



Hudson's Bay Co. (Hbc) A Case Study in Ethical Sourcing

1.0 Corporate Overview & Background

Hbc is Canada's largest diversified general merchandise retailer, with over 580 retail locations and nearly 70,000 employees. Hbc has 1,600 vendors from which they currently source their private label and captive brands. Most of the vendors that manufacture Hbc merchandise are located in China.

2.0 Policy & Program Scope

Hbc established the foundation for their ethical sourcing program in 1998, when they established a Code of Vendor Conduct (CVC). Their program has evolved since then into a broader Social Compliance Program (SCP), which was formalized in 2001, containing the CVC and a monitoring and remediation process, the overall goals of which are to improve factory conditions, educate buyers and share industry knowledge.

In developing their CVC, Hbc was guided by International Labour Organization (ILO) standards and general social responsibility principles. Their ethical sourcing requirements, as stipulated in the CVC, obligate suppliers to:

- meet local, regional and national laws and regulations;
- satisfy employment standards (no forced labour, no child labour, no harassment/abuse, freedom of association and collective bargaining, no discrimination, protection of health and safety, betterment of wages and benefits, reasonable work hours and overtime, a dispute resolution process);
- satisfy environmental requirements (including adhering to applicable environmental laws and regulations and taking active steps to protect and preserve the environment); and
- prevent illegal transshipping by establishing and maintaining programs to document country-of-origin verification.

Although the CVC applies to all Hbc's vendors, their monitoring program, in which they conduct factory audits to determine CVC compliance, focuses on the top 250 of their vendors producing their private or captive brands. Hbc prioritizes these vendors since this is where they have the most potential for positive influence in their supply chain. In 2006 Hbc conducted over 1,000 supply chain audits.

3.0 Key Drivers of the Ethical Sourcing Program

The following are the key drivers for the development of their ethical sourcing program.

Risk Management

Risk management was a main driver for Hbc to formalize their ethical sourcing efforts into a Social Compliance Program. Although Hbc had created their Code of Vendor Conduct in 1998, when confronted with media attention probing the working conditions in some of the vendors they used, the company found it difficult to prove that their standards were being upheld in the manufacture of their products, since they had no process for monitoring or documenting supplier

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conformance with their standards.

To address the risk of damage to the company's reputation and brand, Hbc shareholders called upon management to adhere to ILO labour standards, and to report annually on supplier compliance. As a result of this desire to manage reputational risk and satisfy shareholder concerns, they developed a Social Compliance Program to communicate the expectations of their CVC to suppliers, and to establish a framework for compliance monitoring and reporting.

Demonstrates Alignment with Organizational Goals & Values

Another main driver of Hbc's Social Compliance Program was to bring their purchasing in line with organizational goals and values. The SCP not only helps improve Hbc's transparency and accountability to their internal and external stakeholders, it also ensures that Hbc plays a role in improving workplace conditions. Further, it allows Hbc to work with vendors to help advance more sustainable business operations.

Enhances Image and Brand

Reputation is extremely important to retailers for attracting and retaining customers and ensuring the financial sustainability of the business. An unintended benefit of the SCP is that it enhanced the company's brand and their image with customers. The SCP was designed to support the company's operations, ensuring that the vendors Hbc buys from are well-managed, including the ethical treatment of workers, in order to provide the best quality products. In part due to their SCP and concern for the ethical treatment of workers, HBC is perceived as a responsible corporation by their customers.

4.0 Implementation & Accountability

Hbc implements their Social Compliance Program through:

- Training external vendors and internal buyers on the SCP goals and requirements;
- Auditing priority vendors for compliance; and
- Enforcing a three-strike policy for non-compliance.

Information and Training

Hbc provides information and training on their SCP to both external vendors and internal buyers. Their Social Compliance Manual introduces new and existing vendors to all aspects of their SCP, including the CVC, and vendor monitoring and remediation process. Hbc also conducts regular vendor training sessions on the Program and Code. High priority vendors, which are their most strategic and high-volume vendors, receive more detailed information and training sessions, including local law requirements, common audit issues, and processes for making improvements.

Hbc requires buyers in their merchandising division take an on-line training course that covers the Program and how to access vendor social compliance information. Almost 1,000 employees have completed the course since it began, 613 in 2006.

Compliance and Auditing

To confirm that vendors in their vendor pool operate in accordance with the CVC, the company uses independent audit firms to conduct audits on vendors that they prioritize according to three categories:

1. High priority vendors: the top 200 suppliers based on annual sales volume, perceived risk; and factory location;

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2. Second priority vendors: all new vendors that have not yet been evaluated against social compliance criteria; and
3. Third priority vendors: all remaining suppliers.

Although all vendors are on the same audit schedule, being scheduled for audits every six months or year depending on the grade received in their most recent audit, Hbc uses the priority system to audit vendors strategically, allowing for audit flexibility to reflect the changing nature of the relationship to its vendors. For instance, one vendor may be high priority only for one season if they produce seasonal goods for Hbc, and then slip down to third priority. Another may be a new vendor (second priority) to begin with, and purchases may increase quickly enough to push them into high priority. Hbc uses this system to ensure that the time and expense of both Hbc staff and vendors is focused on its top vendors at the time. High priority vendors are therefore more likely to be audited more often than other vendors.

Three-Strike Policy

Vendors are required to fully disclose factory locations, pay for audits, and participate in the Social Compliance Program. The three-strike policy applies to vendors who default on elements of the CVC three times in an 18-month period. They are suspended from doing business with Hbc for a minimum of two years. Audit results for 2006 found that 32 vendors received one strike each. The audit results show that most vendors complied with Hbc's Code; however, factory issues are consistent year over year: employee health and safety, problems with hours and/or overtime, and insufficient wages and benefits.

5.0 Benefits, Challenges & Collaboration

Benefits

Hbc's ethical sourcing program helps the business achieve their sustainable business goals in sourcing and selling products, while the program helps Hbc attract customers who prefer to shop at a reputable retailer with shared Canadian ethical values. Many Hbc employees are proud to be associated with a socially responsible company. Additional benefits include improved quality of supplier business relationships and improved overall product quality. Vendors also benefit from the SCP, as compliance with the program puts them in a better position to continue business not only with Hbc, but with other customers as well. The program provides a means for vendors to learn of poor performance areas and to continuously improve their operations and support their factory workers.

Challenges

As with any change, Hbc experienced growing pains as they began implementing the program: employees, buyers and suppliers faced the challenge of understanding the new SCP and the associated policies and procedures. Suppliers demonstrated some initial resistance to implementing the changes required as a result of the factory audits. Since purchasing is a timeline-driven activity, the biggest obstacle has been for Hbc's buyers to adjust their schedules to allow adequate time for the auditing program's results to be integrated into purchasing decisions.

Collaboration

Hbc joins in collaborative industry efforts to advance ethical sourcing globally by participating in the Retail Council of Canada's sponsored initiative, the Canadian Retailers Advancing Responsible Trade (CRART) group, which includes leading retailers and experts representing consumer, academic and industry perspectives. Their mandate is to encourage the adoption of

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responsible trading practices by Canadian retailers and to be a source of information for interested consumers. The firm also works with Canadian and international retailers, global and national retail industry associations and the Canadian federal government on common ethical sourcing issues. Hbc participates in Fair Factories Clearinghouse (FFC), a joint industry effort to improve factory workplace conditions by sharing factory information, and liaises regularly with the Maquila Solidarity Network's Ethical Trading Action Group (ETAG) on ethical sourcing issues and opportunities.

6.0 Next Steps in Program Evolution

In 2006 Hbc began to expand their Social Compliance Program beyond their initial focus on compliance with environmental regulations and minimum workplace standards to include measures to reduce carbon in the supply chain and efforts to positively influence the health of factory workers.

They are currently collecting greenhouse gas emissions data to determine the carbon footprints of vendors, with the goal of reducing their vendor's overall carbon impact and thus the impact of Hbc's products. Hbc are also beginning to address worker health issues by conducting research on the impact that hepatitis, HIV/AIDS and other diseases can have on the workforce. In future years they will consider how to address carbon and worker health within their ethical sourcing program.

7.0 Further Information

For more information, please see Hbc's Corporate Social Responsibility site at www.hbc.com/hbc/socialresponsibility, or contact social.compliance@hbc.com.

Acknowledgements



This Case Study was developed by the Sustainability Purchasing Network for Industry Canada. The Network supports organizations in their efforts to develop and improve their sustainability purchasing practices. As a source of research, information, networking, training, and business-to-business projects on sustainability purchasing, the Network offers the following services:

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