.

Code of Conduct: The EICC Code of Conduct: www.eicc.info/EICC%20CODE.htm

Participating Companies: More than 50 members across the electronics supply chain, including these buyers: Dell, HP, Intel, Microsoft, STMicroelectronics, and Sony, among others.

Industry Focus: Electronics

Website: www.eicc.info

Ethical Trade Initiative (ETI)

Description: ETI is an alliance of companies, trade union organizations, and NGOs that are committed to working together to identify and promote good practice in labor code implementation, including monitoring and verifying compliance with code provisions.

Code of Conduct: The ETI Base Code is a code of labor practice and is derived from the conventions of the International Labour Organization (ILO). Corporate members of ETI must adopt the Base Code.

Participating Companies: More than 50 corporate members, including Asda, Boden, The Body Shop International, Burberry Group Plc, Co-operative Retail, Debenhams Retail, Gap, Inditex, Marks & Spencer, Marshalls, New Look Retailers, Next Retail, Pentland Brands, Primark (ABF Limited), Sainsbury's, Tchibo GmbH, Tesco, and WH Smith. www.ethicaltrade.org/about-eti/our-members/

Industry Focus: Consumer retail

Website: www.ethicaltrade.org

Fair Factories Clearinghouse (FFC)

Description: The FFC is a nonprofit organization established to provide technology to enable cost effective, well-informed, ethical business transactions and improved workplaces around the globe, within a collaborative membership community.

Code of Conduct: N/A

Participating Companies: adidas, ASICS, Burberry, Chico's FAS, Dress Barn, J.Crew, Kellwood, Levi Strauss & Co., L.L. Bean, Macy's, Mark's Work Wearhouse, New Balance, Nike, Nordstrom, Patagonia, REI, Starbucks, The Jones Group, Timberland, and VF Corporation.

Website: www.fairfactories.org

Fair Labor Association (FLA)

Description: FLA is a collaborative effort of its members to improve working conditions in factories around the world. Participating companies commit to the FLA code, and the group has created a practical monitoring, remediation, and verification process to achieve those standards.

Code of Conduct: The FLA Workplace Code of Conduct is based on International Labour Organization (ILO) standards. www.fairlabor.org/about_us_code_conduct_e1.html

Participating Companies: adidas, Asics Corporation, Barnes & Noble College Booksellers, ChicoBag Company, Follett Higher Education Group, Gildan Activewear, H&M, Hanesbrands, KEEN, Liz Claiborne, New Balance, New Era Cap, Nike, Nordstrom, Patagonia, Phillips-Van Heusen, Puma, Russell Corporation, Syngenta, and Tumi. www.fairlabor.org/affiliates.html

Industry Focus: None, although main focus is footwear and apparel

Website: www.fairlabor.org/

Global Social Compliance Programme (GSCP)

Description: The GSCP is a business-driven program for companies whose vision is to harmonize existing efforts in order to deliver **a shared, global, and sustainable approach** for the continuous improvement of working and environmental conditions across categories and sectors in the global supply chain. The GSCP offers a global platform to promote knowledge exchange and best practices in order to build comparability and transparency among existing systems.

Code of Conduct: The GSCP reference code aims at showing what best practice looks like in labor standards (rather than to create a shared code).

Participating Companies: Alcan Packaging, Best Buy, C&A, Carrefour, Chiquita, Delhaize, Dell, Dole, Hasbro, HP, IKEA, Marks & Spencer, Migros, Monoprix, Phillips-Van Heusen, Tesco, Wal-Mart Stores, The Walt Disney Company, and Woolworths. www.gscpnet.com/structure-a-governance/task-force.html

Industry Focus: Consumer products, food, and agriculture

Website: www.gscpnet.com

ICTI (International Council of Toys Industry) CARE

Description: ICTI CARE is the toy industry's ethical manufacturing program aimed at ensuring safe and humane workplace environments for toy factory workers worldwide. To achieve these goals, the group provides education, training, and a unified monitoring program for toy factories.

Code of Conduct: The Code of Business Practices is the basis for the ICTI CARE audits that companies' factories can undergo to achieve a seal of compliance.

Participating Buyers: ARGOS, ASTRA, Auchan Groupe, Chelsea Stores, Chorion, Colruyt Group, Costco, Hamley's, Marks & Spencer, Sears, Toys"R"Us, VEDES, Walmart, The Walt Disney Company, and Woolworths.

Website: www.icti-care.org

International Labour Organization (ILO)

Description: The ILO sets comprehensive international labor standards through the adoption of conventions and recommendations covering a broad spectrum of subjects. These standards are commonly referred together as the International

Labor Code. While they have not been ratified by all countries, including the United States and China, many stakeholders expect companies to work toward these standards.

Code of Conduct: The eight core ILO conventions address basic labor rights such as antidiscrimination, freedom of association, elimination of the worst forms of child labor, collective bargaining, and forced labor.

Participating Companies: Not applicable

Link: www.ilo.org

International Register of Certificated Auditors (IRCA)

Description: IRCA is the world's original and largest international certification body for auditors of management systems. Located in the UK, IRCA certifies more than 14,750 auditors in more than 150 countries worldwide.

Website: www.irca.org/certification/certification_10.html

International Licensing Industry Merchandisers' Association (LIMA)

Description: Founded in 1985, LIMA is the primary trade organization for the worldwide licensing industry. LIMA's mission is to work with all segments of the industry for the advancement of professionalism in licensing through research, national and international seminars, trade events, and publications. It has members in 35 countries; offices in New York, London, Munich, Tokyo, Shanghai and Hong Kong; and representatives in Europe, India, Italy, Spain and Australia.

Code of Conduct: LIMA provides a code of conduct under which manufacturers of licensed products are required to conduct their business in a socially responsible and ethical manner. The LIMA Code of Business Practices is modeled on the ICTI code.

Participating Companies: A full directory is available on their website: www.licensing.org/database/

Website: www.licensing.org/about/lima-code-of-business-practices/

Portal for responsible supply chain management

Description: The portal provides a menu of useful tools and information to support practitioners in developing their own approach to CSR in the supply chain. It features a set of reference materials, such as supplier trainings, codes of conduct, and audit-related documents.

Website: http://www.csr-supplychain.org

Social Accountability Accreditation Services (SAAS)

Description: SAAS is an accreditation agency founded to accredit and monitor organizations as certifiers of compliance with social standards, including the Social Accountability 8000 standard for ethical working conditions. SAAS began work as a department within Social Accountability International (SAI) in 1997 and was formally established as its own nonprofit organization in 2007.

Code of Conduct: SAAS accredits organizations to certify factories to one or more of three codes of conduct, including the SA8000 Standard, the InterAction Private Voluntary Organization (PVO) Standard, and the Business Social Compliance Initiative (BSCI) Code of Conduct.

Website: www.saasaccreditation.org

Social Accountability International (SAI)

Description: SAI is a multi-stakeholder, multinational, multi-industry organization of business, labor, and NGOs whose mission is to advance the human rights of workers around the world. It carries this mission out through training, capacity-building, and the SA8000 workplace standard, which is based on ILO and UN conventions.

Code of Conduct: Social Accountability International's SA8000 is a recognized benchmark that companies and factories use to measure their performance. SA8000 is grounded on the principles of core ILO conventions, the UN Convention on the Rights of the Child, and the Universal Declaration of Human Rights.

Issues Covered: Workers' rights and working conditions

Participating Companies: Thousands of companies worldwide use SA8000. In addition, companies can join a Corporate Member program: www.sa-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=845&grandparentID=472&parentID=493&nodeID=1

Website: www.sa-intl.org/_data/n_0001/resources/live/2008StdEnglishFinal.pdf

Sedex (Suppler Ethical Data Exchange)

Description: Sedex is a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains. Companies join Sedex to use the Sedex web-based system (a database of supplier self-assessment and audit data), participate in working groups, and network and engage with other Sedex members.

Code of Conduct: None.

Participating Companies: BBC Worldwide, The Body Shop International, British Red Cross UK, Burberry, G-Star, Lonely Planet Publications, Marks & Spencer, Royal Mail, Sainsbury's Supermarkets, and Tesco. www.sedex.org.uk/sedex/go.asp?u=/WebSite/Home&pm=6&location=List

Industry Focus: None, though heavily apparel and consumer products and UK-based companies

Website: www.sedex.org.uk

The Sustainability Consortium

Description: The Sustainability Consortium is a multi-stakeholder initiative to define a science-based approach to managing sustainability across the full lifecycles of goods and services.

Code of Conduct: None

Participating Companies: Dell, PepsiCo, Procter & Gamble, The Walt Disney Company, and Walmart.

Industry Focus: Multi-industry

Website: www.sustainabilityconsortium.org/

UN Industrial Development Organization's Responsible Entrepreneurs Achievement Programme (UNIDO REAP)

Description: UNIDO REAP is a CSR-based management and reporting tool that supports small and medium enterprises (SMEs) in implementing CSR concepts.

Website: www.unido.org/index.php?id=o42159