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SUPPLY CHAIN SOCIAL COMPLIANCE AFTER COVID-19

What has been learned and how do we move forward sensibly?

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In the opinion of several observers of the retail industry and consumer behavior – social and environmental performance will be an area of increased focus for consumers in the post-COVID environment, making managing social compliance more important than ever.

Over the past seven months, there have been many lessons learned in the supply chain space. Specifically with respect to managing risks related to working conditions in the supply chain, there are changes in and challenges related to program parameters and requirements resulting from the COVID-19 pandemic. Finally, the response to the COVID-19 pandemic and emerging issues in key sourcing markets as well as re-shoring have impacted the audit element of social compliance programs.

2020 has been a year of generational change. Not unlike World Wars or the Great Depression, the COVID-19 pandemic has fundamentally challenged and changed most aspects of life and business for the current and possibly future generations – including supply chain relationships and management.

Lessons Learned

When COVID-19 started breaking out around the beginning of this year, there was recognition of the potential business and supply chain impact of a disease that would ultimately be a global pandemic. As companies considered managing the potential impacts of losing sources of final products from China; to managing the impact of materials shortages in other geographies – particularly where the source market for those materials and components was China; to managing the elimination of demand with effective closure of retail in key markets including the US and Europe – there were some key lessons learned.

One key lesson from the early stages of the pandemic related to having a real understanding of the supply chain, particularly beyond the first tier. This understanding includes insights into the nature and scope of the operations deeper in the supply chain. Having a sense of critical components and materials – which essentially create production dependencies for the final product – was a step, but knowing where and from whom those elements were sourced coupled with workable strategies for alternate sources of supply for particularly critical or scarce elements was a key lesson from earlier in 2020.

In today's just-in-time manufacturing environment – elements, including critical components and materials, were quickly not available. In some cases, this was a product of the current situation for the sub-suppliers including the effects of the pandemic such as local lockdowns; materials shortages; halting of transportation and logistics; production demands from other, larger customers; and financial failures due to the negative impacts of the virus. This situation highlighted the need to ensure that beyond knowing the identity of key nodes in the supply chain – an understanding beyond the traditional considerations of capability; technical competency; capacity must be developed. Importantly, knowledge of the deeper nodes in the supply chain also creates expectations related to application of requirements for a company's social compliance program to those operations. Finally, there was also an identified need to develop some mechanism to maintain current perspective throughout the value chain in response to the dynamic environment during the pandemic.

New Requirements

As cases of COVID-19 begin to subside and economies restart, there are new requirements that will become a component of supply chain relationships and social compliance programs. In many cases, the new requirements can be linked to emerging statutory requirements and considered through broader program parameters. With that said, there is clearly a need to ensure that programs consider health, safety and hygiene requirements directed at preventing, detecting and managing cases of infectious diseases – like COVID-19. These elements, which should be specifically identified and not left for consideration under a broad view of safe and healthy environment in accordance with legal requirements, will logically include consideration of screening employees and visitors; use of personal protective equipment such as masks; hand and surface sanitizing; social distancing; testing; and contact tracing. Beyond health and hygiene, there will also be new, transitional requirements related to benefits that will logically require consideration within the frame of social compliance programs. Specifically, there is a need to ensure that any statutory benefits during the pandemic – such as mandated furlough compensation – were properly provided. Given the very difficult economic environment, there is a real risk that some operators will look to minimize costs and not provide owed benefits to workers. Finally, new requirements related to social services and leave – including access to public testing and quarantine leave – will need to be considered in post-COVID social compliance programs.



Beyond the new requirements, there is equally a critical concern with respect to changes in requirements – which in some cases could create disadvantage for workers. Under the guise of supporting economic recovery, there have been efforts in several jurisdictions – most notably in India and Indonesia – to suspend laws and regulations that protect workers. These changes include elements such as reductions or elimination of minimum wage; suspension of protections of related to right to organize; and relaxing of safety statutes. Historically, companies have largely driven the requirements of social compliance programs based on the applicable local laws – requiring adherence to statutory requirements in order to avoid the perceived imposition of developed country requirements and norms in production geographies. In most cases, there are applicable laws and regulations – which are generally aligned with the values and expectations of market region companies. With limited exceptions – most notably the use of legal pregnancy tests in the employment process and the imposition of monetary fines as a form of discipline in certain geographies at points in the past – social compliance programs have been limited to statutory compliance. With the potential for a ‘roll back’ of requirements, companies will be challenged to consider the appropriate approach. Conceptually, the existing protections and requirements were both appropriate and attainable prior to the pandemic – and while there is certainly a changed business environment, many would suggest that to require workers to shoulder the associated burdens through more tenuous employment relationships with reduced benefits and protections is not logical and any reduction in requirements should not be incorporated into social compliance programs. Should the proposed statutory changes be enacted and companies take the position that previously established statutory requirements should prevail, it will be critically important that this is clearly and effectively communicated.

Audit Implications

The process of verifying performance and adherence to the requirements under a company's social compliance program is a critical element of any successful program. While measurement does not improve or guarantee performance – absent effective measurement, there is no mechanism to properly understand the impact of efforts and the actual conditions in production environments. Audit efforts – as the most effective measurement mechanism available in the current environment – are also evolving through the COVID-19 pandemic and beyond.

Given the nature of issues and experiences related to the pandemic, it is more critical than ever that companies with credible social compliance program efforts obtain and understand the perspective and experiences of workers in production facilities. While the pandemic has created real challenges for all parties engaged in the audit process, on-site engagement to include interaction with workers is critically important. Restrictions on travel will require audit service providers to have a local presence in the markets where factories are located. More importantly, audit service providers must have the ability to demonstrate to interested parties – including factories reluctant to have outsiders into facilities in response to risks of infection – that appropriate steps are taken to address risks related to exposure and infection. Fundamentally, these processes and practices exist with respect to other product quality interventions – as companies have not defaulted to simply accepting shipments of product without any type of product inspection. As such, there should be an expectation that the 'risks' of a social compliance audit can also be managed.

Finally, audit efforts related to social compliance programs must be aligned with new and evolving requirements as outlined above. In the post-COVID environment, the audit should consider the new elements related to health and hygiene and other pandemic related benefits and experiences. After appropriate communication of expectations related to these requirements – there should be effective consideration no different than other key concerns.

COVID-19 has had a dramatic effect on supply chains and social compliance program efforts. In an environment where the consumer may have an even keener sensitivity to social performance of companies – not necessarily limiting to high profile retailers and brands, there is a need to continue to evolve and expand efforts. Through effective understanding, defining and measuring performance related to the evolving requirements and expectations for the supply chain – companies can manage risks, demonstrate commitment, improve the lives and experiences of the people within their supply chains, and ultimately create brand value with the public and consumers that benefit more sustainable and robust run of the businesses.



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