

# OUR SUPPLIERS

## Context

### Why is it important for Next to trade ethically?

The challenge of ethical trading is one many stakeholders, including consumers, investors and campaign organisations continue to engage with Next about as they expect us to manage our suppliers responsibly. Developed and drawn up in 1998, our code of conduct has been adopted and implemented, and it forms the basis of our efforts to support our supply chain to not only become more sustainable, but also deliver benefits for workers across the globe, and act as a means by which Next can fulfil its responsibility to uphold international labour standards with its suppliers. The Next Code of Practice (COP), our code of conduct, is our set of ethical trading standards and forms an integral part of our business. Our COP is aligned to the Ethical Trading Initiative (ETI) Base Code and reflects the most relevant international standards with respect to labour practices (International Labour Organisation Conventions<sup>1</sup>)

<sup>1</sup> The International Labour Organisation (ILO) is the United Nations (UN) body that sets internationally recognised labour standards to protect the rights of workers globally.

### Our priorities are to:

- Communicate our ethical standards to suppliers
- Promote good work places through our factory monitoring programme
- Support our suppliers through a programme of continuous improvement
- Build capacity within our international supply chain
- Work in collaboration with others to pursue solutions for some of the more complex and systemic problems we cannot solve alone

### Our Approach

Our approach is to use our influence to promote good practice and raise awareness, both with our suppliers and their employees as well as others along our value chain. We believe that working together in partnership is the best way we can make a positive difference.

Our COP applies to every country we source from, including the UK. It has ten key principles and sets out the minimum standards and requirements we place on our suppliers to comply with, in relation to workers' rights and conditions of work including working hours, minimum age of employment, health, safety, welfare and environmental impacts. Our approach is to work with our suppliers to achieve the baseline requirements of our COP, and support them to continually improve their performance.

The ten key principles to our COP are:

1. No forced labour
2. No child labour
3. Freedom of association
4. Healthy and safe working conditions
5. Reasonable wages and benefits
6. Reasonable working hours
7. Equal opportunities
8. Employment security
9. Respectful treatment of employees
10. Effective management systems



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To help our suppliers understand the requirements of our COP and our expectations, it is translated into a number of key languages to aid communication, and we actively encourage suppliers to distribute or post our Code on employee notice boards in the local language, or where possible, to communicate the principles of the ETI Base Code through employee handbooks or other forms of communication.

*Next sources the products it sells from many countries around the world. We recognise the responsibility we have to work closely with our global suppliers, and are committed to seeking to ensure our products are made in a clean and safe environment, in accordance with all relevant local and national laws and legislation, and by workers who are treated with respect and paid fairly for the work they do.*

It is a key priority for Next to ensure we run our business in a responsible way by acting in an ethical manner and developing positive relationships with our suppliers. Continuous improvement lies at the heart of our business, and through our ethical trading programme we have continued to respond to the challenge of working with our suppliers to raise the standard of working conditions in the factories where our product is made. Supply chain management is identified as a material business risk, and within that, non-compliance by suppliers to our COP may lead to an increase in our reputational risk. As such, ethical trading is considered a crucial business practice, and as part of our commitment as a responsible business, our Global Code of Practice Manager reports directly into the Main Board. We have a global COP team of 44, which includes 5 country regional managers - 2 based in the UK and 3 based in our key sourcing locations. Each regional manager has their own local auditing team who monitor our suppliers' compliance with our COP.

## What is an audit?

*An audit is the assessment method we use to measure whether factories comply with our COP. A Next auditor attends the supplier's factory to carry out the audit, reviews their employment records, talks to factory managers and interviews workers, as well as visually assessing working conditions and health and safety standards.*

*Audits typically take 1-2 man days depending on the size of the factory and the number of employees.*

We have a robust audit programme in place, and the advantage of having our own team is that it gives us a direct relationship with our suppliers. By carrying out the audits ourselves we immediately get a clear view of how our suppliers are complying with our COP requirements, as well as direct exposure to the challenges they face in achieving compliance to our Code. Having locally based auditors provides the dual advantages of ensuring familiarity with the local context and allowing a more continuous assessment of compliance.

Each audited factory is assessed against our COP and is graded according to our six-tier rating system. A rating of six is where critical non-conformities are found and Next will not start to work with a factory; to a rating of one where a factory is fully compliant with our COP. Any areas of concern raised at the audit are discussed with the supplier, and a corrective action plan with timescales is agreed with a date for a follow-up audit. The audit team monitors the supplier's progress and works with the supplier, offering help and support for the implementation and completion of the action plan to bring the factory up to the required standard of operation to comply with our COP.

By using our own team, we believe we are more consistent in our approach, and in addition gain a better understanding of the issues at source and some of the underlying reasons for non-compliance. We believe working directly with suppliers and factories on a range of issues, such as improving communication between workers and management, and raising the awareness and capacity of suppliers to improve labour standards, helps us gain their trust. Other advantages of having our own team include being able to demonstrate and transfer Next values and knowledge from within our team, when we are carrying out an audit, or supporting a factory to work towards our requirements, and ensuring comparability of our audits, as they are all produced from the same evaluation method that we calibrate through formal joint audits and reviews. Disengaging with a supplier for non-compliance to our COP is an absolute last resort, as our priority and the main purpose of our programme, is to ensure the welfare of the individual workers is protected.

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Our six-tier rating system is used to encourage our suppliers to progressively work towards, and adopt higher standards over time. It is used internally by our Product teams as a supplier management tool, to provide clear visibility of how our suppliers are performing and progressing towards compliance with all aspects of the COP. It provides the visibility required to make strategic sourcing decisions including, where necessary, a reduction in business where repeat or persistent non-compliances are identified. If a factory is found to have critical fail points, we will suspend further orders until these have been satisfactorily rectified in line with our Code.

The rating system is also used to focus the COP team's resources where they are most needed. We continue to refine this system to develop the integration of our ethical trading programme into our internal buying practices. The number of visits to a factory is determined by the audit rating achieved, and those factories with the most serious audit ratings will be revisited more frequently.

## The importance of collaboration

In 2002, Next joined the ETI, an alliance of companies, non-governmental organisations (NGOs) and trade unions, working collaboratively to ensure that the working conditions and rights of workers producing for the UK market meet or exceed international labour standards. We continue to be an active and committed member, by contributing to many of the ETI working groups and programmes including sitting on the ETI Board representing corporate members and acting as chair or vice-chair to working groups.

During 2010, Next has participated in a number of other activities and events aimed at tackling the complex issues surrounding ethical trading in global supply chains. These include working together with the Institute for Human Rights and Business on their migrant labour initiative, to promote responsible recruitment of migrant labour. The Apparel Exporters Promotion Council of India is working to address some of the industry wide issues surrounding the use of contract labour in the Indian garment sector. We have supported their work by co-hosting a roundtable event with suppliers, Brands and Indian Government departments and more recently as active members of their Task Force, that was established to work on this issue in Delhi. We are also members of the buyers' forum for the International Labour Organisation (ILO) Better Work Programme. This Programme is a unique partnership between the International Labour Organisation (ILO) and the International Finance Corporation (IFC). It was launched in August 2006 in order to improve labour standards and competitiveness in global supply chains.

Through the ETI and our other activities, we are working in collaboration with both UK and international brands, and increasingly through this collaboration are engaging with both Government and Industry bodies in several countries. Such engagement is necessary to promote and support the change that is required to address some of the root cause issues, and for those changes to be sustainable in global supply chains.

## Performance

	2010/11	2009/10
Countries where product is manufactured	48	47
Suppliers worked with	492	463
Factory sites audited	1480	1,258
Total audits carried out	1654	1,555
Suppliers factories disengaged for non compliance with our Code	3	2
Next global COP team resource	44	40

Note: The factory sites audited and the total audits carried out have increased from the previous year, as the number of auditors in the team has increased by four and more of the total team's time was spent auditing.

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## Progress

### Promoting good workplaces

Our current model of supplier assessment through auditing is an extensive programme undertaken by our experienced global COP team of auditors. Whilst this auditing process is built on creating positive engagement and working collaboratively with our suppliers, we have recognised that auditing alone is not a solution to addressing the root causes of all the ethical trading issues in the different sectors we source from.

Over the last five years we have invested an increasing amount of our resource into local capacity building activities with our suppliers. This work has helped us to understand some of the country specific issues our suppliers are facing and we have responded by working on projects with our suppliers to help build capacity by developing skills and capabilities within the local communities in which the factories are located. These projects have supported compliance to our Code by helping increase our suppliers' ability to improve working conditions in their factories. This has included working with local organisations to support education and training, talking to workers to better understand the issues that affect them, as well as working directly with local NGOs and trade unions. This has led to improvements in worker management dialogue, human resource skills and management. An improvement in productivity in the factories has also led to a reduction in individuals' working hours.

Recognising the need for a long term approach that will deliver sustainable work place improvements, we have developed a project aimed at replacing the need to audit, called Project Autopilot. Through this project, our objective is to develop a mechanism for achieving and monitoring good workplaces, by putting the responsibility for change in the hands of our suppliers - the employer, and their employees. Its key focus is to improve worker-management cooperation and help to introduce more responsible business practices. A supportive and committed management is vital to the potential success and long term sustainability of this project, and this has been a key factor in the selection of the suppliers we want to partner with in this programme.

Autopilot depends on developed management systems being in place within the supplier's operation, to provide the means for ongoing internal monitoring, and taking action where necessary, within their business. To be successful, these include, and indeed require, mature worker-management dialogue procedures to be in place. Initially, Next supports the supplier with focused participatory work with management, supervisors and workers. This is to identify both shortfalls in the workplace in relation to relevant labour laws, ethical codes and ILO conventions, and importantly, to introduce and provide the necessary understanding that engaging workers as full partners in assessing, improving and maintaining workplace conditions will be to the benefit of all.

Solid management systems work effectively only through the communication, understanding and ownership, by both the workers and management, of the policies, procedures, rights and responsibilities within them. By working with the supplier to link the shortfalls identified within the current factory management systems, we are able to help them to build a robust and effective management system that will work for all. The management system will then support the development of a worker-management dialogue procedure, freely chosen and accepted by the workers.

Our long term plan is to replace auditing, and develop an alternative assurance procedure that is owned by both workers and management. It will manage, maintain and develop standards in the workplace, and has to be a procedure that is able to satisfy Next's COP standards and requirements, and at the same time be acceptable to all other stakeholders. We understand and acknowledge an exact procedure may not fit every country or context, and that our model will have to be adaptable in order to deliver our strategy of better business and better workplaces.

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## Raising awareness and communication

- **Internal communication:** Internal communication across the business is vital to how we manage our supply base. Our ethical training programme is now an integral part of our Buying School Programme which is scheduled into the training calendar on a quarterly basis and is attended by all new product team members when they join the business. During 2010, 82 new employees from our product teams attended. We also work continually with those teams who have day to day responsibility for purchasing decisions, from the divisional director through to the managers and their teams. The aim of this is to develop the skills and capabilities of our product teams, so they are able to understand the role they play in our ethical trading programme and support the Code of Practice in our supply chain. In addition, we have produced visual training materials, such as a short film to show to the product teams, to maintain awareness of the impact that buying decisions can have on suppliers, and to reinforce the product teams' understanding of the vital role they play in our ethical trading programme. We use our internal company newsletter to communicate our commitment to ethical trade to all our employees and raise awareness of our membership of the ETI and our own Code of Practice.

We maintain awareness of our approach to ethical trading to our customers by the inclusion of information within our Next Directory publications, to raise visibility and understanding of our Code of Practice, as well as using our 'Committed to Ethical Trade' logo on our carrier bags, shoe boxes and till receipts.



- **Supplier communication - enabling employers:** We remain dedicated to supporting better and more frequent communication with our suppliers. All contracted suppliers are provided with access to our Supplier Extranet, one of our main communication tools, when starting business with Next. Our COP is available through the Extranet, where reference is made to our membership of, and alignment to the ETI Base Code. Compliance to all requirements of our COP is explicit in our terms and conditions of trade, and by agreeing to trade with Next a supplier is making a commitment to achieve the standards set out in our COP. As an important part of a new supplier's induction, a member of the COP team will always meet with them to discuss and brief out the contents and requirements of our Code. We remain committed to regular and transparent dialogue with suppliers to develop a culture of mutual trust, which we believe contributes to, and supports a supplier's ability to implement our COP.

We work collaboratively with our suppliers to help make their own systems more effective and to bring about improvements to how they operate their business. This includes holding meetings with individual suppliers, and with supplier groups, and working with them to identify how they can become more efficient, to help them realise long term and lasting improvements to the running of their businesses, as well as how to maintain our ethical sourcing standards.

Through our internal audit team we are able to provide guidance and support beyond simply producing a corrective action plan. Once issues are identified, we will continue to work with our suppliers on any difficulties or challenges they may face in implementing any part of our Code. We provide training materials, example documentation and, importantly, reasons why certain requirements are necessary, along with guidance on how to use specific tools to address particular issues.

- **Supplier training:** As part of the induction process for a new supplier, a Code of Practice team member will always attend a meeting at the factory to discuss and reiterate the contents and requirements of our Code.

Through Project Autopilot, we have developed a number of different training modules, and a model management system to facilitate more internal ownership and help to deliver profits for all. Further development and production of training materials and resources will continue to be tailored to the specific needs of each of our geographical sourcing regions, as well as guidance and support from our internal audit team.

- **Collaboration:** The importance of involvement from all stakeholders in our supply chain starting with production workers continues to be at the heart of our ethical trading and Corporate Responsibility programme.

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We continue to collaborate with other brands and retailers, both members and non members of the ETI on a wide range of issues ranging from the responsible recruitment of migrant labour in Mauritius, to mapping Home working supply chains in India.

We are continuing to develop relationships and capacity with local partners in key sourcing locations to build an in-depth understanding of the social, legal, economical and political contexts which affect workers, or impede our suppliers' ability to comply with our COP. Our teams continue to hold local stakeholder engagement with NGOs and Trade Unions, both here in the UK and globally including in Turkey, India, Bangladesh, China, Cambodia and Mauritius, with organisations including SAVE (Social Awareness and Voluntary Education) in South India; LESN (Labour Education and Service Network) in China and INTUC (India National Trade Union Congress). The aim is to continue to build local relationships, intelligence networks and capacity on the ground.

