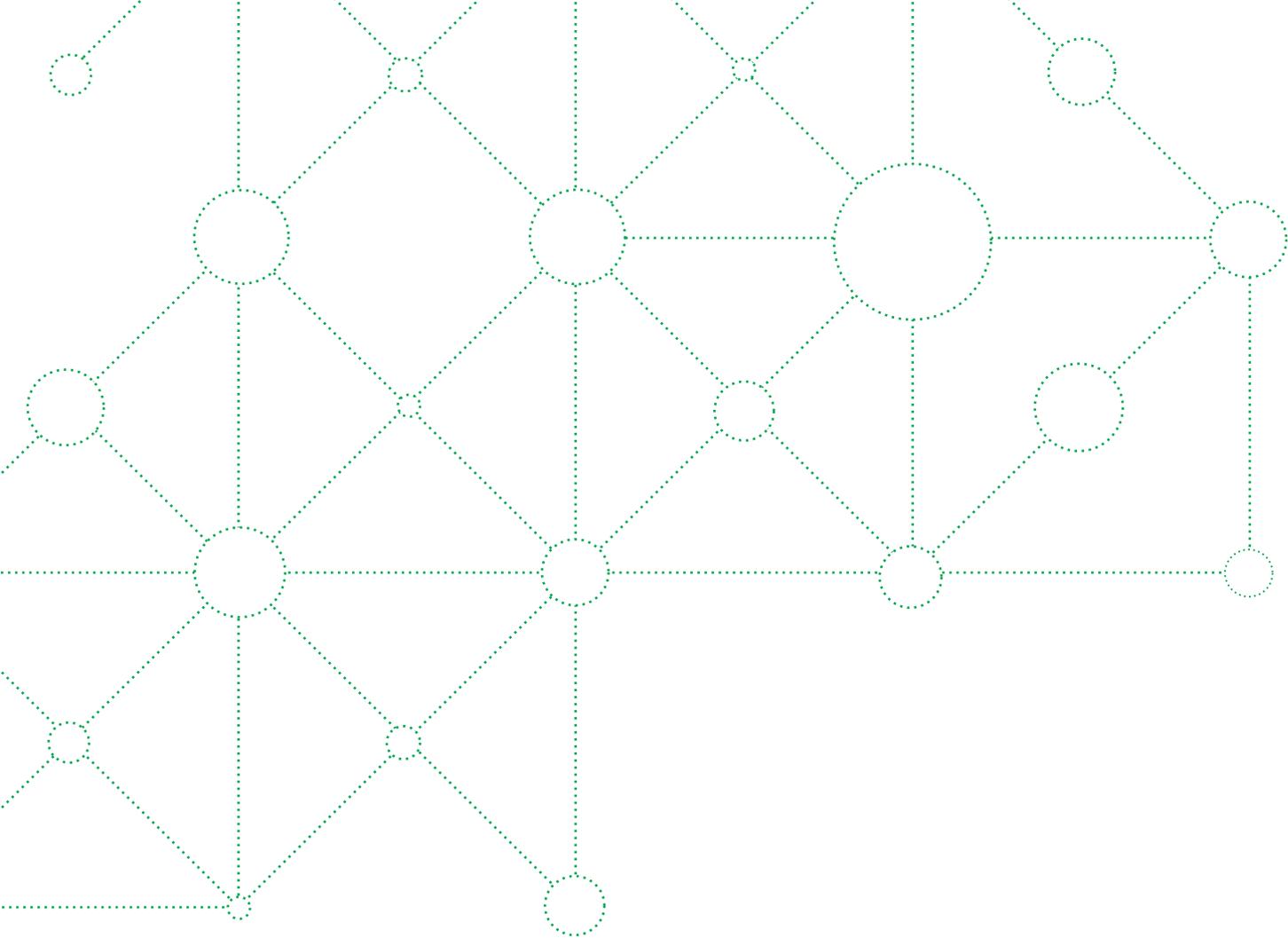


# ETHICAL AND SOCIAL STANDARDS ARE THE PATHWAY FOR SMALL AND MEDIUM ENTERPRISES TO COLLABORATE WITH LARGE CLIENTS



This publication has been prepared by the Working Group for Business Ethics and Responsible Business Conduct Standards operating as part of the Advisory Board for Sustainable Development and Corporate Social Responsibility – a subsidiary body to the Minister of Investment and Economic Development of the Republic of Poland.

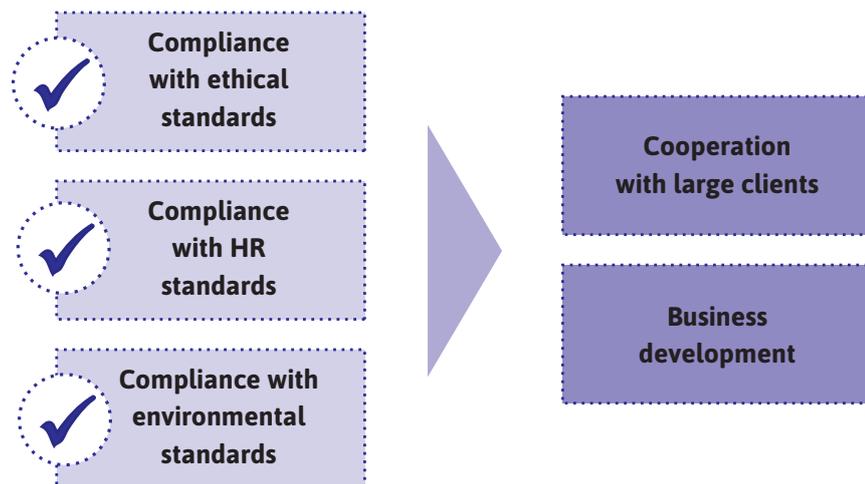


Publication prepared by: Grażyna Miller, Danuta Kędzierska, Katarzyna Ordyńska, edited by Agnieszka Abec-Domańska and Robert Sroka PhD, coordinator of the Working Group for Business Ethics and Responsible Business Conduct Standards. During his time coordinating the working group, Robert Sroka was professionally connected to E&Y. The group operated as part of the Advisory Board for Sustainable Development and Corporate Social Responsibility in 2017.

*Warsaw, 2018*

## WHY ARE ETHICAL AND SOCIAL STANDARDS THE PATHWAY FOR SMALL AND MEDIUM ENTERPRISES TO COLLABORATE WITH LARGE CLIENTS?

SMETA, SEDEX, amfori BSCI, EcoVadis, SA8000, ICS, ETI are just a few of the acronyms that thousands of small and medium enterprises (SMEs) have or will soon encounter during their commercial and investment talks with large companies from the FMCG, automotive, electronic or financial industries. These names are linked to standards, codes, norms and ethical and social audits, which are increasingly becoming the condition for cooperation with international and domestic clients.



Quick searches for information in local sources do not offer many suggestions. The keywords that appear are: social audit, ethical standards, fair remuneration, no child labor, human rights, system of governance, second party audit, third party audit, etc.

The first response is usually surprise and disbelief. What's all this for? How much does it cost? What is the difference between this audit and an audit by authorities? Who will pay for this? Will I benefit? How will it affect my margin? Why should I agree to the evaluation of OHS, environmental, labor or anti-corruption practices in my own business? What consequences does this entail?

SMEs may also encounter ethical and social requirements not only from prospective but also existing clients. These new expectations may soon become necessary to continue cooperation and to therefore maintain the current level of sales.



The SMEs that meet these requirements gain the opportunity to:

1. **grow their business by entering the supply chain of domestic and international corporations**
2. **raise management standards at the operating level in non-financial areas**
3. **build a more attractive, friendly and safe workplace for current and prospective employees**
4. **create a positive image of their own brand and contractors' brands**



In this publication, you will find key information about:

- ▶ ethical and social standards,
- ▶ key challenges and issues faced by entrepreneurs regarding the satisfaction of corporate requirements and international ethical and social standards,
- ▶ good preparation of a company to the satisfaction of audit requirements.

This publication has been developed by the Working Group for Business Ethics and Responsible Business Conduct Standards operating as part of the Advisory Board for Sustainable Devel-

opment and CSR– a subsidiary body to the Minister of Investment and Economic Development of the Republic of Poland.

We hope to encourage you as employers to take a pro-active approach to creating a company that is attractive to both employees and business partners.

The knowledge presented here should strengthen small and medium entrepreneurs to help them act as equal partners in the understanding of ethical and social partners with their Polish and international business clients.

## WHY SHOULD YOU START WITH COMPLIANCE?

The key condition for ensuring an adequate workplace as required by international and corporate ethical and social standards is compliance of practices with labor law, environmental law, construction law and other applicable industry-specific requirements.

### What should you pay special attention to?

The most frequent instances of non-compliance found during state-run audits include:

- ▶ signing of civil law contracts in situations in which an employment contract should be signed,
- ▶ failure to confirm in writing an employment contract signed with an employee before admitting the employee to work,
- ▶ termination or dissolution of an employment relationship with an employee without notice, constituting a gross violation of the labor law,
- ▶ use of penalties against employees other than those set forth in the provisions of the labor law on disciplinary responsibility,
- ▶ violation of the working time provisions or provisions governing employee rights related to parenthood,
- ▶ failure to keep the documentation in matters related to the employment relationship and personal files of employees,
- ▶ failure to pay salary or provide other performance to which the employee or his/her eligible family member is entitled on the agreed date, groundless reduction of the amount of salary or performance, or unjustified set offs,
- ▶ failure to give a holiday leave to which an employee is entitled or groundless reduction of the time of such a leave,
- ▶ failure to issue a work certificate to an employee,
- ▶ failure to observe occupational health and safety regulations or principles.

## WHAT ARE ETHICAL AND SOCIAL STANDARDS AND AUDITS?

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**Ethical and social standards or codes are collections of requirements developed by international organizations, industry organizations or single companies in order to define the desirable conduct of business partners, mainly suppliers. These requirements usually pertain to areas such as:**

- ▶ **business ethics**
- ▶ **fair market practices**
- ▶ **anti-corruption**
- ▶ **human rights**
- ▶ **ensuring safety and promoting health at work**
- ▶ **care for the environment**
- ▶ **requirements for subcontractors in the above areas**

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On the other hand, the ethical and social audit is a tool to review whether the business partners actually satisfy the requirements included in the standards and codes.

### Most popular standards

There are many ethical and social standards and codes that may form the basis for defining the scope of information to be reviewed during audits. Those encountered most frequently by entrepreneurs from Central and Eastern Europe are presented below.

#### ETI Base Code, SMETA, SEDEX

**ETI Base Code** is a code of conduct developed by the Ethical Trade Initiative (ETI). The requirements included in the ETI Base Code apply mainly to the workplace area, including terms of employment, freedom of association, health and safety standards, remuneration levels, observ-

ance of working hours, equal treatment, respect for human rights such as not using forced labor or child labor.

**SMETA** (Sedex Members Ethical Trade Audit) is the audit procedure developed based on the ETI Base Code. The audit concerns four standards:

- ▶ labor standards
- ▶ health and safety
- ▶ business ethics
- ▶ care for the environment

The audit may only be conducted by duly certified entities. The results of SMETA audits may be published in the form of a report on the **SEDEX** (Supplier Ethical Data Exchange) platform.

The report may be visible to the manufacturer's counterparties.

The popularity of SMETA audits is evidenced by the fact that more than 280,000 such audits have been conducted by 2018 and the SEDEX platform contains more than 93,000 SMETA reports used by counterparties, including the largest international entities, to learn to what extent their current or potential suppliers meet various ethical, social and environmental standards.

More information about the SEDEX platform and the SMETA audit methodology is provided at <https://www.sedexglobal.com/>

## amfori BSCI

**amfori BSCI** is one of audit standards developed by the amfori organization (previously FTA). BSCI was created as an initiative associating more than 2,000 companies, mainly from Europe, with a combined turnover of more than one trillion euro, which require their suppliers to meet the requirements included in the amfori BSCI Code of Conduct.

The amfori BSCI Code of Conduct sets out the values and principles that should be observed by members of the amfori BSCI initiative in responsible supply chains. During an audit of compliance with the amfori BSCI standard, the following performance areas are reviewed:

1. Social management system and cascade effect (in a supply chain)
2. Workers involvement and protection
3. Freedom of association
4. No discrimination

5. Fair remuneration
6. Decent working hours
7. Occupational health and safety
8. No child labour
9. Special protection for young workers
10. No precarious employment
11. No bonded labour
12. Protection of the environment
13. Ethical business behaviour

The audit may only be conducted by entities holding suitable certifications and approved by amfori BSCI (including auditors approved by name holding the qualifications confirmed by amfori). In the case of amfori BSCI, it must be noted that an audit must be confirmed directly by the client/counterparty who is also an amfori BSCI member.

More information about the amfori BSCI Code of Conduct and audit requirements is available under the link: <http://www.amfori.org/>

## Social Accountability 8000 (SA8000)

**The Social Accountability 8000 (SA8000)** standard is a recognized standard of conduct in respect to socially-responsible management of a workplace and a supply chain. The purpose of the norm is to ensure protection to workers employed directly by a company and by its contractors.

The SA8000 standard requires, among others, implementation of a comprehensive management system, system of supervision over suppliers and sub-contractors, implementation of a violation reporting system and efficient communication with internal and external stakeholders.

The SA8000 standard enables an analysis of the key risks in nine areas related to workplace and supply chain management:

1. Child Labor
2. Forced or Compulsory Labor
3. Health and Safety
4. Freedom of Association and Right to Collective Bargaining
5. Discrimination
6. Disciplinary Practices
7. Working Hours
8. Remuneration
9. Management System

An SA8000 audit is always a third party audit, which means that an organization may apply for certification irrespective of its relations with contractors. Contrary to other standards, a successful SA8000 audit results in receipt of a special certificate.

More about SA8000 and audit and certification process is available under the link: [www.sa-intl.org](http://www.sa-intl.org)

## EcoVadis

**EcoVadis** is a technology platform that supports the management of information about non-financial areas between suppliers. EcoVadis does not envisage an audit procedure but supplier self-assessment results and assessments of EcoVadis analysts do affect the perception of suppliers in the context of non-financial risks and opportunities. The result may form the basis for adopting or abandoning long-term cooperation plans.

EcoVadis solutions have been used by more than 45,000 companies assessing suppliers from 150 countries using 21 indicators in 180 procurement categories.

The platform provides visibility on how suppliers integrate corporate social responsibility principles into their business practices. The assessment is conducted on the basis of:

- ▶ evidence provided by the supplier
- ▶ industry sector, country and company size
- ▶ assessment by EcoVadis analysts

The assessment focuses on:

- ▶ activities implemented by the company, such as procedures, training, equipment
- ▶ certificates issued by independent entities and their scope
- ▶ results recorded in internal and external reports

The assessment considers issues grouped into the following themes:

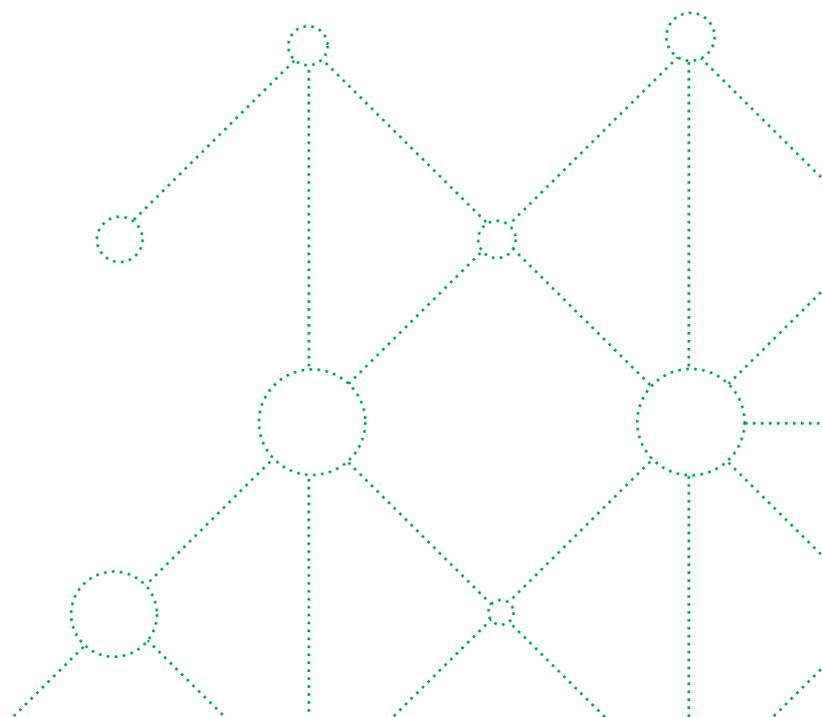
- ▶ Environment: energy, water, biodiversity, pollutions, materials, waste, customer health & safety
- ▶ Social: employee health and safety, working conditions, human relations management, training, fundamental human rights, discrimination
- ▶ Ethics: combating corruption and bribery, anticompetitive practices, transparency
- ▶ Sustainable procurement: oversight over environmental performance and social practices

## Other popular standards

Other popular ethical and social standards and codes with scopes and operating principles similar to one of the above models include:

- ▶ ICS – Initiative for Compliance and Sustainability
- ▶ ICTI - International Council of Toy Industries
- ▶ FLA - Fair Labor Association Accredited Monitor
- ▶ RJC - Accredited by the Responsible Jewelry Council (RJC) for conformity assessments for member certifications
- ▶ RBA - Responsible Business Alliance
- ▶ JAC – Joint Audit Cooperation
- ▶ The Ten Principles of the Global Compact
- ▶ OECD Guidelines for Multinational Enterprises
- ▶ UN Guiding Principles on Business and Human Rights
- ▶ International Labour Organization Conventions
- ▶ Universal Declaration of Human Rights
- ▶ ISO 26000 - Guidance on Organisational Social Responsibility
- ▶ ISO 14001 / EMAS - Environmental Management System
- ▶ ISO 45001 - Occupational Health and Safety Management System
- ▶ ISO 50001 - Energy Management
- ▶ ISO 37001 Anti-bribery management systems

In various sustainable development areas, standards are set by numerous international organizations, such as the United Nations, International Labour Organization, International Organization for Standardization, Organisation for Economic Co-operation and Development or Principles for Responsible Investments. In other words, the requirements included in the standards described above are often based on these guidelines. This is why, when preparing to satisfy an ethical or social standard, it is worth getting acquainted with, among other things, standards such as:



# ETHICAL AND SOCIAL AUDIT – HOW CAN YOU PREPARE?

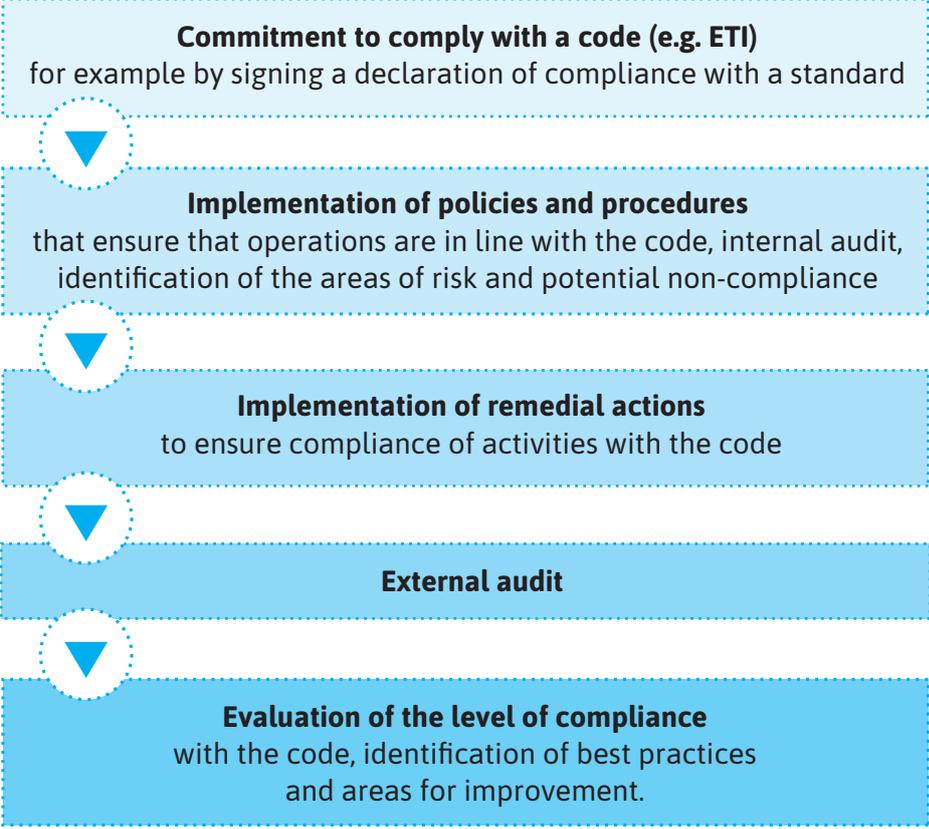
Client-commissioned audits, such as ethical and social audits, audits of compliance with the client’s working and employment condition requirements have become common as a tool of risk management in the supply chain, and subjecting oneself to such a review is sometimes a necessary condition for entering into cooperation with some companies.

The audit procedure is based on the assumption that if non-compliance is identified, then the

company has a certain amount of time to identify the reasons and take remedial action.

Meeting client requirements may often prove to be a considerable organizational challenge. To avoid problems during audits, it is worth preparing well for them. This process may as well become an impulse for introducing changes that improve the internal workings of the organization.

## MEETING ETHICAL AND SOCIAL STANDARDS – how it works



Standard course of the ethical and social audit:

- ▶ fill out a self-assessment questionnaire before auditors visit,
- ▶ kick-off meeting,
- ▶ site visit,
- ▶ documentation review,
- ▶ interviews with employees,
- ▶ closing meeting,
- ▶ implementation of remedial actions and sending evidence that the actions have been taken to the auditor.

### As many audits as customers

Even though all audits are based on compliance with the law, International Labour Organisation conventions or other requirements such as REACH, the Modern Slavery Act and good market practice, sometimes a single supplier working with several customers must in fact undergo the same review several times.

If the company wants to undergo a voluntary audit, it is worth taking time to obtain knowledge in the field of social audits in order to be aware of the standards in place on the market, which of them are accepted by current and potential clients, whether the clients specify any procedural requirements, for example the formula of the audit (e.g. scheduled or unscheduled), whether an auditor can be freely chosen, or whether the customer has a list of preferred auditors.

### The key thing is to prepare well

The main reasons why clients require that SMEs meet ethical and social standards include:

- ▶ risk management in the supply chain,
- ▶ expectation of improvement of management practices, and consequently,
- ▶ increased chances for long-term cooperation between partners.

Business partners use audits to verify whether their suppliers meet the stated requirements.

Even though results of an ethical and social audit may determine whether a contract is granted and on what terms, suppliers continue to make the same common mistake by failing to prepare.

Meanwhile, taking a few steps, which should be taken anyway, may be decisive for a positive outcome of the audit.

- ▶ First of all, make sure that no legal obligations associated with your business have been neglected,
- ▶ You should learn about the scope of the review before the auditor visits you,
- ▶ If possible, remember to request and make sure you receive from the auditor a detailed plan of the visit before the audit.

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**! The requirements that form the criteria for ethical and social audits largely overlap with the requirements of the local law. Therefore, in many cases, the findings of the auditors are similar to conclusions of state audit institutions in respect to the terms of employment, safe working conditions and protection of the environment.**

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Non-compliance can also result from a lack of understanding of the client's specific requirements and audit criteria. One of the important requirements is to set up a system to identify the requirements of the national law and implement a mechanism to supervise the proper implementation and observance of such requirements.

Small and medium enterprises often rely on external experts to help them with formal issues relating to human resources and remuneration, environmental protection or safe working conditions. Nevertheless, support received from experts does not relieve an entrepreneur from the responsibility of ensuring that the company operates within the limits of law. Absence of regular internal audits or even simple checks based on lists, such as the PIP checklist, may often lead to the incorrect conviction that the company has effectively implemented all the applicable national and industry requirements.

Also, the main focus point of many ethical and social audits is the proper identification of risks. It may turn out that, in some cases, a client will expect the implementation of measures going beyond the minimum required by national law. Examples may include expectations that practical checks are conducted of the organization and conditions of the evacuation process, regardless of the headcount, or introduction of additional fire protection measures. That is why it is so important to understand the client's expectations, especially if they exceed the applicable national standards.

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**! The best course of action is to perform self-verification in all areas of the**

**standard, thanks to which you will be able to not only identify possible gaps in the standard of work, but also check whether the permits, licenses and other documents held are up-to-date and comply with the regulator's requirements.**

**Whenever possible, you should ask the client to provide a checklist before the audit to see how much the company meets its requirements in terms of employment conditions, business ethics, the environment and others.**

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### Understanding the requirements and ability to justify the measures taken

The uniform global requirements are not always suited to the unique features of individual companies. This is an important barrier preventing the codes of conduct for suppliers and the audits verifying levels of compliance with them from becoming effective tools of continuous improvement among suppliers.

For example, one of the universal requirements for customers is to organize an anonymous system for reporting irregularities by employees. In general it is an important tool for effectively combating abuse, but it is not always appropriate in a company with ten employees. In such a case, a client ordering an audit should rather be interested in whether the employees reporting irregularities are not harassed or how communication is carried out within the organization.

In situations where anonymity is virtually impossible to maintain and employees are afraid of

negative consequences of reporting potential abuses, lack of an anonymous communication channel is not the essence of the problem.

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**! Conclusions from an internal analysis identifying risk and potential non-compliance areas may constitute the basis for indicating to the client which of the requirements address actual challenges and which are unjustified. If such an analysis is conducted regularly and if remedial actions are implemented, this demonstrates the maturity of the organization and a comprehensive approach to risk management.**

**Such a regular self-review will also be helpful if an audit happens to find an irregularity and the client demands that the reasons for the non-compliance are conducted and a remedial plan is presented.**

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### Synergies with daily operations

Any measures going beyond the legally required minimum are perceived as an employer's cost rather than as an investment in the long-term growth of the company. One should note that the requirements checked during ethical and social audits may go beyond the legal requirements.

Any expenditure made to improve working conditions and the safety of employees should be justified by the prospects of benefits achieved in the long term.

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**! You should consider what your organization will gain by investing in workplace quality. In addition to ensuring permanent cooperation with a specific client, the benefits may include increased productivity through a lower accident rate or reduced employee turnover stemming from higher labor standards.**

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### Good preparation of employees

In addition to site visits and documentation reviews, any ethical and social standard will entail an important element of interviews with employees. Such interviews are conducted to achieve better understanding of the working conditions and relations between the employer and employees. Even the best-written work safety procedures will not be properly implemented if they are not consulted with employees first.

Interviews with employees allow the auditors to verify the practical application of the principles declared by the managers and are an invaluable source of feedback about the effectiveness of the governance mechanisms. Therefore, you should maintain good communication with employees and conduct education programs related to the implemented solutions that meet the requirements defined by the ethical and social standards.

## ETHICAL AND SOCIAL AUDIT – WHY YOU SHOULD NOT GIVE UP AND SEEK HELP?

An ethical and social audit is often treated as a tool used by clients to force desired conduct from an employer without offering any support in the implementation process.

According to a survey conducted by the Ethical Trade Initiative<sup>1</sup>, most clients do not support their suppliers at all. Unfortunately, the lack of support sometimes makes suppliers decide not to seek orders from clients who demand high labour quality standards, while offering no assistance in implementing them.

It is however worth making an effort and learning about the range of requirements of ethical and social standards, find training, which can be free of charge, in order to be able to develop the organization by collaborating with more demanding clients. The initiatives such as amfori

BSCI or ETI offer a number of free information and training materials. Also, before you agree to an audit, you should ask the client how and where you can obtain additional information about its requirements.

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**! The purpose of the ethical and social audit is to make sure that the supplier meets the requirements and point to the areas where it needs to improve. Audits are just one of the elements of the strategy to build lasting relations in the partnership-based supply chain.**

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1 [http://www.ethicaltrade.org/system/files/gated-files/guide\\_to\\_buying\\_responsibly\\_0.pdf](http://www.ethicaltrade.org/system/files/gated-files/guide_to_buying_responsibly_0.pdf)

## ABOUT THIS PUBLICATION

**This publication has been developed as part of the work conducted by the Advisory Board for Sustainable Development and CSR – a subsidiary body to the Minister of Investment and Economic Development of the Republic of Poland.**

The role of public administration in creating public policies related to development is, among others, to create favorable conditions for companies to develop appropriate forms of cooperation encouraging them to make voluntary commitments in the areas of corporate social responsibility and sustainable development. This is done by the Advisory Board for Sustainable Development and CSR – a subsidiary body to the Minister of Investment and Economic Development of the Republic of Poland. The group is a social and institutional platform for the implementation of partnership initiatives to increase responsibility not only of corporate entities but also of wider groups of stakeholders. The institutions and organizations cooperating within the Team and its working groups are active and committed, perceiving the process as an opportunity to strengthen the role of CSR as an element of the economic system that offers new market opportunities, taking into account social sensitivity and respect for the natural environment. This brochure was prepared as part of the work of the Working Group on Business Ethics and Responsible Business Conduct Standards operating as part of the foregoing Board in 2017.

### About the authors

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**Katarzyna Ordyńska** has been a CSR auditor and trainer of social auditors in the SGS Group since 2009. She is a Food Technology graduate of the Warsaw University of Life Sciences SGGW, OHS Management at the Warsaw University of Technology and Project Management at the Warsaw School of Economics. She is certificated to perform audits in accordance with most of the recognized ethical standards. She gained her experience by performing audits in various industries in Poland and in other European countries.

### Cooperating firms:

**Abris Capital Partners** is an independent private equity fund manager investing in medium-sized private companies with high growth potential from Central and Eastern Europe, mainly Poland and Romania. Abris is trusted with managing the funds of many prestigious global investment institutions, such as university endowment funds, pension funds, insurance companies and private foundations. Abris has more than 21 current or completed investment projects in Poland and

Central and Eastern Europe. Abris is a signatory to the UN Principles for Responsible Investment (UN PRI).

**Bureau Veritas** is a global leader in Testing, Inspection and Certification (TIC) industry, delivering high quality services to help clients meet the growing challenges of quality, safety, environmental protection and social responsibility. As a trusted partner, Bureau Veritas offers innovative solutions that go beyond simple compliance with regulations and standards, reducing risk, improving performance and promoting sustainable development.

**SGS Group** is the world's leading inspection, verification, testing and certification company. It is recognized as the global benchmark for quality and integrity, operating a network of more than 2,400 offices and laboratories around the world. We provide specialist business solutions to improve quality, safety and productivity. Our independent services such as e.g. corporate social responsibility audits and training, help our clients operate in a sustainable manner.

**TÜV Rheinland Polska** is a leading provider of certification and research services in Poland. The company is a part of the international TÜV Rheinland Group, which is a leading provider of technical services worldwide. The main domain of TÜV Rheinland Poland is certification of products, technologies, management and personnel systems, audits, inspections, verifications and opinions. The company has two modern laboratories in Wieliczka and Poznań. Our experts from various sectors, from heavy industry to the food industry, test products and technologies for quality and safety. At present, TÜV Rheinland Polska employs over 300 specialists.