

CORPORATE SOCIAL RESPONSIBILITY

Cooperation in the supply chain



INVESTMENTS FOR DEVELOPMENT

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DANISH INTERNATIONAL INVESTMENT FUNDS

CSR in the supply chain

In recent years, more and more project companies co-financed by the Danish International Investment Funds (IFU & IØ) have started to recognise the importance of responsible behaviour by their suppliers when it comes to CSR practices. Not just as a response to public pressure, but also because there is more to a product than quality and price.

The challenge is to strike an equitable and practicable balance between the commercial imperative of continuing doing business and the ethical demands. This requires focus on sustainability and CSR, and the company needs to decide where its efforts are best employed.

Even the most diligent of companies with the best monitoring practices and contractual arrangements will sometimes find themselves associated with suppliers violating CSR issues. Clearly, as a minimum, a company must address the violations by its suppliers, but many companies will also try to go above and beyond the minimum level, when possible, and involve themselves in remediation of non-compliances.

If violation and non-compliances cannot be corrected immediately, the initial instinct might simply be to terminate the supply. However, suppliers are often working under challenging conditions facing both political and cultural barriers when trying to implement good practices. Ending the cooperation with a supplier as soon as it is found to be in violation does not serve the overall goal of securing human and labour rights and reducing pollution – the violation will continue after you as a customer have left.

A better CSR effort would be to encourage and persuade by maintaining contact and thereby raising the performance of the supplier.



As an operational guide to a CSR policy towards the various supplier groups, we recommend that you divide the process into three phases:

1. Preparation of a Supplier Code of Conduct
2. Overview and priority of suppliers
3. Measures towards suppliers

When the three key phases have been completed, and your company has a clear idea of the status, we recommend that you only terminate the contract with the supplier if it can be proved that the supplier:

- violates one of the zero-tolerance issues mentioned on page 5 - deliberately and knowingly.
- is unwilling to engage either through refusing to respond or by denying access.
- is not inclined or able to improve its performance even after being helped.

The means of assessment, monitoring and actions should reflect the different types of suppliers and the relationship with them. The following model is introduced as a guideline to preparing a Supplier Code of Conduct, prioritising the review of suppliers and deciding on levels of monitoring.

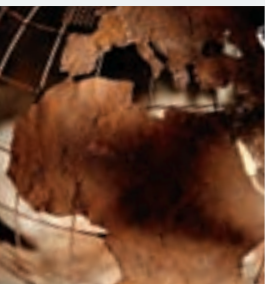


1. Supplier Code of Conduct

Your company should prepare a Supplier Code of Conduct specifying the social and environmental standards for your suppliers. A Supplier Code of Conduct is your company's response to and recognition of your responsibility in the supply chain, and a guideline to your suppliers on what is expected of them. When preparing the Supplier Code of Conduct, your company should do some research and scour the landscape of Supplier Codes of Conduct and look at the various international standards and the UN Global Compact to find inspiration.

A Code of Conduct lists CSR statements and requirements, and how they should be met, controlled and evaluated. The aim is to ensure that the supplier understands, accepts and commits to complying with the Code of Conduct, so that it becomes an integral part of all business agreements.

We refer you to the CSR Compass, www.csrkompasset.dk, which has been developed by the Danish Ministry of Economic and Business Affairs, the Confederation of Danish Industries and the Danish Institute for Human Rights. The CSR Compass includes guidelines for establishing Supplier Codes of Conduct and checklists. The services on the website are free (the site is in Danish).



Zero-tolerance violation and abuse

When your company defines and implements the new Supplier Code of Conduct, it is important to recognise what is defined as zero-tolerance (violations and abuses that should not be accepted). IFU/IØ concurs with other Danish and international organisations to the following zero-tolerance list:

- The use of slave labour, including forced or compulsory labour and trafficking.
- The use of child labour in activities that are dangerous to the moral or physical wellbeing and development of the child.
- Any harsh or inhumane treatment or punishment of employees.
- The use of labour in unsafe or unhealthy working environments, where employees have not been fully informed of the potential dangers.
- Deliberate and gross pollution of the environment.



As a practical example of how to control zero-tolerance violations, it is important to be observant and for instance ask to see the backyard and the basement while visiting and reviewing a supplier. Unannounced visits may be a good idea, if the company seems doubtful. This, however, should be balanced off with the loss of confidence and trust.

2. Overview and priority of suppliers

Suppliers include suppliers of goods, services and sub-supply for your company's production. Most companies already assess their suppliers according to financial risk associated with the product quality and observation of the agreed terms of delivery. We recommend that the assessment of the suppliers be made in the first link in the supply chain. However, if it is obvious that the supplier is a trading company or office building, and the critical CSR issues lie with another link in the supply chain, you should consider how to impose requirements and/or influence through the first link to the second. Suppliers with potentially critical conditions in other links should also be considered.

A way of starting the priority process is to divide the suppliers into groups based on two criteria:

1. Your company's relationship with the supplier, and
2. The degree to which the supplier is empowered by your company

You may divide your suppliers into four groups and take different measures to assess and monitor the suppliers, depending on the group to which the supplier belongs:

A. Strategic suppliers

Suppliers with whom you have strategic partnerships, including joint investments and the suppliers' use of your logo. The supplier receives more than 50% of his annual revenue from your company and will probably not survive without that business. Due to the close relationship, stakeholders and media cannot distinguish between you and the supplier.



B. Suppliers with long-term contracts

These are selected suppliers, typically with contracts of more than 12 months. The contract might cover product optimisation. The supplier may deliver goods or services that could harm your products, end consumers or your employees.



C. Specific suppliers on purchase/sales activities

Suppliers with whom you have long-term business relations, but limited to purchase/sales activities. In some cases suppliers may be bigger and more powerful than the company, which reduces the influence, but information should still be available. The supplier may deliver goods or services that could harm your products, end consumers or your employees.



D. Specific suppliers on few and occasional purchases

Suppliers where you make a few purchases primarily based on price. There is no relation between the company and the supplier, and the possibility of influencing the supplier is limited.





3. CSR measures towards suppliers

Depending on the supplier's strategic importance, different CSR measures can be applied. The level of cooperation, inspections, audits, reporting, questionnaires and agreements may vary between the suppliers.

For type A suppliers

The supplier should be given your company's CSR policy and Supplier Code of Conduct. The supplier must implement the same CSR policy and monitoring mechanisms as your company. Any CSR improvements relating to the supplier should be considered in case of joint investment in equipment and training facilities. The supplier's site must be inspected, and the supplier should report regularly on significant CSR issues. Monitoring should include regular CSR audits and a signed CSR policy from the supplier.

For type B suppliers

The supplier should be given your company's CSR policy and Supplier Code of Conduct. A monitoring checklist and CSR requirements should be included in the contracts. Monitoring should include a full CSR audit on a regular basis, unless the supplier has valid documentation from e.g. certified management systems. Both the contractual statement and the audit should verify that your company does not accept CSR violation in its supplier's operations, and that such violation can affect the business relationship.

For type C suppliers

The supplier should be given your company's CSR policy and Supplier Code of Conduct. Monitoring checklist and CSR requirements should be included in the contracts. The review should concentrate on specific issues rather than general assessments.

For type D suppliers

The supplier should be given your company's CSR policy and Supplier Code of Conduct. The normal screening procedure should be extended with a CSR questionnaire.

For further information, please contact:



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We also refer you to:
www.csrkompasset.dk



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