



Ethical   
Procurement  
for **Health**  
Guidance

# Ethical Procurement for Health

## Guidance and toolkit

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# Ethical Procurement for Health

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### Introduction

The UK Government's *Global Health Strategy* (September 2008) recognises a responsibility to harness the opportunities of globalisation to improve the health of people across the world, and in particular people in the UK. The strategy encourages greater alignment of the Government's domestic and foreign policy where it affects global health and commits to work for stronger, fairer and more ethical trade in the health sector.

The NHS spends more than £20 billion per annum on goods and services. This gives it the opportunity to influence improvement in labour standards across healthcare supply chains. Failure to identify and address labour standards abuses, both for goods and services provision, presents a significant risk to the reputation and ethical standing of NHS organisations.

The *Ethical procurement for health: guidance and toolkit* (EPH) has been developed in partnership with the Ethical Trading Initiative (ETI) to assist procurers in the health and social care sector to make appropriate consideration of labour standards throughout the procurement and market engagement processes. It aims to build awareness and understanding of labour standards in supply chains, with the longer term aim that labour standards concerns are identified early and addressed proactively and constructively.

EPH provides a model, flexible framework, against which organisations can benchmark their practices and identify actions that will make these practices more effective, mitigating risks. It provides guidance, templates, tools and case examples to support organisations as they develop and implement policies and practices which build a robust management process to address labour standards through procurement activity.

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### About the guidance

All organisations differ and no single approach will be right for all. We therefore encourage you to use EPH as a guide, identifying the elements that are important to you and interpreting the framework in a pragmatic and appropriate manner that reflects your circumstances. The guidance has been developed to support practical application of the EPH flexible framework. It is a workbook that a user can dip into when needed, as opposed to a document that should be read in its entirety prior to starting work.

It mirrors the approach of the *Flexible Framework for Sustainable Procurement* recommended within *Procuring for Health and Sustainability 2012* and the Government's *Sustainable Procurement Action Plan*. EPH also draws on concepts applied through self assessment indicators developed by the Ethical Trading Initiative. EPH will complement assessments undertaken by organisations against the *Flexible Framework for Sustainable Procurement*, identifying ethical procurement as an important element of the broader sustainable procurement agenda. The *Flexible Framework* describes the practices that would characterise organisations in each area and level.

Five key areas for action.

- Policy and communications
- People
- Procurement process
- Engaging suppliers
- Measurement and results.

Each of the five areas are addressed, at each of five levels of maturity.

- Level 1 – foundation
- Level 2 – embed
- Level 3 – practice
- Level 4 – enhance
- Level 5 – lead.

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### A progressive model

The EPH flexible framework is a progressive model where the descriptions provided in each box assume that practices identified at preceding level within that area have also been addressed (i.e. to satisfy level 3 of **People** you should be able to demonstrate that practices identified at levels 1 and 2 of **People** have also been addressed).

Initial focus is on establishing effective policy and practices for the management of labour standards issues. As the organisation's policy and practices evolve, the emphasis shifts towards activities that address improvement against specific identified labour standards issues. Monitoring and measurement of outcomes is important; simply having the practices in place does not necessarily mean that performance will improve

Guidance has been provided to explain the practices set out in each box of EPH, identifying key actions, a rationale for why the suggested activity is important and tips on how an organisation might go about initiating the activity described. Case studies have also been used to help illustrate key points at each stage. Please note that number of the case studies refer to activity undertaken by private sector organisations and, while it is felt that the studies demonstrate practical approaches, private sector organisations are not subject to public sector procurement regulations.

Each section identifies additional resources that an organisation may find useful, such as information sheets, training materials, tools or links to other reliable sources of information.

Each box in EPH is supported by a guidance document detailing:

- key components
- why each component is important and how each can be tackled
- case studies or worked examples and signposts to further information.

## Ethical procurement for health (EPH) flexible framework

	<b>Foundation Level 1</b>	<b>Embed Level 2</b>	<b>Practice Level 3</b>	<b>Enhance Level 4</b>	<b>Lead Level 5</b>
<b>Policy and communications</b>	Clear business case for addressing labour standards signed off by senior management and communicated to procurers and other key staff.	Policy in making reference to encouraging a minimum, stated, level of labour standards through procurement. This is communicated internally and to key suppliers.	Policy expanded (or supplemented by code of conduct) to detail expectations on labour standards. Communicated internally and to all suppliers. Document(s) made publicly available.	Organisation reports internally on activity and performance and has established processes for responding to enquiries and challenges from external interested parties.	Organisation recognised as a leader by peers and other stakeholders. Actively shares good practice and reports externally on activity and performance. Feedback sought from external stakeholders on the organisation's policy, practice and performance.
<b>People</b>	Named senior level champion with responsibility for implementing ethical procurement. Initial awareness raising activity undertaken with key procurement staff.	Initial awareness raising activity has been undertaken with all procurement staff.	Key procurement staff have undertaken detailed training on managing labour standards as part of a structured personal development plan. Responsibilities are defined and personal objectives set for procurement staff.	Procurement staff to engage with clinical and patient groups on labour standards issues, at an organisational level, to raise broad awareness and to improve understanding of needs and expectations for all.	Ethical procurement is a specific element of the role profile for all key procurement staff, setting out competencies. Meaningful engagement with external stakeholders to identify/pursue improvement opportunities.
<b>Procurement process</b>	Desk-based risk assessments are undertaken for all major procurement exercises.	Requirement for risk assessment and proportionate consideration in procurement process on all procurement exercises.	Self assessments required from high risk suppliers to refine risk assessment and inform procurement approach. Guidance in place on when and how to address issues within a procurement process.	Evidence of independent third party labour standards audits of suppliers required from high risk suppliers. Procedures exist for taking remedial action. Labour standards part of market engagement processes.	Procurement and market engagement processes are employed to pro actively drive demonstrable improvements in labour standards within supply chains.
<b>Engaging suppliers</b>	Initial category risk assessment has been undertaken to identify priority areas for focus.	Priority categories selected, initial dialogue initiated to establish awareness levels, position and maturity of market. Labour standards, where significant, embedded in category strategy.	Regular and structured engagement with suppliers in priority categories that identify improvement objectives and action plans.	Working collaboratively with suppliers and third parties to deliver improvement programmes.	Schemes in place for the proactive recognition of high performing suppliers or sectors (outside procurement process). Case studies are developed to capture good practice from collaborative projects.
<b>Measurement and results</b>	Organisation regularly reviews its progress against this EPF.	Progress against EPF routinely reported to senior management and further indicators of management performance are adopted (e.g. training, audits).	Indicators of positive impacts resulting from the organisation's activity are adopted and monitored.	Organisation actively monitors research findings and indicators of ethical conditions and trends by region, country or sector to inform risk assessment and future initiatives.	Measures of positive impacts that relate to the ethical procurement business case for the organisation are routinely applied as part of the benefits tracking processes for contracts.

## Ethical procurement for health (EPH) flexible framework

	Foundation Level 1	Embed Level 2	Practice Level 3	Enhance Level 4	Lead Level 5
Policy/ comms	<ul style="list-style-type: none"> <li>➤ Info sheet 1: Business case</li> </ul>	<ul style="list-style-type: none"> <li>➤ Info Sheet 2: Guide to developing policy for ethical procurement</li> <li>➤ Link to ETI Base Code</li> </ul>	<ul style="list-style-type: none"> <li>➤ Info Sheet 2: Guide to developing policy for ethical procurement</li> <li>➤ Link to ETI Base Code</li> </ul>	<ul style="list-style-type: none"> <li>➤ ETI Workbook Chapter 2: getting internal buy-in and resources</li> <li>➤ Info sheet 3: Guidance on sensitive issues</li> </ul>	<ul style="list-style-type: none"> <li>➤ Link to ETI Base Code</li> <li>➤ ETI Workbook Chapter 11 Public Reporting</li> <li>➤ Links to AA1000, GRI &amp; ACCA Awards</li> </ul>
People	<ul style="list-style-type: none"> <li>➤ Info sheet 1: Business case</li> <li>➤ NHS PASA Sustainable Procurement Module 2.3</li> </ul>	<ul style="list-style-type: none"> <li>➤ NHS PASA Sustainable Procurement Module 2.3</li> </ul>	<ul style="list-style-type: none"> <li>➤ Info sheet 4: establishing responsibilities and personal objectives.</li> <li>➤ Link to ETI Training courses</li> </ul>		<ul style="list-style-type: none"> <li>➤ Link to ETI membership and reporting</li> </ul>
Procurement process	<ul style="list-style-type: none"> <li>➤ Initial desk-based risk assessment tool</li> </ul>	<ul style="list-style-type: none"> <li>➤ Initial desk-based risk assessment tool</li> <li>➤ Info Sheet 5: Considering Labour Standards in the Procurement Process</li> <li>OGC Guide: Buy and make a difference – how to address social issues in public procurement</li> </ul>	<ul style="list-style-type: none"> <li>➤ ETI Workbook Resource 4: example supplier self assessment questionnaire</li> <li>➤ NHS PASA Sustainable Procurement Module 2.3</li> <li>➤ Info Sheet 5: Considering Labour Standards in the Procurement Process</li> <li>➤ OGC Guide: Buy and make a difference</li> </ul>	<ul style="list-style-type: none"> <li>➤ Info sheet 6: Social and Ethical standards and product labelling schemes</li> <li>➤ 'ETI workbook – guidance on third party audits</li> <li>➤ Info sheet 7: sources of information on audit bodies</li> <li>➤ Template procedure for 'taking remedial action on identified labour standards issues'</li> </ul>	<ul style="list-style-type: none"> <li>➤ Links to sector specific schemes, charities, unions NGOs or other relevant bodies</li> <li>➤ <a href="#">Changing Overtime: Tackling supply chain labour issues through business practice</a></li> </ul>
Engaging suppliers	<ul style="list-style-type: none"> <li>➤ Initial desk-based risk assessment tool</li> </ul>		<ul style="list-style-type: none"> <li>➤ Case example of regular structured engagement</li> </ul>	<ul style="list-style-type: none"> <li>➤ Case example of working collaboratively with suppliers and 3rd parties</li> </ul>	<ul style="list-style-type: none"> <li>➤ Link to Supplier Delivering Sustainability Award</li> </ul>
Measurement and results	<ul style="list-style-type: none"> <li>➤ Excel-based self-assessment tool</li> </ul>	<ul style="list-style-type: none"> <li>➤ Case example MPIs</li> </ul>		<ul style="list-style-type: none"> <li>➤ Links to Business and Human Rights and Impactt newsfeed</li> </ul>	

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### Getting started

#### 1) EPH self assessment

Undertake a self assessment of your organisation against the EPH flexible framework using the EPH tool signposted in the guidance for Level 1 of the **Measurement and results** area. This will help identify where you are and the details of the next level up will help you identify what specific actions you will need to take to progress.

#### 2) Achieving foundation level

If you find that your organisation needs to work towards achieving foundation level then it is suggested that the initial focus should be in the areas of **Policy and communications** and **People**. The other three areas are important but they will be facilitated by having policy and people elements in place first.

#### 3) Choosing levels

While the boxes in a specific area have been designed to build one on another, there may be some situations where it is appropriate for you to cover more than one level at a time. For example, some organisations may choose to develop policy and business case as part of the same exercise. You need not attempt to complete all level 1 foundation areas before initiating work on the level 2 embed areas. However it is advisable that all foundation areas are complete before moving to level 3 practice.

#### 4) Keeping progress uniform

It is likely that progress against different areas will vary and at the early stages this is likely to be more noticeable. However, it is recommended that the organisation does try to make progress across all five areas simultaneously rather than pushing a long way ahead in one area before addressing other areas.

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### 5) Setting EPH objectives

It is recommended that organisations set objectives for achieving specified levels of the EPH flexible framework, with time frames, at an early stage as this will help maintain focus on actions and help other stakeholders understand aspirations and progress.

### 6) Raising awareness of EPH

To support dialogue with key stakeholder groups both internally and externally, it is advisable to raise awareness of the EPH and any objectives your organisation has set.

### Information signposts

	Case studies		Info sheets		Templates		Training
	Tools		Links		Communications pack		

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### Context

The UK Government's *Global Health Strategy* (September 2008) recognises that health has become a global issue<sup>1</sup>. The UK Government's responsibility is to harness the opportunities of globalisation to improve the health of people across the world, and in particular people in the UK. The strategy encourages greater alignment of the Government's domestic and foreign policy where it affects global health and states: "We will work for stronger, fairer and more ethical trade in the health sector"

The £20 billion plus NHS annual spend on goods and services presents significant risk for the NHS with regard to abuses of labour standards in both goods and services supply chains. Poor labour standards in NHS supply chains could undermine the *Global Health Strategy*.

Concern over labour standards in some health and social care supply chains has increased over the past few years as independent research has identified cases where *International Labour Organisation Core Conventions* (see information sheet on ILO Conventions in the annexes) are not being adhered to. For example, the *Dark side of Healthcare*<sup>2</sup> (2007) identifies poor labour standards and child labour in the supply chains for surgical instruments and hospital uniforms.

The NHS PASA *Sustainable Procurement Action Plan* (Oct 2006) and *Procuring for Health and Sustainability 2012* (Nov 2007) both identified action to address this issue and the British Medical Association (BMA) formed a multi-stakeholder Medical Fair and Ethical Trade group in August 2007 to identify and pursue practical actions.

Research was undertaken in partnership between NHS PASA and the ETI in 2007/8 which collated the views of a number of key stakeholder groups. This research

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<sup>1</sup> HM Government (2008) [Health is Global: A UK Government Strategy 2008 -13](#)

<sup>2</sup> Swedwatch (2007) *The Dark side of Healthcare*, [www.swedwatch.org](http://www.swedwatch.org)

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helped identify the main barriers to addressing labour standards issues through procurement activity and in turn informed a range of recommendations for action to support meaningful progress in this area. The barriers identified were:

- limited practical knowledge or experience of managing ethical trading
- limited resources and competing pressures at the procurer level
- a complex and fragmented procurement system
- perception that ethical trading criteria may contravene EU procurement rules
- limited culture of audit or due diligence on labour standards
- no system for collectively storing ethical trading information from suppliers and limited access/knowledge about suppliers and supplier practices
- the potential/perceived impact of ethical trade on costs and value for money.

The report recommended that these barriers could be overcome by:

- supporting the development of flexible ethical procurement guidance for NHS trusts to enable them to benchmark and monitor ethical procurement activities
- developing guidelines, templates, tools and training to support NHS procurement organisations' progress in improving their processes
- identifying where a centralised approach may be appropriate and effective, for example in the development of policies, tools and ongoing partnerships
- supporting ongoing roll-out and outreach by making ETI expertise readily accessible to NHS organisations through an extension of the current NHS PASA/ETI partnership agreement.



## Level 1 – Foundation [Policy and communications]

### Key components

- **Business case** developed
- Senior management **sign off** of business case
- Communicate business case to **procurers**
- Communicate business case to **key staff**

### Guidance

#### Overarching business case development

Developing a clear and robust overarching business case for the organisation that addresses the question, ‘why procure ethically?’, is a critical first step. Generic business case arguments are presented in *Info Sheet 1* as a guide but it is important to ensure that the business case is relevant to the organisation. The business case should identify what is important to the organisation and may include the following aspects:

#### Values and aims

- Stress the need for purchasing to be in line with the organisation’s values and aims as well as those of key stakeholder groups such as staff and patients.

#### Outline the problem

- Recognise that labour standards abuses can exist in the supply chains of products and services procured for the health and social care sector.

#### Identify the risks to the organisation

- Reputational risks to the procuring organisation if it was discovered that a supplier was producing products in an unethical manner (e.g. employing child labour).
- Risks to the continuity of supply if suppliers do not meet legal standards or the expectations of key stakeholder groups.
- Risk to product or service quality from the existence of poor labour standards.

#### Identify the benefits

- Increased understanding of the supply chain, interactions and value added points
- Improvements in employment standards, worker welfare and health at a local, national and global level.

While the broad case may be well understood, we advise you to formally document it to



support consistent communication, and to provide a point of reference for management and staff, now and in the future. It may also be necessary to provide a documented business case to justify actions and decisions in the event of a challenge from interested parties.

It is important to recognise that the development of an this business case does not remove the requirement to assess relevance of labour standards in each procurement exercise.



**Info** sheet 1: [business case](#)



**Info** sheet 8: [International Labour Standards and Codes of Conduct](#)



**Info: ETI short films on the business case for ethical trade**

The Ethical Trading Initiative (ETI) has just produced two new films that set out the business case for ethical trade, for suppliers and retailers respectively. These films, each about 15 minutes long, have been made to support corporate ethical trade managers raise awareness and support for labour codes within their company and supply chains. The films should also be of use and interest to others involved in ethical trade. Copies are now available on a single DVD from ETI.

**Senior management sign off of business case**

It is important to get the business case for ethical procurement agreed and signed off by senior management. This will assist in gaining the necessary buy-in at operational levels in the organisation. For example the organisation might decide that the senior management/board will include ethical procurement in their discussions and periodically review progress made against agreed plans and timelines.

**Communicate business case to procurers**

Once the business case has been signed off, it will be important to ensure it is communicated to all procurement staff so that they are aware of the rationale for addressing ethical issues through their activities. It may be helpful to develop a short briefing document for them, outlining the key elements of the business case. Its communication could be combined with awareness raising activity and/or more detailed



process training (see guidance **People** and **Procurement process**).

**Communicate business case to key staff**

It will be important to communicate the business case to other key people within the organisation. This may include departmental heads, clinical staff, patient liaison officers, project managers, facilities managers and key contractors (e.g. PFI operators) who may need to be involved in supporting ethical procurement activity and communications. Communication materials should be accessible to all staff.



**Case study: NHS PASA business case**

NHS PASA is committed to encouraging the maintenance and improvement of labour standards within their supply chains through the procurement process and wider ongoing market engagement. The Agency recognises the importance of this in order to:

- reduce reputational risk exposure (and potential associated financial losses) for the NHS and contracting authorities using NHS PASA frameworks
- reduce risks to supply continuity that may be presented by supply chain organisations that do not meet ILO core labour standards, and subsequently protect against any resulting price volatility
- meet the expectations of NHS employees, healthcare professionals, patients and the public, in relation to the employment conditions, health and well being of workers in medical supply chains
- support Government obligations as members of the ILO to promote adherence to Conventions on human and employee rights
- ensure that NHS PASA frameworks are supportive of the local policies and codes of practice applied by contracting authorities that are eligible to utilise such contracts
- reinforce the expectation that all members of our supply chains should comply with employment legislation in place in the countries and locality where they operate
- support continual improvement in product and service quality where this is influenced by the labour standards that exist in the supply chain.

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Level 2 – Embed [Policy and communications]	
<p><b>Key components</b></p> <ul style="list-style-type: none"> <li>• Policy reference to encouraging a <b>minimum stated level</b> of labour standards</li> <li>• Policy reference <b>approved and issued</b> as part of new or updated policy</li> <li>• Communicated <b>internally</b></li> <li>• Communicated to <b>key suppliers</b></li> </ul>	
Guidance	
<p><b>Development of policy reference</b></p> <p>Once the business case has been established and agreed it is important to ensure that the underlying principles are reflected in the organisation’s policy. This will ensure that all stakeholders have an official, and consistent, point of reference for the organisation’s position on ethical procurement. The organisation’s commitments on ethical procurement can be expressed through a stand-alone policy on ethical procurement or as part of an existing relevant policy (e.g. procurement policy).</p> <p>Policy commitments around ethical procurement should:</p> <ul style="list-style-type: none"> <li>• <b>reflect the overarching business case</b> (see guidance on <b>Policy and communications, level 1</b>).</li> <li>• <b>encourage a minimum, stated, level of labour standards</b> (through reference to <i>ILO Core Conventions</i> or <i>ETI Base Code</i>) in the production and delivery of procured products and services</li> <li>• <b>set out supporting commitments to facilitate implementation</b> (some generic policy commitment examples can be found in <i>Info Sheet 2</i>).</li> </ul>	
	<b>Info</b> sheet 2: <a href="#">Guide to developing policy for ethical procurement</a>
	<b>Link:</b> <a href="#">ETI Base Code</a>
	<b>Info</b> sheet 8: <a href="#">International Labour Standards and Codes of Conduct</a>
<p><b>Policy approved and issued as part of new or updated policy</b></p> <p>The policy commitment, be this a new policy or a policy amendment, needs to be approved in line with the organisation’s governance procedures and made accessible to</p>	



key stakeholders.

Formal approval and issue of policy in this area will be necessary if it is to be used in the justification of the relevance of labour standards within any procurement activity (see guidance on **Procurement process, level 3**).

### **Communicating the policy internally**

The policy or policy reference should be clearly communicated to all staff affected by it. This will include, as a minimum, all those who:

- are responsible for adhering to and implementing procurement policy (e.g. supplies department, estates and facilities management)
- are involved in the specification of products or services
- interact directly with suppliers or their staff
- are involved in communications or public relations.

This should be done through the standard channels for policy communication and can also be included in awareness raising and training activity (see guidance on **People, levels 1 and 2**).

### **Communicating the policy to key suppliers**

The policy or policy reference should be communicated to key suppliers. That is, those suppliers that are viewed as being most important to the organisation and/or suppliers who operate in supply chains already identified as posing a high risk in relation to labour standards (see guidance on Procurement Process Level 1 and Engaging Suppliers Level 1). This should be done using established communications routes with suppliers although formal communication in writing is recommended for the avoidance of any doubt in the future. The applicability of the policy should also be referenced in any formal procurement documentation (e.g. tender specification, terms and conditions).



#### **Case study: NHS Supply Chain – Code of Conduct**

NHS Supply Chain has implemented a Code of Conduct that sets out expectations in terms of suppliers' behaviour in relation to the standards set out in the Global Compact.

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Along with a Baseline Questionnaire Assessment, the Code of Conduct has been sent to the organisation's top 45 suppliers as part of a pilot of a new market engagement process. The Baseline Questionnaire asks specific questions broadly pertaining to environmental and ethical standards within the supply chain and asks which elements of the Code of Conduct they do not currently comply with and what percentage of their sub-contractors they have communicated it to. The results of the questionnaire will be used to determine the potential level of risk associated with a particular supplier and to focus follow-up activity. The questionnaire has not been developed for use in formal contracting processes as such approaches would need to be appropriate to the specific subject matter of the contract in question.



<b>Level 3 – Practice [Policy and communications]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• <b>Detailing organisations’ expectations</b> on labour standards</li> <li>• Communicated <b>internally</b></li> <li>• Communicated <b>to all suppliers</b></li> <li>• Making the policy <b>publicly available</b></li> </ul>	
<b>Guidance</b>	
<b>Detailing organisations’ expectations on labour standards</b>	
<p>Experience shows that it can be useful to provide to procurers and suppliers more detail to assist consistent interpretation of policy. This may be a stand alone ethical procurement policy or a supporting document to reinforce the policy such as a code of conduct or terms of reference.</p> <p>For example: an organisation’s procurement policy makes a commitment to encourage adherence to <i>Ethical Trading Initiative Base Code</i> throughout its supply chains. The <i>ETI Base Code</i> and web site is then referenced to provide more detail on the ETI principles of implementation.</p>	
	<p><b>Info</b> sheet 2: <a href="#">Guide to developing policy for Ethical Procurement</a></p>
	<p><b>Info: The Ethical Trading Initiative (ETI) Base Code</b></p> <p>The ETI is an alliance of companies, non-governmental organisations (NGOs) and trades union organisations. It exists to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. Its ultimate goal is to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards.</p> <p>ETI has developed a code of labour practice, the <i>Base Code</i>, reflecting the most relevant international standards with respect to labour practices which will be used as the basis of its work.</p>



	<p><b>Link:</b> <a href="#">ETI Base Code</a></p>
<p><b>Communicating the policy internally</b></p> <p>The policy and supporting information should be clearly communicated to <b>all</b> staff. This should be done through the standard channels for policy communication and also included in awareness raising and training activity (see guidance on <b>People, level 3</b>).</p>	
<p><b>Communicating the policy to all suppliers</b></p> <p>The policy and supporting information should be communicated to <b>all</b> suppliers using established communications routes, although it is recommended that it is formally communicated in writing for the avoidance of future doubt. The applicability of the policy, and supporting information, should also be referenced in any formal procurement documentation (e.g. tender specification, terms and conditions), although we would advise against introducing such information to suppliers for the first time at this stage of a procurement exercise where possible.</p>	
	<p><b>Case study: Marks and Spencer – Plan A</b></p>
<p>M&amp;S launched its Plan A in January 2007. Plan A locates Corporate Responsibility at the heart of its business practices and aims to position M&amp;S as the UK’s leading responsible retailer. M&amp;S aspires to “improve the lives of hundreds of thousands of people in its worldwide supply chain”. Ethical trading supports Marks and Spencer’s core brand value ‘trust’. M&amp;S states: “Our customers expect high standards and trust us to work ethically.” M&amp;S communicates its ethical trading policy and expectations internally within the company and externally with suppliers and wider stakeholders. M&amp;S want to be seen as a company who take their responsibilities seriously and have high expectations of their suppliers.</p> <p>A summary of the <i>M&amp;S Global Sourcing Principles</i> forms part of the contract between M&amp;S and their suppliers. Each must strive to comply with the <i>ETI Base Code</i> and with all relevant local and national laws and regulations, particularly with regard to:</p>	

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- minimum age of employment
- freely chosen employment
- health and safety
- freedom of association and the right to collective bargaining
- no discrimination
- discipline
- working hours
- rates of pay
- terms of employment.

A full copy of the *Global Sourcing Principles* is also available for download as a PDF on the M&S website as well as a copy of the *ETI Base Code*.



<b>Level 4 – Enhance [Policy and communications]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• <b>Internal reporting</b> on activity and performance on labour standards.</li> <li>• Processes for <b>responding to enquiries and challenges</b> from external parties.</li> </ul>	
<b>Guidance</b>	
<b>Reporting internally on activities and performance</b>	
<p>Performance against aims, targets and plans should be regularly reviewed and reported on internally to help maintain commitment and reinforce ownership.</p> <p>Internal reporting should provide senior management with an overview of how the organisation is upholding its policy commitments and addressing the business case. It should also provide procurement staff and other key internal stakeholder groups with information on progress, successes and challenges.</p> <p>The nature and timing of internal reporting will depend upon governance structures put in place for ethical procurement, key stakeholder groups with which to communicate, established internal communication procedures, data availability and the resource available to compile the reports. Whatever the local situation:</p> <ul style="list-style-type: none"> <li>• keep reports short, simple and easy to read</li> <li>• make highlights and key challenges prominent</li> <li>• report on key commitments, targets, agreed actions and programmes</li> <li>• maintain consistency of format between reports as far as possible</li> <li>• ensure reports are as up to date as possible when issued to enhance relevance</li> <li>• set reporting schedule to coincide with significant dates (e.g. financial year end)</li> <li>• keep the reporting schedule manageable, don't spend more time reporting than doing.</li> </ul> <p>There is a strong relationship between internal reporting and activity identified under guidance on <b>Measurement and results</b>.</p>	
	<b>Template:</b> <a href="#">ETI Workbook Chapter 2: Getting internal buy-in and resources</a>



	<p><b>Developing processes for responding to external enquiries and challenges</b></p> <p>The organisation should build on existing processes for responding to external enquiries. Enquiries and challenges on ethical procurement may be received from interested members of the public, campaign groups or the media, and it is important that a consistent and responsive approach to handling such communications is adopted.</p> <p>Typically such communication procedures should:</p> <ul style="list-style-type: none"> <li>• identify the person(s) responsible for co-ordinating responses to external queries</li> <li>• ensure that they are fully briefed on the ethical procurement policy (plus supporting documents where relevant), its implementation and reporting</li> <li>• reference position statements relating to identified high risk or sensitive issues, such as child labour or assurance around temporary labour conditions. These should summarise the organisation’s policy and set out the steps the organisation is taking to address the issue in question</li> <li>• identify trigger points when enquiries should be escalated.</li> </ul>
	<p><b>Info sheet 3 :</b> <a href="#">Guidance on sensitive issues</a></p>
	<p><b>Case study: John Lewis partnership – internal communications</b></p> <p>John Lewis is a major UK retailer with clearly defined commitments to the principles of ethical trade. The company consistently monitors its own progress against its ethical trade targets and produces a summary report every year for employees that is also made publicly available.</p> <p>The report covers:</p> <ul style="list-style-type: none"> <li>• External comments and recognition of the John Lewis programme</li> <li>• Targets such as continuing to ensure that all own-brand suppliers: <ul style="list-style-type: none"> <li>○ are registered on Sedex</li> <li>○ complete a labour standards self-assessment</li> <li>○ are independently audited if they are high priority.</li> </ul> </li> <li>• Results against targets:</li> </ul>

# Ethical Procurement for Health Guidance and toolkit Policy and communications



	<ul style="list-style-type: none"><li>○ number of suppliers who have registered with Sedex</li><li>○ number and percentage of suppliers who have fully completed John Lewis' information requirements.</li></ul>
	<a href="#">John Lewis Partnership - Responsible sourcing: our name for ethical trading</a>



<b>Level 5 – Lead [Policy and communications]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• <b>Demonstrating leadership</b></li> <li>• Active <b>sharing of best practice</b></li> <li>• <b>Reporting</b> externally on activity and performance on labour standards</li> <li>• <b>Seeking feedback</b> from external stakeholders</li> </ul>	
<b>Guidance</b>	
<b>Demonstrating leadership</b>	
<p>Taking the lead on ethical trading will help enhance the organisation’s reputation and help it to manage its risks. It will help to gain the trust and respect of stakeholders and facilitate more productive engagement.</p> <p>Organisations can show leadership by:</p> <ul style="list-style-type: none"> <li>• leading and participating in discussion groups, think tanks and forums (e.g. the BMA Medical Fair and Ethical Trade Group)</li> <li>• establishing or engaging with practical initiatives and programmes (e.g. the Ethical Trading Initiative ETI)</li> <li>• heralding good practice and encouraging others to act in addressing labour standards issues</li> <li>• publicly reporting on performance, practice and learning points</li> <li>• sharing tools, practices and experiences</li> <li>• achieving recognition through awards schemes.</li> </ul>	
	Link to <a href="#">Ethical Trading Initiative</a>
	Link to <a href="#">BMA web site</a>
<b>Sharing good practice</b>	
<p>Sharing good practice with others enables an organisation to develop its own understanding of ethical procurement and to make a contribution to the development of other organisations.</p>	



Organisations should seek to use existing networks and communications channels to disseminate good practice, advice, tools and experiences to their peers and wider stakeholders however, consideration should be given to communication with specialist forum or networks with a specific interest in ethical procurement or labour standards issues.

### **Reporting externally on activities and performance**

Accurate and honest reporting to an external audience on the organisation's activities and performance can be a powerful tool for strengthening dialogue, engendering trust and demonstrating leadership.

With the emergence of electronic reporting as the predominant medium for public reporting it would be possible to establish a specific ethical procurement report. However, due consideration needs to be given to the external reporting policy of the organisation, the nature and scope of other external reports produced and accessibility for the target audience. Integrating a report on ethical procurement into another report (e.g. sustainable development report or annual report) may prove to be the most practical approach.

Whatever the approach, the organisation should ensure that the report style and format is appropriate for the target audience and that it conveys a clear sense of how the organisation is doing against its key commitments, targets and action plans.

If the organisation is establishing a report from scratch it can be useful to look at the reports of other organisations (see link to ACCA reporting awards) or some of the reporting frameworks developed for sustainable development and environmental reporting such as the *Accountability - AA1000 assurance standard* or the *Global Reporting Initiative – Sustainable Reporting Guidelines*. It is advisable to start simple and concise.

An ethical procurement report might cover:

- policy and codes of conduct

# Ethical Procurement for Health Guidance and toolkit Policy and communications



- scope of ethical procurement activity
- how ethical procurement is managed
- acknowledgement of the issues and difficulties encountered in implementing policies
- indicators of performance in terms of management practice (e.g. training provided, contracts covered) and outcomes (e.g. reduced numbers of accidents, higher wage levels)
- narrative on initiatives, activities and case studies.



Template: ETI Workbook Chapter 11 Public Reporting



Link to [AA1000 – Accountability](#)



Link to [Global Reporting Initiative](#)



Link to [ACCA Awards](#)

## Seek feedback from external stakeholders

Organisations should also actively seek feedback from key stakeholders on their policy, practice and performance. The external reporting process provides a good opportunity for this as it gives stakeholders something tangible to assess and comment on. Seek feedback on the report from the target audience on what they would like to see additional information about and, importantly, what bits they did not value.

Feedback can be sought at other stages, prior to the development of a report or as part of an ongoing process of stakeholder engagement and dialogues.

Seeking feedback can enable the organisation to:

- verify that policy and practice is meeting stakeholder expectations
- build dialogue and trust with external stakeholders
- develop ideas for improving policy, practice and future reports.



- identify how external stakeholders can assist and add value to initiatives.

Decisions on from whom and when to seek feedback should be taken by responsible persons in line with established procedures for communicating with external stakeholders.



**Case study: Gap Inc - stakeholder engagement**

Gap Inc works actively with a wide range of industry bodies, multi-stakeholder initiatives and forums on social responsibility including Business Leaders Initiative on Human Rights (BLIHR), the Ethical Trading Initiative (ETI), the Global Reporting Initiative (GRI), the Public Reporting Working Group (PRWG) and Social Accountability International (SAI).

Gap Inc state “These partnerships give us a platform to discuss our perspectives, advocate for industry-wide change, and ultimately, make a greater impact on working conditions and the lives of factory workers.”

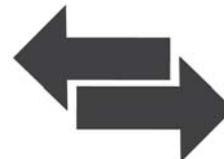
Gap Inc uses its relationships with stakeholders to ensure that its public reporting on labour standards demonstrates its leadership in the field, consulting with investors, trade unions, NGOs and a group of socially responsible shareholders, for input and feedback.

This focus on engaging with a wide range of stakeholders and transparency through pro active reporting has earned Gap Inc the respect of many experts in the field and a reputation as leaders in addressing labour standards issues in its sector.



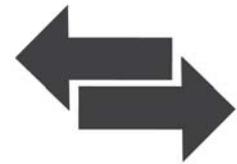
[GAP \(2007\) What is a company's role in Society: Gap Inc 2005-2006 Social Responsibility report](#)

# Ethical Procurement for Health Guidance and toolkit Procurement process



Level 1 – Foundation [Procurement process]
<b>Key components</b> <ul style="list-style-type: none"><li>• <b>Desk based risk assessments</b> undertaken for all major procurement exercises</li></ul>
Guidance
<b>Desk based risk assessments</b> <p>The extent to which abuses of labour standards occur varies greatly from one industry sector to another. Within this, variations exist by type of organisation, country or region. The nature and extent of the abuses also vary.</p> <p>It is important to recognise that the supply chains of some products and services will carry a very low risk of labour standards abuses due to the nature of work, the type of organisations operating in the supply chain and the level of monitoring and enforcement of standards. On the other hand there will be some supply chains where the opportunities to exploit workers and for abuses to go undetected are high. In these areas the procurer will need to seek a higher level of assurance and evidence.</p> <p>It is not practical, or indeed appropriate, to apply a generic detailed due diligence approach through the procurement process in every case, regardless of the products or services in question. An initial desk based labour standards risk assessment should be applied for specific procurements where relevance is identified.</p> <b>Initial desk based risk assessment</b> <p>Undertaking a simple initial desk based risk assessment will help the organisation to identify those categories of goods and services that, in general, present the highest risk of labour standards abuses.</p> <p>These high risk cases will require greater due diligence as part of the procurement process, starting with further research and information gathering and potentially leading to more detailed requests for information on a supplier-by-supplier basis. This may include on-site assessments undertaken by a specialist independent third party assessor.</p>

# Ethical Procurement for Health Guidance and toolkit Procurement process



It should be noted that the initial desk based risk assessment is only a first step to screen out lower risk supply chains. Subsequent research may require the organisation to revise its risk assessments.

Where time and resource to undertake risk assessments is limited the organisation may initially choose to risk assess relevant procurements that are high spend, operationally critical or have a high profile (internally or externally).

### Market risk as distinct from specific organisation risk

The initial risk assessment tool provided prompts the organisation to evaluate the supply chain as a whole, not specific organisations within the supply chain. It should be recognised that subsequent research may identify organisations within the supply chain which have strong controls in place to mitigate the more general risks associated with the sector.



**Tools:** [initial desk based risk assessment tool](#)



### Case study: re:source procurement hub – uniforms contract

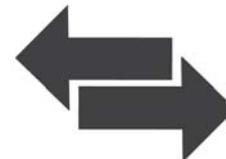
In 2007 the **re:source** procurement hub in the East Midlands negotiated a new contract for hospital uniforms. An initial risk assessment conducted prior to the invitation to tender stage revealed that uniforms sourced from some countries were considered high risk. Procurers asked potential suppliers about their ethical standards. The supplier who won the contract was a large supplier with contracts to supply brands in the private sector. They demonstrated their commitment to ethical trading by:

- showing their code of conduct
- informing **re:source** that they regularly audit production sites against the ETI base code and work with factories to close off issues.
- providing **re:source** with audits conducted by Bureau Veritas for other clients.

# Ethical Procurement for Health

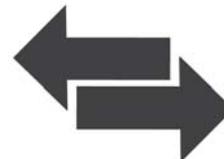
## Guidance and toolkit

### Procurement process



<b>Level 2 – Embed [Procurement process]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• Requirement for <b>risk assessment on all procurement exercises</b></li> <li>• <b>Proportionate consideration</b> in procurement process</li> </ul>	
<b>Guidance</b>	
<b>Requirement for risk assessment on all procurement exercises</b>	
<p>At Level 1 the concept of considering factors such as spend, criticality of supply and profile as part of the risk-based approach was introduced. While such approaches provide a logical basis to help focus limited resources initially, the use of such screening factors can be somewhat arbitrary in the context of identifying and managing the risk of labour standards abuses in supply chains.</p> <p>For this reason it is recommended that the scope of procurement activity, where an initial risk assessment is required within procedure, is extended to include all substantial procurements. It is recognised that most organisations will make some very small procurements and it may be prudent to exclude these from formal risk assessment requirements albeit some consideration of ethical issues should be encouraged among all procurers in all procurements.</p> <p>As well as new procurement exercises, it is recommended that risk assessments are undertaken for existing contracts as this will help identify areas where dialogue should be initiated with incumbent suppliers or as part of wider market engagement strategies.</p> <p>Where a case for procurement, or gateway review process is required, it is suggested that results of the risk assessment are included along with suggested further research or due diligence action to be taken within the procurement process.</p>	
	<b>Tools:</b> <a href="#">initial desk based risk assessment tool</a>
<b>Proportionate consideration in procurement process</b>	
Undertaking the risk assessment in itself only highlights where labour standards issues	

# Ethical Procurement for Health Guidance and toolkit Procurement process



may exist. It is important that where risks are identified as being significant that steps are taken to address these risks either as part of incumbent supplier management, procurement process, or wider market engagement.

The initial desk based risk assessment tool provides a basis for establishing whether the risk is significant or not but the organisation will need to interpret assessment results in the context of other factors (e.g. spend, profile, stakeholder views, further research findings) to identify which procurements represent a significant risk).

There may be a need to undertake some further research or canvass wider opinion to refine the risk assessment and develop a greater understanding of the nature and extent of the issues.

In the first instance information should be sought from suppliers or tenderers on the ethical assurance management approaches they apply (i.e. the steps they take and the evidence they seek to assure themselves that labour standards are maintained in their supply chains). For dialogue with incumbent suppliers and wider market engagement activity this information can be sought on a voluntary basis.

Within the procurement process, however, greater caution needs to be exercised, firstly to ensure that the information requested is relevant to the subject of the contract, and secondly that requirements are proportionate to the level of risk and preparedness of the market to respond (see signposted guidance for more information).



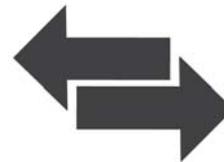
**Info** sheet 5: [Considering labour standards in the procurement process](#)



**Link** to OGC guide [buy and make a difference – how to address social issues in public procurement](#)

In the majority of cases the perpetrators of labour standards abuses are fully aware that their employment practices are unethical, be this in relation to the social and cultural standards of the society within which they operate or those set out in international law and expected by their customers. For this reason they will actively seek to conceal

# Ethical Procurement for Health Guidance and toolkit Procurement process



such activities and practices. Unfortunately other supply chain partners with honest intentions may be unwittingly supporting such practices if their due diligence processes are not in place or ineffective.

It is important to ask searching questions and require firm evidence to verify claims.



## **Case study: Greater London Authority**

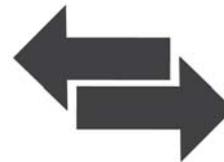
The Greater London Authority (GLA) Group Responsible Procurement Policy addresses ethical issues with a key focus to uphold fundamental human rights, to protect workers and to act within the law.

The GLA group has – through membership of Sedex (Suppliers Ethical Data Exchange) – taken action to minimise potential negative impacts in these areas. Membership of Sedex gives the GLA group a clearer picture and, therefore, greater ability to manage ethical impacts in key GLA group supply chains.

The GLA approach to risk assessment has two steps:

- step 1: identify suitable applications of ethical sourcing considerations – product categories and specific products and/or services where ethical sourcing considerations are relevant
- step 2: identify suitable contracts as they come up for letting or renewal.

Sedex is being piloted in Transport for London but will be rolled out across the GLA group during 2008.



### Level 3 – Practice [Procurement process]

#### Key components

- **Supplier self assessments** are required from high risk suppliers
- Risk assessments are **refined**
- Results are used to **inform procurement approach**
- **Clear guidance is in place** for procurers on when and how to address issues within a procurement process including evaluation

#### Guidance

##### **Supplier self assessments are required from high risk suppliers**

A supplier self assessment is a means of obtaining further information from suppliers on their ethical assurance management approaches against a set of standard criteria. Often supplier self assessments will be against a questionnaire, although a framework such as the *Ethical Procurement Framework* could also be used.

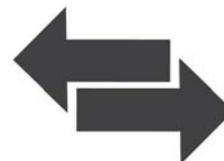
It is important to clearly identify to suppliers how the responses to the self assessment will be used (e.g. as a voluntary information gathering exercise to improve understanding or as part of a formal tender evaluation process).

A supplier self assessment will provide information which will enable the organisation to refine the initial risk assessment, assess the preparedness of the market, highlight areas for further dialogue and ultimately better inform the actions taken.

Organisations should recognise that a self assessment will present the supplier's own assessment of their management approaches and performance. Evidence should be sought in support of self assessments and ultimately independent verification may be required (see guidance on **Process, level 4** for further information).

It is suggested that some form of supplier self assessment is required from suppliers that operate in high risk categories.

# Ethical Procurement for Health Guidance and toolkit Procurement process



**Templates:** [ETI Workbook Resource 4 for example supplier self assessment questionnaire](#)

## **Risk assessments are refined**

The results of supplier self assessments should be reviewed and used to refine any risk assessments undertaken for supply categories. Caution should be exercised if individual supplier risk ratings are developed, outside of a formal procurement or supplier management process, insofar as these may unfairly prejudice future procurement decisions.

## **Results are used to inform procurement approach**

The results of supplier self assessments should also be used to inform future procurement, supplier and market engagement approaches.

Information received should give procurers a feel for the preparedness of the market to address issues relating to labour standards.

Where suppliers in a market place demonstrate a good level of preparedness this may indicate that a higher basic standard can be specified or applied at pre qualification (supplier selection) stages.

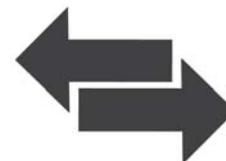
If the market preparedness is generally low then it may be more appropriate to apply a sliding scale when scoring responses at the tender evaluation and to make specific, time bound, improvements a requirement under the conditions of contract.

Where self assessment is first applied as part of procurement exercise then the information received should help identify any specific issues that need to be addressed through ongoing supplier management processes.

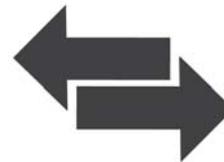
## **Clear guidance is in place for procurers on when and how to address issues within a procurement process including evaluation**

In support of the adoption of a consistent, objective and equitable approach to considering labour standards in the procurement process it is suggested that the organisation makes available clear guidance and procedures for its procurement staff.

# Ethical Procurement for Health Guidance and toolkit Procurement process



<p>This should also be reflected and supported by training, development and induction activity (see guidance on <b>People</b>).</p> <p>While there is value in signposting generic guidance (e.g. OGC guidance and this guidance document) there will be practical aspects that need to be bespoke to the organisation. For example, review and sign off procedure, criteria for determining significant risk or high risk, and the precise follow up action required.</p>	
	<p><b>Training</b> presentation:- <a href="#">NHS PASA Sustainable Procurement Module 2.3 – Social Issues in Procurement</a></p>
	<p><b>Info</b> sheet 5: <a href="#">Considering labour standards in the procurement process</a></p>
	<p><b>Link</b> to OGC guide <a href="#">buy and make a difference – how to address social issues in public procurement</a></p>
	<p><b>Case study: Royal Mail Group (RMG)</b></p> <p>The Royal Mail Group (RMG) has committed to evaluate the performance of its supply chain to ensure it works with responsible suppliers that comply with its ethical standards. In particular has committed to:</p> <ul style="list-style-type: none"> <li>• ensure that suppliers are aware of the policy</li> <li>• encourage suppliers to set targets to improve their practice and performance on social, ethical and environmental (SEE) issues</li> <li>• use evidence of suppliers’ compliance with its standards, including active engagement in controlling and reducing SEE risks and improving their performance, as a significant part of the supplier selection and contract award process, and during ongoing supplier management.</li> </ul> <p>The RMG is a member of Sedex and requires all of its suppliers to fill in a self assessment questionnaire (available through Sedex), which measures labour standards risks at sites of production. Evidence from the self assessment questionnaire is used to evaluate the risks in the RMG’s supply chain.</p>



<b>Level 4 – Enhance [Procurement process]</b>
<p><b>Key components</b></p> <ul style="list-style-type: none"><li>• Evidence of <b>independent third party labour standards audits</b> of high risk suppliers is required</li><li>• <b>Procedures exist for taking remedial action</b> when issues are identified</li><li>• Labour standards form part of <b>ongoing market engagement</b></li></ul>
<p><b>Guidance</b></p> <p><b>Evidence of independent third party labour standards audits of high risk suppliers is required</b></p> <p>At level 3, it was suggested that some form of supplier self assessment is required from suppliers in relevant categories identified as posing a high risk, in terms of labour standards.</p> <p>At this level, it is suggested for supply categories that continue to be rated as high risk that evidence of independent third party labour standards audits is sought for specific parts of the supply chain.</p> <p>Within the sphere of independent third party audits it is important also to consider audits and assessments that are undertaken as part of established social and ethical standards or product labelling schemes. Examples include FAIRTRADE Mark, GESI, ICTI, Rainforest Alliance and SA8000.</p> <p>An independent third party audit will not provide any guarantees, but does provide for some verification of suppliers self assessments and should provide a higher level of assurance within any due diligence process.</p> <p>Independent third party audits may be commissioned by the procuring organisation, the contracted supplier, a specific supplier in the supply chain or another third party (e.g. trade association). In general, it is not that important who commissions the audit although in some situations it may be prudent to minimise conflicts of interest.</p>

# Ethical Procurement for Health

## Guidance and toolkit

### Procurement process



A wide range of organisations exist who can provide third party independent labour standards audits. Some points to consider include the auditor's experience of the sector, country or region, their reliance on sub contractors and intermediaries.

When evaluating evidence of independent third party audits it is important to understand the scope of the audit and the standards against which the audit has been made. Good audit reports should sight specific evidence against observations and assessments.

If commissioning audits it will be essential to set out the scope and the standards against which the audit is to be undertaken. In addition some specification of the audit methodology is advised (e.g. interviews with operational employees and sub contractors to form at least one third of evidence gathering processes).

In requiring evidence of independent third party labour standards audits, consideration should be given to sharing audit information from, and with, other organisations. Schemes exist to facilitate sharing of such information.



**Info** sheet 6: [Social and ethical standards and product labelling schemes](#)



**Link** to [ETI workbook – guidance on third party audits](#)



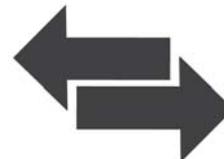
**Info** sheet 7: [Sources of information on audit bodies](#)

#### **Procedures exist for taking remedial action when issues are identified**

In collating information on labour standards in supply chains, be this through research, self assessment or third party audit, it is likely that at some stage there will be situations which do not comply with the organisation's policy, codes of conduct or expectations.

In such cases it may not always be desirable to sever links with the organisations concerned. This may be due to the fact that the organisation's performance in other

# Ethical Procurement for Health Guidance and toolkit Procurement process



aspects of the contract are very good, that the supplier provides a very specialised function in the supply chain which will be hard to replace, that significant time and resources have been invested in establishing the relationship or that by severing links the workers and their dependents face even greater suffering and hardship.

In such situations it is generally recognised as good practice to work to try and rectify non compliant situations, within reason, and as such the organisation should establish a procedure for dealing with this sort of situation as and when it arises.

Procedures of this nature should clearly set out the steps that need to be taken with suppliers and ideally indicate varying levels of response dependant upon the severity of the breach. Guidance may be provided on timescales for remedial action and procedures may require the incorporation of clauses within conditions of contract. Probationary clauses may also apply where by contract volumes are stepped down while remedial action is being taken or where increased scrutiny is required.

As with any procedure, procurement staff should be made aware of their responsibilities and how to apply the procedure.

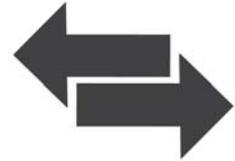


**Template:** [procedure for taking remedial action on identified labour standards issues](#)

## **Labour standards form part of ongoing market engagement**

It was identified at level 2 that engagement with markets and suppliers should not be left purely to formal procurement exercises.

A danger of this approach is that risks can go unidentified and unmanaged for significant periods of time until contract renewal. In addition it provides little time for procurers to gain an understanding of the risks and preparedness of the market and therefore decisions over approaches to take in the procurement process may be poorly informed. Added to this the market may also be unprepared to respond effectively to demands and expectations either resulting in a sub optimal solution or the incorporation of extra costs.



As for other aspects of procurement, market engagement and supplier management should be viewed as key elements of the wider procurement process and as such, where significant, labour standards should be incorporated into those processes.



**Case study: GAP Inc. - Taking remedial action**

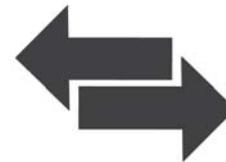
Following Gap Inc's investigation in October 2007 into allegations of child labour at an unauthorized, makeshift facility in India that was working on one product for Gap Kids. Gap Inc took the following steps:

- cancelling the product order in question and ensured that the garment would never be sold
- working with a child advocacy organisation, BBA, and the Indian government to ensure that the children found in the makeshift facility were cared for and reunited with their families
- immediately prohibiting the embroidery subcontractor involved from any future Gap Inc. production. Convening a summit of North Indian vendors to reinforce Gap Inc's zero tolerance policy against child labour and the implications of non-compliance
- placing the vendor on probation and suspended 50 percent of its future orders for a minimum of six months.

Gap Inc also reviewed their longer-term remedial processes for tackling child labour in their supply chain, which includes:

- education and awareness-raising - partnering with local and global civil society organisations to develop a strategy and process for monitoring the working conditions under which handwork may be performed
- taking steps to address an Industry wide Issue - Gap Inc is partnering with the International Labour Organization (ILO) and other stakeholders to convene a global forum in India in the autumn of 2008 to review best practices in combating child labour and discuss potential strategies for industry wide collaboration within the garment industry.

# Ethical Procurement for Health Guidance and toolkit Procurement process



<b>Level 5 – Lead [Procurement process]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• <b>Driving demonstrable improvements</b> in labour standards within supply chains</li> </ul>	
<b>Guidance</b>	
<b>Driving demonstrable improvements in labour standards within supply chains</b>	
<p>In the main this guidance has focused on identifying risks of labour standards abuses in supply chains and how to gain assurances that those risks are being managed, both within formal procurement and supplier management processes as well as market engagement approaches.</p> <p>Leadership however, is typified by organisations that pro actively identify opportunities for improvement and take the lead in driving positive changes be this through advocacy, policy levers, facilitation or direct intervention.</p> <p>It is suggested that organisations utilise the information from risk assessments, research, self assessments, audits and other dialogue to identify specific areas of strategic importance to them. This may relate to an issue of significant stakeholder interest and concern, or an operationally critical area of supply.</p> <p>The specific nature of improvement activity and the best means of achieving this will be bespoke to the issue and circumstances in question, however a review of case studies and dialogue with organisations that have faced similar challenges can prove valuable.</p>	
	<p><b>Link to</b> <a href="#">Changing Overtime: Tackling supply chain labour issues through business practice</a></p>
	<p><b>Case study: Nike – Generation III</b></p> <p>In the latest Corporate Responsibility Report Nike has committed to eliminating excessive overtime in all their contract factories by 2011. It intends to achieve this ambitious aim through a new approach to labour standards called Generation III which includes a move:</p>

# Ethical Procurement for Health Guidance and toolkit Procurement process



	<ul style="list-style-type: none"><li>• from policing and fire fighting to coaching and capacity building</li><li>• from informing business units to engaging them</li><li>• from a focus on issues to a focus on systems and root causes.</li></ul> <p>Nike intends to implement advanced human resources training in all their contract factories and train all workers in their contract factories with freedom of association training. Nike believes these actions will support all the factories in their supply chain not to work excessive overtime.</p>
	<a href="#">Nike Corporate Responsibility Report 2007</a>



## Level 1 – Foundation [People]

### Key Components

- **Identify senior level champion**
- **Identify individual with lead responsibility** for implementing ethical procurement
- Initial **awareness-raising** activities with **key** procurement staff

### Guidance

#### Identify senior level champion

Any programme to implement ethical procurement principles within an organisation will benefit greatly from having an identified champion within the senior levels of management, ideally sitting on the board.

The role of the champion is to act as an advocate for ethical procurement in the organisation, provide a focus at senior management levels for the business case and policy, and to guide implementation through the person(s) tasked with implementing ethical procurement. The champion should also ensure that the person with lead responsibility has adequate support to operate effectively.

#### Identify individual with lead responsibility for implementation

Successful implementation of ethical procurement will require the identification of a person or persons with specific responsibility for this. This person(s) will need to plan and lead the organisation's approach to the development and delivery its ethical procurement policy and objectives.

The person(s) identified should be:

- experienced in the procurement function
- of a sufficient level of seniority to influence decision-makers
- interested in ethical procurement and labour standards
- a good project manager – the role will require the person to initiate and implement a series of concurrent projects
- a relationship builder – the role will require the person to establish and build on relationships with a wide range of stakeholders including senior management, procurers, suppliers and external stakeholders.

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- able to contribute sufficient time to the role.

Ideally, clear responsibilities and objectives should be agreed with the responsible person. These may form part of the individual's personal review and objectives.

It will also be important to identify lines of accountability, reporting and escalation protocols, especially where a senior management champion is identified within the organisation.

## **Initial awareness-raising with key procurement staff**

This will help to build and embed the business case for ethical procurement within the organisation.

Key procurement staff may include:

- department heads
- heads of category
- sourcing directors
- senior procurement managers

Awareness-raising should focus on:

- what are the issues and how these relate to the organisation's procurement activity
- the business case for ethical procurement (see guidance on **Policy and communications, level 1**)
- The organisation's policy commitments (see guidance on **Policy and communications, levels 2 and 3**)
- Roles and responsibilities
- Approaches for embedding ethical procurement in the procurement process (see guidance on **Procurement process**)
- Strategies for engaging suppliers (see guidance on **Engaging suppliers**).

Awareness raising can be undertaken in a number of ways (e.g. briefing sessions, bulletins, fact sheets, intranet message boards, discussion groups or through more

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formal training sessions) but the approach taken should allow for dialogue and feedback on approaches and strategies.

We recommend that the initial awareness-raising is refreshed periodically to ensure that all key procurement staff are covered on an ongoing basis.



**Info** sheet 1: [business case](#)



**Training** presentation: [NHS PASA Sustainable Procurement Module 2.3 – Social Issues in Procurement](#)



Level 2 – Embed [People]	
<p><b>Key components</b></p> <ul style="list-style-type: none"> <li>• Initial <b>awareness raising</b> undertaken with <b>all</b> procurement staff</li> <li>• <b>Consultation</b> with key procurement staff on implementation and potential obstacles</li> </ul>	
Guidance	
<p><b>Initial awareness raising with all procurement staff</b></p> <p>Procurement staff will need to be aware of the issues and realise the risks to the organisation if they are to implement the policy and action plans.</p> <p>To ensure that all procurement staff are aware of labour standards issues and the organisation’s business case, policy and approach, the initial awareness raising (See guidance on <b>People, level 1</b>) should be rolled out. It will also be important to raise the awareness of others who may be involved in procurement, for example, business partners, procurement consultants, interims and non-permanent staff.</p> <p>Awareness raising materials should be made available to any staff, on request, either through paper copies of documents, or by publicising information on an intranet site.</p> <p>For recommended content of awareness raising see guidance on <b>People, level 1</b>.</p> <p>Note: For the purposes of self assessment it is suggested that procurement staff are classed as staff for which more than 50% of their time is spent on procurement activity.</p>	
	<p><b>Training</b> presentation: <a href="#">NHS PASA Sustainable Procurement Module 2.3 – Social Issues in Procurement</a></p>
	<p><b>Case study: Healthcare Purchasing Consortium Awareness Raising</b></p> <p>HPC is a major provider of procurement, healthcare contracting and commercial services to the NHS across the West Midlands. HPC has run awareness raising programmes to ensure that procurement staff understand the issues related to ethical procurement.</p>

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	<p>The awareness raising programme includes showing a short video, <i>The Dark Side of Healthcare</i>, about labour standards in the surgical instruments industry in Pakistan and textiles industry in India.</p> <p><i>The Dark Side of Healthcare</i> was produced by SwedWatch, a Swedish Non-Governmental Organisation and focuses on suppliers into the Swedish Medical service.</p>
	<p><a href="#">Swedwatch</a></p>



Level 3 – Practice [People]	
<b>Key Components</b>	
<ul style="list-style-type: none"> <li>• <b>Defined responsibilities</b> for all procurement staff</li> <li>• <b>Defined personal objectives</b> for all procurement staff</li> <li>• <b>Detailed training</b> on managing labour standards is included in <b>structured personal development plan</b> for key procurement staff</li> </ul>	
Guidance	
<b>Defined responsibilities for all procurement staff</b>	
<p>To help procurement staff understand what they need to do to implement the ethical procurement policy it is recommended to define ethical procurement responsibilities. Responsibilities may be generic for procurement roles or grades or may be identified for specific individuals, or roles within the department or categories. They could be built into job descriptions, role profiles or introduced as part of a personal review process.</p> <p>To ensure that staff have the confidence and capacity to fulfil their responsibilities, staff and their managers should review competencies and development needs.</p>	
<b>Defined personal objectives</b>	
<p>Defining personal objectives around ethical procurement may be appropriate (especially for those with defined responsibilities in this area) in order to raise the profile and importance of considering labour standards through procurement activity. This also provides an opportunity to recognise staff effort and achievement.</p>	
	<p><b>Info sheet 4:</b> <a href="#">establishing responsibilities and personal objectives</a></p>
<b>Detailed training on managing labour standards is included in structured personal development plan</b>	
<p>The <b>People, level 1</b> area identified the importance of undertaking basic awareness raising activity with key procurers, however it is recognised that for some key procurers it may be necessary to supplement this initial activity with more structured and strategic development around the subject.</p>	

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Additional development activity should be determined on a personal needs basis and be included in the structured personal development plan for key procurement staff.

Organisations may draw on existing training materials to develop their own course, or may choose to work with specialists to develop tailored materials. The ETI provide specialist one day workshops on ethical trade, which may fit the needs of key procurement staff. The workshops include:

**Workshop 1:** The essentials of ethical trade.

- Defining the scope of ethical trade and the advantages of trading ethically.
- Unpicking the ETI Base Code, and what it means in practice.
- Mapping supply chains and understanding their role in implementing codes of practice.

**Workshop 2:** Managing an ethical trade programme - tools and mechanisms for implementation.

- Risk-based approaches to identifying and managing ethical trade activities in the supply chain.
- Audit processes and how to get the best from them.
- Partnership working and its role in implementing ethical trade programmes.

**Workshop 3:** Improving working conditions - a partnership approach to managing change in the supply chain.

- Identifying root causes of workplace issues.
- Developing SMART improvement plans.
- Prioritising resources.

**Workshop 4:** Making change sustainable - taking a leadership approach to ethical trade.

- Integrating ethical trade into core business practices.
- Building better social dialogue with key partners, such as trade unions, NGOs and local networks.
- Involving workers in bringing about workplace improvements.
- Reaching all levels of the supply chain, including invisible and marginal workers.



	<p><b>Training</b> <a href="#">ETI Training courses.</a></p>
	<p><b>Case study : Tesco Training</b></p> <p>Tesco has rolled out a course for buyers to raise their awareness of ethical issues and the effects that purchasing practices can have on labour standards. The training also aims to develop practical skills and experience in discussing these issues with suppliers through creative brainstorming exercises with a variety of products, discussions of different buying scenarios, as well as group exercises tackling real examples of ethical issues in different countries and industries.</p> <p>Attending an ethical buying course is now compulsory for all Tesco buyers around the world. Category directors attend training and emphasise that buyers are responsible for ensuring that their behaviour does not prompt suppliers to cut ethical corners. According to Tesco, the course has had an impact on buying practices. Changes in buyers' behaviour include:</p> <ul style="list-style-type: none"> <li>• buyers now discuss ethical issues in greater detail with suppliers and have been following up on specific ethical actions as part of buying visits</li> <li>• buyers will not engage or continue to work with suppliers who will not commit to improve.</li> </ul> <p>When buyers spot ethical issues during a visit they will address these issues directly with the suppliers and discuss them with their technical managers and/or ethical trading manager when they get back to the office.</p>



## Level 4 – Enhance [People]

### Key components

- Procurement staff **engage with clinical and patient groups on labour standards** issues
- **Feedback** on clinical and patient groups' views is **included in any review** of ethical procurement policy reference/policy.

### Guidance

#### Engage with clinical and patient groups

There is a substantial level of public interest in labour standards and ethical procurement and it is reasonable to expect that some of the organisation's stakeholders will have an interest in its ethical procurement practice and performance. Organisations should engage proactively with key stakeholder groups in order to understand their level of awareness, their expectations and the strength of feeling.

An organisation should follow its established procedures to engage with users (e.g. clinical staff) and recipients or beneficiary groups (e.g. patients) on ethical procurement issues. Decisions such as, from whom and when to seek feedback, should be taken by relevant person(s) in line with the risk assessment (see guidance on **Procurement process, level 2**) and established procedures for communicating with internal and external stakeholders.

Engaging these groups will:

- establish whether policy and practice is addressing stakeholder expectations
- help to build dialogue and trust
- inform enhancements of policy, practice and future reports.

Procurement staff should ensure that when they consult with internal stakeholders that they set out what the organisation is already doing so as not to inadvertently alarm stakeholders and call into question other issues such as safety standards.

**Include clinical and patient groups' feedback in review of ethical procurement**

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<p><b>policy/policy reference</b></p> <p>Findings of stakeholder engagement should be included in reviews of ethical procurement policy. This should help to ensure that the organisation’s policy and commitments on ethical procurement reflect the views and expectations of user, recipient and beneficiary groups (patients, clinical staff, non-clinical staff and the wider public).</p>	
	<p><b>Case study : BMA Medical Fair and Ethical Trade Group</b></p> <p>The BMA Medical Fair and Ethical Trade Group is a network representing the medical profession, procurement managers, industry and NHS agencies, and its aims are to investigate, promote and facilitate fair and ethical trade in the production and supply of commodities to the UK healthcare industry.</p> <p>The Group’s activities include raising awareness and supporting good practice in the health and social care sector through networks of healthcare professionals and other partner groups; supporting the development of fair and ethical trade policy principles for the procurement of medical commodities within the NHS; conducting research on supply of certain products, including a recent research trip to surgical instrument manufacturing industry in Pakistan; and facilitating the development of pilot procurement programmes for one or two fair/ethically traded products.</p>
	<p><a href="http://www.bma.org.uk">www.bma.org.uk</a></p>



## Level 5 – Lead [People]

### Key components

- Ethical procurement is a specific element of the **role profile** for key procurement staff, **setting out relevant competencies**.
- **Meaningful engagement** with external stakeholders to identify and pursue improvement opportunities

### Guidance

#### **Integrate ethical procurement into the role profile of key procurement staff**

Leaders in ethical procurement should ensure that the ethical procurement activities are sufficiently established that they would remain in place irrespective of changes in personnel, the nature or amount of procurement activity.

The organisation should integrate ethical procurement into the role profiles for key procurement staff and set out relevant experiences and competencies that would be expected of individuals filling these roles. This effectively formalises the ethical procurement responsibilities and objectives established at level 3 by making it a requirement for the role rather than it remaining specific only to the individual currently filling that role.

The organisation should:

- define the necessary experience and competencies for successful implementation of ethical procurement
- include competencies and experience in role profiles
- ensure that these role profiles (experience requirements and competencies) are used in recruitment, development, management and reward of procurement staff.

Core competencies might include:

- understanding of labour standards issues and core references (e.g. ILO Conventions)
- understanding of how to integrate labour standards considerations into



procurement practice

- understanding of the principles of engaging suppliers in making improvements.

## **Meaningful engagement with external stakeholders to identify and pursue improvement opportunities**

Some external stakeholders will have experiences, views and skills in labour standards which will provide valuable learning opportunities for the organisation. Engagement through established, long term relationships can deepen the organisation's understanding and build capacity in labour standards and ethical procurement.

The organisation should encourage key procurement staff and person(s) with lead responsibility for ethical procurement to engage actively with external stakeholders such as:

- suppliers
- trade associations
- patient groups
- professional bodies
- multi-stakeholder initiatives
- non-governmental organisations
- trades unions
- Government
- other labour specialists (See guidance on **Policy and communications, level 5**).

This engagement could focus on:

- sharing best practice in implementing labour standards and reporting
- seeking constructive feedback on the organisation's approach
- seeking advice on difficult issues (e.g. child labour remediation, excessive overtime)
- working with suppliers and other stakeholders on improving practices in specific sectors
- working with stakeholders on programmes aimed at identifying good practice
- contributing to the formation of public policy on ethical procurement
- negotiating framework agreements with trades unions.



	<p><b>Link</b> <a href="#">ETI Membership and Reporting'</a></p>
	<p><b>Case study</b> : The Co-operative role profiles for buyers</p> <p>The Co-operative takes pride in how its values and principles make a difference to the way it conducts its business. The Co-operative states: “Our values and principles drive the way we do business. Together with our members, they give us our co-operative approach and vision, our different outlook.”</p> <p>The Co-operative values state: “Co-operatives are based on the values of self-help, self -responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.”</p> <p>The Co-operative has been working to integrate ethical buying into the role profiles of its commercial buyers. Part of the top-line job description for buyers states: ‘Buyers should take considerations on how their purchasing practices affect ethical standards.’ As part of buyer training, The Co-operative details the actions buyers should take to implement the top-line statement. These include:</p> <ul style="list-style-type: none"> <li>• to raise the awareness of new suppliers of the Co-operative’s expectations on Sound Sourcing</li> <li>to integrate brief conversation on sound sourcing performance with suppliers at regular meeting</li> <li>to assess and select suppliers based on their willingness to work toward our sound sourcing and select suppliers.</li> </ul>



Level 1 – Foundation [Engaging suppliers]	
<p><b>Key components</b></p> <ul style="list-style-type: none"> <li>• Initial <b>category risk assessment</b> to identify priority areas</li> </ul>	
Guidance	Signposts
<p><b>Initial category risk assessment</b></p> <p>In guidance on <b>Procurement process, level 1</b>, we identified that abuses of labour standards vary in frequency greatly between industry sectors. This level seeks to take the same concept of risk assessment as described in the <b>Process</b> area for specific procurement exercises and apply it at a higher level to the assessment of procurement categories. This should enable the risk assessment findings to inform longer term market engagement and procurement strategies.</p> <p>For example an organisation may assess its textile procurement category and identify that there is little visibility due to the complex supply chains characterised by numerous intermediaries (merchants, wholesalers etc). Its labour standards research may show evidence of poor standards in the sector, which may also exist within the organisation’s textile supply chains. The organisation may decide that these risks can be managed more effectively by streamlining the supply chain which in turn will improve visibility, influence and flows of information. In addition, this approach will provide much better understanding of costs and value adding activity within the supply chain and present an opportunity to improve value for money.</p> <p>Clearly such an approach is unlikely to be realised through a single procurement exercise and needs to be part of a longer term category programme.</p> <p>It is suggested that the organisation undertakes an initial desk based risk assessment for all of its main procurement categories. This can be undertaken in parallel with specific procurement related risk assessments, and indeed the more detailed product and services assessments will undoubtedly help inform the broader category assessments.</p>	

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<p>To help understand the importance of the labour standards risk assessments in the context of broader category strategy it is recommended that the additional strategic risk criteria described in the initial desk based risk assessment tool are also utilised.</p>	
A circular icon with a teal border containing a wrench and a screwdriver.	<p><b>Tools:</b> <a href="#">Initial desktop risk assessment tool</a></p>
A circular icon with a pink border containing a black briefcase.	<p><b>Case study: London Underground – ETI Base Code</b></p> <p>In December 2006, London Underground (LU) became the first public sector organisation to sign up to the Ethical Trading Initiative (ETI), on the basis of its supply chain for the provision of uniform to its 12,000 staff.</p> <p>The ETI Base Code has been incorporated in all uniform contracts placed subsequent to LU joining the ETI and a supplier's commitment to ethical sourcing now forms an integral part of the tender evaluation criteria.</p>



<b>Level 2 – Embed [Engaging suppliers]</b>
<p><b>Key components</b></p> <ul style="list-style-type: none"><li>• <b>Priority categories</b> selected</li><li>• <b>Initial dialogue with suppliers</b> to establish levels of awareness, position and market maturity</li><li>• <b>Embed labour standards where significant into category strategy</b></li></ul>
<p><b>Guidance</b></p> <p><b>Priority categories selected</b></p> <p>In level 1, the organisation will have undertaken category risk assessments (See guidance on <b>Engaging suppliers, level 1</b>). In level 2, the organisation should identify priority categories in order to focus resources on high risk ones. The initial desk based risk assessment tool provides a basis for establishing whether the risk is significant or not but the organisation will need to interpret assessment results in the context of other strategic factors relevant to the category.</p> <p>Once priority categories are selected the organisation can plan how it will use its resources to best engage the category suppliers.</p> <p>The organisation should review category priorities periodically to take account of changes in markets, the impact of the organisation’s activities and emerging issues.</p>
<p><b>Initial dialogue with suppliers</b></p> <p>Undertaking the risk assessment in itself only highlights where labour standards issues may exist. A key next step is to understand suppliers’ awareness, current practice and the maturity of the market in selected categories. Some suppliers especially those that supply products and services that have had media exposure or have a high profile in terms of labour standards (e.g. textiles, food, ancillary services) may have some awareness of the issues and may have policies (e.g. regular third party audits) in place to mitigate the labour standard risks. However the experience and capacity will vary between categories, but also, the awareness and capacity of individual suppliers may</p>

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### Engaging suppliers



vary widely.

Procurers should begin dialogue with suppliers to:

- map the supply chain and understand the involvement of agents, production sites and sub-contractors in the supply chain
- understand suppliers' level of awareness of labour standards
- understand their existing level of engagement with labour standards
- understand what the likely labour standards issues in the category are
- understand what attempts suppliers have made to tackle the issues
- communicate the organisation's expectations
- communicate why working towards improved labour standards is beneficial to the organisation, suppliers themselves and workers.



#### **Info: ETI Factsheet for Small Businesses**

The ETI has prepared a short factsheet on Ethical Trade and Labour Standards for small businesses. It is designed to raise awareness and answer the Frequently Asked Questions asked by small companies considering ethical trade and procurement for the first time. The briefing covers:

- what is ethical trade?
- ETI Base Code
- why should I bother?
- what should my ethical trade strategy look like?
- so what can I do to get information on my suppliers' labour practices?
- where can I get a list of ethical manufacturers?
- can I join ETI?

The factsheet is available from the ETI Secretariat.



**Link to [ETI Fact Sheet for Small Businesses](#)**

#### **Embed labour standards, where significant, into category strategy**

Where labour standards risks are significant the organisation should embed ethical procurement into the category strategy. This will ensure that ethical procurement and

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### Engaging suppliers



labour standards are considered as a strategic part of category development. The organisation will need to consider how to embed these issues in all stages of the procurement process, including market engagement. This may include requiring self assessments or independent audits of supplier performance on ethical procurement and labour standards and/or imposing post tender conditions for ongoing management of labour standards risks (for further information see guidance on **Procurement process**).

The organisation should also consider how it can effect longer term and more fundamental change to eliminate or significantly reduce the risk. The organisation may:

- move towards direct sourcing and identify supplier/partners with better labour standards
- work with NGOs to improve standards on the ground
- work to establish a fair trade mark or best practice mark
- work to build the capacity of suppliers to take ownership over labour standards, and/or develop a within factory wall policy.



#### **Case study:** Pentland Group - football sector programme

Pentland Group plc, a UK-based company owns a number of brands in the sportswear and clothing sectors, such as Speedo, Ellesse and Mitre.

Sourcing footballs from suppliers in Pakistan, the company has proactively tackled the problem of child labour. When the issue of child labour in Pakistan came to a head in the mid-1990s, it was the sportswear sector that attracted most international attention, as it was considered more vulnerable to consumer pressure.

Pentland rejected the option to terminate contracts with suppliers who may have been using child labour. Walking away from the problem would not improve the situation in the factories in Pakistan.

Pentland adopted a constructive engagement approach, seeking to work with



	<p>factory managers to bring standards to an acceptable level in an acceptable time period. Stages in this process included:</p> <ul style="list-style-type: none"><li>• forming an international alliance with members of the World Federation of Sporting Goods Industry, Industry Associations, UN bodies and NGOs, focusing on two projects; (i) workplace prevention and monitoring of child labour, (ii) social protection and rehabilitation for working children</li><li>• gaining local ownership for the programmes through the Sialkot Chamber of Commerce and local NGOs</li><li>• keeping channels of communication open with all stakeholders, including the trade unions</li><li>• learning from pilot projects and benchmarking progress at the factory level</li><li>• working with suppliers to assess and manage risk through practical guidelines and training</li><li>• demonstrating leadership within the sportswear sector to work collectively to improve standards in factories.</li></ul>
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<b>Level 3 – Practice [Engaging suppliers]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• Regular and structured <b>engagement</b> with suppliers in priority categories identifying improvement <b>objectives and action plans</b></li> </ul>	
<b>Guidance</b>	
<b>Regular and structured engagement with suppliers</b>	
<p>Building on work at level 2 this level aims to ensure that suppliers are aware of the category strategy. Procurement managers should engage with suppliers on the key issues in a regular and structured manner. This activity may take place outside procurement exercises either as market engagement or as part ongoing contract management.</p>	
<ul style="list-style-type: none"> <li>• <b>Agree priority areas.</b> Based on dialogue with suppliers, the organisation should identify and agree priority areas for the action.</li> <li>• <b>Agree an action plan.</b> The organisation should agree actions with its suppliers which help to tackle recognised priority areas. These may be specific actions relating to issues raised by audits or self assessment or they may be more general actions relating to moving towards good practice.</li> <li>• <b>Review progress made.</b> The organisation should regularly review progress made by the supplier to ensure that issues are being actioned.</li> </ul>	
	<p><b>Info: ETI short films on the business case for ethical trade</b></p> <p>The Ethical Trading Initiative (ETI) has just produced two new films that set out the business case for ethical trade, for suppliers and retailers respectively. These two films, each about 15 minutes long, have specifically been made to support corporate ethical trade managers raise awareness and support for labour codes within their own company and in their supply chains. However, the films should also be of use and interest to others involved in ethical trade.</p> <p>Copies of these films are now available on a single DVD from ETI.</p>



	<p><a href="#"><u>Link to ETI short films on the business case for ethical trade</u></a></p>
	<p><b>Case study: BBC Ethical Sourcing Programme</b></p> <p>BBC Worldwide seeks to conduct its business to the highest possible ethical standards. The business is working to ensure that its suppliers operate according to the principles enshrined in BBC Worldwide’s Ethical Sourcing Policy. The company is a member of the Supplier Ethical Data Exchange (Sedex), which works collectively with major retailers to maintain the quality of assessments of working conditions.</p> <p>Over the past year particular attention has been paid to magazine cover mounts and licensed toys which are predominantly sourced from China.</p> <p>BBC Worldwide continues to implement a comprehensive supplier training and independent factory inspection programme, coupled with stringent buying controls and corrective-actions monitoring. The programme aims to ensure that BBC Worldwide products are produced in factories that meet, or exceed, internationally recognised standards relating to worker age, conditions of employment, pay and hours, and health and safety. Factories which are actively producing BBC Worldwide product are required to have been independently audited within the past 12 months. One of the Group’s principal demands is that any factory supplying product to BBC Worldwide must be honest and transparent about its working practices. Where it is identified that improvements are required, the Group works with its business partner and factory management to make changes over an agreed timescale.</p> <p>A rolling programme of additional control audits, conducted by the BBC Worldwide ethical team in conjunction with some of the world’s leading labour-standards consultancy firms, helps to ensure that the overall programme is genuinely effective in raising standards and in bringing about lasting improvements.</p>



<b>Level 4 – Enhance [Engaging suppliers]</b>
<b>Key components</b> <ul style="list-style-type: none"><li>• <b>Collaborative work with suppliers and third parties to deliver improvement programmes</b></li></ul>
<b>Guidance</b>
<b>Collaborative work with suppliers and third parties to deliver improvement programmes</b> <p>When labour standards are integral to the category strategy and/or the organisation identifies persistent issues, it should consider working collaboratively with other purchasers, suppliers and other third parties to remediate the situation, develop new ways of working and deliver improvements. Working collaboratively draws together skills and resources, which may not be available internally. It can also help to ensure that project outcomes are sustainable.</p> <p>It may not be possible to improve labour standards conditions in all cases, especially if the issues that have been identified are deep rooted, caused by factors such as government policy, social structures and culture or are apparent in large areas of a country, sector or supply chain (e.g. excessive overtime in China). However, organisations can:</p> <ul style="list-style-type: none"><li>• assess the scope for improvement</li><li>• develop and test a policy or way of working</li><li>• demonstrate a successful model in remediating issues when they are found.</li></ul> <p>Project design and partners will depend on the type of issues addressed. However all collaborative projects should have:</p> <ul style="list-style-type: none"><li>• established and agreed aims and objectives</li><li>• participatory approach drawing on the skills of suppliers and third parties</li><li>• specified roles and responsibilities for all parties</li><li>• clear and achievable outcomes.</li></ul>



Collaborative remediation and improvement projects are often bespoke, but they might include:

- **Child labour remediation.** The organisation might work with suppliers and local stakeholders (factory managers, parents, local NGOs, school teachers) to understand the causes of child labour and help get child workers back to school.
- **Worker welfare.** The organisation may work with suppliers and partners (productivity experts, worker councils, trade unions) to improve workers' pay and conditions and ability to negotiate with management.



#### **Case study: Collaborative Overtime Project**

A group of purchasing companies including Body Shop, Debenhams, H&M, IKEA, Kingfisher, Lambert Howarth, Marks and Spencer, New Look, Next, Pentland and Sainsburys recognised that excessive overtime was a big issue in China. They worked with a group of suppliers, specialist consultants and local NGO partners to develop an innovative approach to tackling the issue of excessive overtime.

The purpose of the project was to demonstrate that by improving a factory's productivity, human resource management and internal communications, hours can be gradually reduced, while maintaining wage levels. The focus was on presenting a clear business case for factory managers and supporting continuous improvement.

Each purchasing company chose one of their supplier factories in China to work with on the project, which involved providing consultancy and training for factories from a number of local organisations.

Overall, all factories managed to reduce working hours, although most were still not able to achieve consistent compliance with strict Chinese labour laws. Most factories saw increased productivity and quality and also increased wages.



<b>Level 5 – Lead [Engaging suppliers]</b>
<p><b>Key components</b></p> <ul style="list-style-type: none"> <li>• <b>Development of schemes</b> for the recognition of high performing suppliers</li> <li>• <b>Case studies</b> to capture good practice from collaborative projects</li> </ul>
<b>Guidance</b>
<p><b>Development of schemes for the recognition of high performing suppliers</b></p> <p>The most progressive organisations in the field of ethical procurement encourage their suppliers to take ownership of labour standards as part of their business relationship. Adopting this approach moves the organisation from a role of policing suppliers to one which recognises and rewards suppliers for improving labour standards.</p> <p>In order to encourage continuous improvement in labour standards, the organisation should actively recognise the achievements of suppliers who demonstrate good labour standards. In this context good labour standards may include:</p> <ul style="list-style-type: none"> <li>• compliance with organisation’s ethical procurement policy</li> <li>• establishment of own code of conduct which is communicated down the supply chain to second and third tier suppliers</li> <li>• supplier membership of trade association initiatives/ multi-stakeholder initiatives designed to highlight and share good practice (e.g. ETI, Fairtrade Foundation, GeSI, ICTI, and SA8000)</li> <li>• signed framework agreements and access agreements with international trade union bodies.</li> </ul> <p>Developing a scheme to recognise suppliers that can demonstrate good due diligence, meaningful engagement and improvement on labour standards can be an effective way of encouraging suppliers to become more proactive. It also provides an opportunity for an organisation to identify suppliers who are doing good work in this area either as potential partners in future initiatives or purely as models of what can be done to support wider learning and understanding. The organisation may want to create a local initiative to recognise suppliers’ good labour standards; this could involve the awarding</p>



of certificates. Care must be taken, however, not to imply any certification or endorsement.



Link to [Suppliers Delivering Sustainability Award](#)

**Case studies to capture good practice**

Identifying good practice allows suppliers and procurers to learn from the experiences of others and builds the expertise of the entire supply base. Leading organisations should capture good practice from suppliers who are improving their labour standards or are working on collaborative projects (see guidance on **Engaging suppliers, level 4**) and roll out the learning to other suppliers.

In order to capture good practice, procurement managers should document:

- context
- project actions and steps
- successes, difficulties and future learning points
- project outcomes
- project legacy – future prognosis.

Documented case studies should be made available to suppliers, procurers and other stakeholders.



**Case study: Suppliers Delivering Sustainability Award**

As part of the Sustainable Communities Awards 2009, NHS PASA has developed the Suppliers Delivering Sustainability award.

The award recognises that suppliers to the health and social care sector at all levels can play an important role in helping their clients to realise their sustainability objectives and aspirations.

As part of the health and social care sustainable procurement action plan, *Procuring for Health and Sustainability 2012*, this award seeks to identify excellence in sustainable supply while also recognising those suppliers to the

# Ethical Procurement for Health Guidance and toolkit Engaging suppliers



	<p>health and social care sector who are going the extra mile and making a meaningful contribution to social, environmental and community objectives in the sector.</p> <p>One of the criteria against which entries were judged was the extent to which suppliers have improved health and well being of those within their supply chain.</p> <p>NHS PASA is keen to develop case studies on the successful and short-listed suppliers and promote these to the wider NHS through its PS Magazine and website.</p>
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Level 1 – Foundation [Measurement and results]	
<b>Key components</b> <ul style="list-style-type: none"><li>• Regular <b>reviews</b> of progress against the Ethical Procurement for Health (EPH) flexible framework</li></ul>	
<b>Guidance</b>	
<b>Regular reviews against EPH flexible framework</b> <p>Organisations should track their progress against the EPH flexible framework using the excel-based self assessment tool to:</p> <ul style="list-style-type: none"><li>• assess what level they have achieved in each area</li><li>• identify next steps and actions</li><li>• inform progress reporting.</li></ul> <p>The EPH flexible framework self assessment tool can also be used to plan schedule activities through a basic project planning function.</p> <p>This process should be coordinated by the person(s) with responsibility for implementing ethical procurement in collaboration with key procurement managers. Outputs from review could be used to inform reporting to senior levels in the organisation.</p>	
	<b>Tools:</b> <a href="#">Excel-based self assessment tool and graphic chart output to track actions and progress</a>

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## Case study/example:

The excel-based self assessment tool can be used to establish an initial baseline and to monitor progress against the EPH flexible framework. The following outputs can be generated through use of the tool.

The table below shows progress by level and area of the EPH flexible framework.

<b>Procurement Organisation</b>					
<b>Ethical Procurement for Health - flexible framework progress</b>					
	<b>Level 1 Foundatio n</b>	<b>Level 2 Embed</b>	<b>Level 3 Practice</b>	<b>Level 4 Enhance</b>	<b>Level 5 Lead</b>
<b>Policy and Communication</b>	75%	0%	0%	0%	0%
<b>People</b>	67%	0%	0%	0%	0%
<b>Procurement Process</b>	100%	50%	0%	0%	0%
<b>Engaging Suppliers</b>	100%	22%	0%	0%	0%
<b>Measurement and Results</b>	33%	0%	0%	0%	0%



Level 2 – Embed [Measurement and results]
<p><b>Key components</b></p> <ul style="list-style-type: none"> <li>• Report <b>progress</b> to senior management</li> <li>• Further <b>indicators of management performance</b></li> </ul>
Guidance
<p><b>Report progress to senior management</b></p> <p>As ethical procurement becomes established the person(s) with lead responsibility for implementing ethical procurement should report progress against EPF to senior management on a routine basis.</p> <p>Other key stakeholders including the procurement team will also need to be kept up to date with the progress on ethical procurement.</p>
<p><b>Develop indicators of management performance</b></p> <p>The effects of management activity on labour standards in the supply chain will take time to become clear. It is therefore useful to measure management activity itself to evaluate whether sufficient action is being taken to implement the policy. Management Performance Indicators (MPIs) can also support budgeting decisions on future activities and approaches.</p> <p>Based on the organisation’s aspirations for ethical procurement, it should identify what management performance indicators it will track. These may include:</p> <ul style="list-style-type: none"> <li>• number of procurement staff who have attended awareness raising training</li> <li>• number of suppliers who are engaged in initial dialogue</li> <li>• number of categories risk assessed to inform category strategy</li> <li>• percentage of procurement processes taking labour standards into account</li> <li>• percentage of nominated suppliers returning supplier self assessments</li> <li>• number of third party audits received/conducted</li> <li>• percentage of identified corrective actions closed out in agreed timescale</li> <li>• number of good practice case studies developed.</li> </ul>

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As the organisation develops its ethical procurement activities, indicators should be reviewed to ensure that they track the organisation's progress through the areas and levels of the EPF.



#### **Case study: Tesco - Management Performance Indicators (MPIs)**

In 2007 Tesco set itself MPIs to measure and assess its performance in ethical trade. These indicators are used for internal and external reporting of progress and include the following:

- to carry out independent ethical assessments of 100% of our high-risk own-brand suppliers
- to train 100% of our high-risk own-brand suppliers
- to ensure all commercial teams have received training on supply chain labour standards.

In the 2008 Tesco Corporate Responsibility Report the retailer publicly reported its progress against these targets. Although it met the latter two targets, Tesco reported that it had been able to carry out independent audits at 73% of their high risk own-brand suppliers.



<b>Level 3 – Practice [Measurement and results]</b>
<p><b>Key components</b></p> <ul style="list-style-type: none"><li>• Indicators of <b>positive impacts</b> resulting from the organisation’s activity</li></ul>
<b>Guidance</b>
<p><b>Develop positive impact indicators</b></p> <p>Measuring the real outcomes of ethical procurement activity is often complex and time consuming. It is recognised that procurers do not have direct control over labour standards in their supply chains and many factors other than their efforts are likely to influence outcomes. However, getting some measure or indicator of outcomes is important to evidence the value of ethical procurement.</p> <p>The first step should be to examine the main benefits identified in the business case, and develop measures to demonstrate whether these benefits are being realised as a result of actions taken. While the identification of generic measures or indicators of benefit delivery across all procurement activity would be ideal, the reality is that indicators will probably need to be developed around more specific procurements or initiatives in the first instance.</p> <p>Positive impact indicators might focus on broad elements of the business case:</p> <ul style="list-style-type: none"><li>• quality of service delivery - e.g. number of complaints about service</li><li>• reputational risk – e.g. level of overall risk rating for ethical procurement</li><li>• security of supply - e.g. number of critical suppliers providing good evidence of exceeding ILO standards.</li></ul> <p>Or, more specific and direct measures of labour standards related to:</p> <ul style="list-style-type: none"><li>• workplace health and safety – e.g. number of work related injuries</li><li>• wages and remuneration – e.g. average wages as a percentage of regional or sector average</li><li>• hours of work and leave entitlement – average hours per shift</li><li>• child labour – e.g. number of incidences identified in third party audits.</li></ul>



It may be appropriate to adopt proxy measures such as results from staff satisfaction surveys, staff turnover rates that may provide some insight into general levels of employee satisfaction.



**Case study: Fairtrade Foundation**

The Fairtrade Foundation’s mission is to work with businesses, community groups and individuals to improve the trading position of producer organisations in developing countries and to deliver sustainable livelihoods for farmers, workers and their communities by:

- being a passionate and ambitious development organisation committed to tackling poverty and injustice through trade
- using certification and product labelling, through the FAIRTRADE Mark, as a tool for our development goals
- bringing together producers and consumers in a citizens’ movement for change
- being recognised as the UK’s leading authority on Fairtrade.

The Fairtrade Foundation publishes an annual report in which it assesses the impact of the movement’s activities for producers. Positive outcomes are related through case studies, producer stories and category data.



<b>Level 4 – Enhance [Measurement and results]</b>
<p><b>Key components</b></p> <ul style="list-style-type: none"><li>• Active monitoring of <b>ethical conditions</b> by region, country or sector.</li></ul>
<p><b>Guidance</b></p> <p><b>Active monitoring of ethical conditions by region, country or sector</b></p> <p>Working conditions and labour standards are subject to change, large scale processes such as inflation or migration can have a huge effect on workers' living standards.</p> <p>For example the demand for workers in Shenzhen province of China in 2007/8 has caused significant labour shortages, one of the largest internal migrations in human history and has increased the incidence of child labour. Recent food inflation rates in Bangladesh have meant workers' wages sometimes fail to cover the cost of food. In the UK, inflation rates and currency fluctuations against the Euro can significantly affect the number of migrant workers entering Britain to find work.</p> <p>To ensure that the organisation's ethical procurement activities are responsive to changes on the ground in sourcing countries, the organisation should seek to monitor media and internet sources for up to date information and indicators of labour standard conditions in the regions, countries and sectors from which the organisation sources. In particular the organisation should monitor:</p> <ul style="list-style-type: none"><li>• news reports</li><li>• web based discussion groups and blogs</li><li>• reports by international institutions (e.g. World Health Organisation, United Nations, World Bank)</li><li>• reports from third sector organisations such as charities, and campaign groups</li><li>• academic research.</li></ul> <p>The organisation may want to set up Google alerts for stories relating to labour standards in relevant categories or subscribe to free newsfeeds of breaking labour standards and ethical trade news which can be delivered daily to an email inbox. These</p>

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<p>may include:</p> <ul style="list-style-type: none"> <li>• business and human rights update</li> <li>• Impactt newsfeed</li> </ul> <p>Information obtained on ethical conditions by region, country or sector should be used to inform a review of risk assessments and resulting action plans or strategies.</p>	
	<p><b>Link to <a href="#">Business and Human Rights</a></b></p>
	<p><b>Link to <a href="#">Impactt newsfeed</a></b></p>
	<p><b>Case study: Food inflation in South East Asia</b></p> <p>Throughout 2008, many countries in South East Asia have been suffering the effects of unprecedented food inflation. World prices for food staples such as rice, corn and wheat have all reached record highs. In February and March alone the price of rice increased by about 75% globally. Wheat rose by 120% in 2007/8. In Bangladesh the real price of rice reached a 19 year high as it rose by 70%.</p> <p>As a response to food price inflation in sourcing countries many companies sourcing from South East Asia are monitoring wage rates. Some garment retailers are developing projects designed to raise the workers' wages in Bangladesh. These projects focus on the impact of wage levels on worker's livelihoods.</p>



<b>Level 5 – Lead [Measurement and results]</b>	
<b>Key components</b>	
<ul style="list-style-type: none"> <li>• Measures are routinely <b>applied</b> as part of benefits tracking processes for contracts.</li> </ul>	
<b>Guidance</b>	
<b>Routine application of measures to benefits tracking processes for contracts</b>	
<p>Building on work at Level 3 to identify positive outcome indicators this level focuses of building requirements for outcome data into contract benefits tracking processes.</p> <p>The aim is to try and capture benefits realised relating to ethical procurement activity at a contract level and in a routine and systematic manner.</p> <p>It may be possible to aggregate some of this data to support organisation wide indicators of positive outcomes and demonstrate that the business case benefits are being delivered.</p>	
	<p><b>Case study: New Look benefits tracking</b></p> <p>New Look a leading fashion retailer captures and reports internally on the effectiveness of its ethical trading programme on a monthly basis through a series of Key Performance Indicators (KPIs). These KPIs are incorporated into a presentation which is disseminated to senior management and the Board of Directors. The KPIs include:</p> <ul style="list-style-type: none"> <li>• number of factory visits</li> <li>• % of suppliers on Sedex (Supplier Ethical Data Exchange - a membership organisation for businesses committed to continuous improvement of the ethical performance of their supply chains)</li> <li>• supplier critical failure points</li> <li>• project-specific outcomes.</li> </ul>
	<p><b>Case study: ETI impact assessment</b></p> <p>In 2006 the ETI in collaboration with Institute for Development Studies published: <i>The ETI code of labour practice: Do workers really benefit?</i></p>



*Report on the ETI Impact Assessment 2006.* The report was the outcome of a three year independent study on the impact of the ETI members' activities on the estimated 20,000 workers in 29 companies' supply chains.

The primary aim was, "to assess positive and negative impacts of implementation of the ETI Base Code on the working conditions and lives of workers within the supply chains of ETI member companies, and to identify how impacts can be improved". The study used multi-method approach including scoping exercises, in-depth worker interviews, country studies and case studies.

The research found that as an outcome of members activities there had been a significant improvement in workers' conditions, particularly in the areas of:

- health and safety - for example better fire safety, introduction of training on emergency procedures, and safer use of chemicals
- working hours - reduced regular and overtime hours
- wages - for example ensuring payment of the minimum wage and provision of state insurance and pensions
- child labour - less employment of children and young workers.

However in some areas of the ETI base code there had been no or very little impact notably in freedom of association, discrimination, regular employment and harsh treatment.