

# Supply chain improvements through capacity building

Enhance performance, promote responsible  
sourcing and drive stronger financial results.



# Executive summary



Around the world, companies — retailers, consumer brands — are adopting responsible sourcing measures to create new efficiencies, manage risk better and bring business practices into alignment with their corporate values. To help suppliers — factory owners, goods manufacturers — comply with their new social responsibility standards, companies are initiating capacity-building programs. These programs help suppliers increase productivity, boost employee engagement and generate stronger financial results, all while addressing wider societal issues.

## Building more transparent, responsible supply chains

For suppliers, demonstrating compliance with a company's social responsibility and sustainability goals can be challenging. Meeting requirements set forth by a company's responsible sourcing initiatives can demand significant commitment, making it difficult for suppliers to see the correlation between requirements and tangible factory improvements. As a result, suppliers may find it hard to understand the potential synergies between a company's social responsibility goals and their own financial and operational objectives.

That is why the onus now lies on companies to initiate programs with their suppliers to promote greater transparency and sustainability across their supply chains. For suppliers, a robust program that supports responsible sourcing goals can offset their costs by driving changes

in central business practices, leading to improved financial performance for all involved. To achieve these results, however, suppliers must first be able to uncover the root causes of performance gaps and establish effective processes to close them. This is where capacity building can be valuable, as this approach can address systemic issues, which can improve productivity, employee commitment and fiscal results.

This white paper provides an overview of the methods and benefits of capacity building in fostering supply chain sustainability. It begins with background on the current approaches to supply chain monitoring. It then presents the benefits of capacity building and details the structure of a typical initiative. Finally, it concludes with an example that illustrates capacity building in practice.

# The pitfalls of perpetually monitoring suppliers

To assess supply chain performance, companies implement social responsibility audits of their suppliers. However, continuously repeating these audits may not achieve the goal of compliance if suppliers lack sufficient knowledge to enable their own factories to achieve compliance with new responsible sourcing standards. Moreover, some may go as far as falsifying information so they do not fail inspections and lose valuable customers.

## The challenges of globalized manufacturing

The globalization of manufacturing is an essential element of today's dynamic economy. It provides companies with access to more efficient and cost-effective production capabilities and it results in lower prices for many products. Global manufacturing has also played a significant role in building the economies of developing nations.

Despite the positive impacts of global manufacturing, it can leave companies struggling with supply chain management challenges. Materials can come from anywhere, complicating the process of monitoring and controlling critical aspects of the supply chain. With factories located in remote regions of the world, companies often have limited insight into the sourcing and manufacturing of products and less oversight over their suppliers' production practices.

Furthermore, many modern consumers are now more interested in supporting companies that exemplify responsible sourcing and manufacturing practices.

This makes it especially important for companies to scrutinize every aspect of their supply chain's activity, including material sourcing and production, so actual practices match their stated values.

## The problem of constant monitoring

To address these challenges, companies commonly implement rigorous supply chain management systems to achieve greater influence and transparency. These systems typically demand that suppliers adopt certain practices to achieve compliance with a company's responsible sourcing requirements. The companies then assess the effectiveness of these practices through ongoing monitoring and reporting activities as well as periodic audits conducted by independent third parties.

However, ongoing monitoring has not been shown to generate sustainable improvements in supply chain performance. This can be due to a supplier's insufficient understanding of responsible sourcing requirements and relevant legislation, which in turn leads to systemic underperformance and failure to implement robust social responsibility systems. Additionally, the focus on individual noncompliance findings can unintentionally mask greater underlying issues, resulting in well-intended but misdirected remediation efforts that fail to fix real problems. The mistaken diagnoses only come to light when the problems fail to go away, meaning the issues are identified much later in subsequent audits. That is why continual monitoring and reporting can fall short when it comes to fixing areas of concern.

## The case for capacity-building programs

As a complement to monitoring and reporting, capacity-building (also referred to as capability-building) programs strengthen the relationship between companies and their suppliers by jointly defining areas in need of improvement. These programs provide suppliers with the tools and incentives required to achieve the desired results. This approach supports existing oversight mechanisms and aligns the companies' goals with those of their suppliers. The result is a genuine company — supplier partnership that enables both parties to achieve greater success.



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# Capacity building basics

Capacity-building programs can lead to more consistent and effective improvements of supply chain management issues. Companies can encourage their suppliers to implement capacity building to develop an in-depth understanding of the causes of noncompliance. Capacity building also identifies approaches for addressing these issues, providing the foundation for enhancements that can help bring performance in closer alignment with established goals.



*Capacity building (also referred to as capability building) is a supply chain sustainability tool that can lead to more consistent and effective improvement of supply chain management issues.*

## Tangible improvements in workplace performance and efficiency

Capacity building can address difficult supply chain sustainability concerns such as excessive overtime or underpayment of wages as well as issues like workplace discrimination. It is also useful in addressing long-standing or repeat issues uncovered during the typical audit process. This can be especially important for key suppliers that play vital roles in a company's supply chain but that consistently fail to meet supply chain sustainability program requirements.

In addition, capacity-building can boost supplier commitment. As capacity building programs take hold, suppliers can discover how these initiatives address sustainability concerns and experience tangible improvements in performance and efficiency. These successes can strengthen employee commitment to the capacity-building model, spurring continued progress in other areas.



Capacity building focuses on developing an in-depth understanding of the causes of noncompliance.

# Structure of a capacity-building initiative

A typical initiative consists of three distinct phases:

## 1. Initial review

**Audit review** – Reviews and evaluates prior audit data to identify recurring issues and pinpoint specific areas and suppliers that can derive the greatest benefit from a capacity-building initiative

**Pre-engagement meeting** – Introduces program requirements and identifies expectations, including deliverables and the anticipated return on investment

## 2. Assess and plan

**Gap assessment** – Evaluates social responsibility management system gaps that exist in the facility, assesses root causes for noncompliance and addresses all issues identified in prior audits; areas of investigation include factory management, production planning, operations policies, training programs, communications efforts, system monitoring, corporate governance and others.

**Implementation planning** – Prioritizes supply chain goals to build a corrective action plan that details required tasks, assigns specific responsibilities and sets a timeline for achieving both short- and long-term goals.

## 3. Remediation

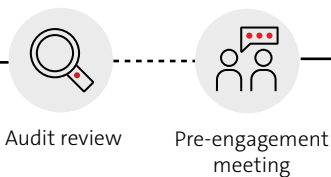
**Implementation** – Executes specific activities identified in the corrective action plan; formal program management tools identify start and end dates for individual projects and track progress against defined timelines.

**Reporting and follow-up actions** – Measures progress in individual projects as defined in an action plan; frequent reporting allows for timely identification of projects where progress has been blocked and enables participants to develop workarounds to achieve program goals.

**Program management and oversight** – Ensures that initiatives stay on track via robust program management and rigorous oversight; it also requires a strong commitment from senior management to support the initiative’s goals and any operational changes required.

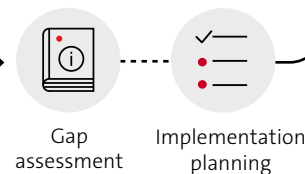
### Initial review

Phase 1



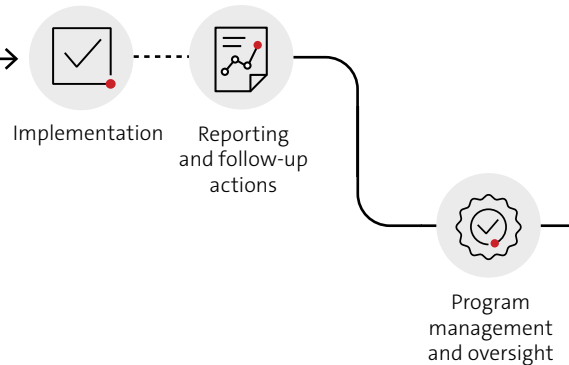
### Assess and plan

Phase 2



### Remediation

Phase 3



# Capacity building improves communication among suppliers and their employees



To be successful, capacity-building efforts should include elements such as formal communication systems and documentation.

## **Worker feedback and communication**

An essential element of capacity building is employee participation at all levels of the program. Feedback is important for understanding the root causes of workplace issues. Suppliers can better diagnose these issues and prevent their recurrence if their workers are able to monitor and report unsafe and hazardous conditions.

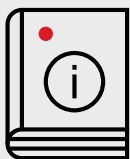
Capacity-building programs encourage suppliers to build a formal communication system that can help strengthen worker engagement by creating a structured system for two-way dialogue between employees and management. Communication systems such as grievance channels, unions and worker committees can support the collection and recording of employee concerns and suggestions so that companies can resolve them in a timely manner.

## **Employee handbooks and compliance manuals\***

An employee handbook is another important element of improving communications. An effective handbook clearly outlines the rights, responsibilities and expectations of employees and management. Combined with other employee communication programs, an employee handbook can support a productive and stable work force.

Additional documentation such as compliance manuals may be useful tools in assisting vendors, importers and licensees in understanding corporate, social and legal expectations. Retailers and brand custodians may benefit from regular performance indicator reporting, in which compliance data is compiled from key vendors to gauge overall program success. Performance indicator reporting also provides advanced notice of problematic trends, allowing for prompt corrective actions.

\*UL Solutions cannot provide legal advice regarding the contents of employee handbooks or compliance manuals. Seek legal advice from licensed attorneys in your relevant jurisdiction(s).



*Combined with other employee communications programs, an employee handbook can support a productive and stable work force.*



# Benefits of capacity building

Capacity building supports efforts to achieve compliance with responsible sourcing requirements and can contribute to significant performance improvements.



## For suppliers

Capacity-building initiatives directly support efforts to optimize manufacturing systems, leading to increased productivity and an emphasis on continuous improvement. They can also support employee retention goals through improved human resource management systems, better work/life balance and stronger training and communication programs. Furthermore, capacity building may help suppliers comply with applicable laws and other performance management standards.



## For vendors, licensees and agents

Capacity-building initiatives provide an integrated and streamlined process to identify and address root causes of noncompliance issues. Compared with standard monitoring and reporting approaches, capacity building represents an approach to achieving supply chain sustainability goals that builds productive partnerships.



## For companies

Capacity-building initiatives can support efforts to drive continuous process improvement through the supply chain. As a result, effective capacity-building programs can help strengthen responsible sourcing initiatives, meet regulatory requirements and improve customer expectations.



Capacity-building initiatives can support efforts to drive continuous process improvement throughout the supply chain.



## Example: How companies and suppliers can thrive with capacity-building programs

The following scenario highlights how capacity building applies in the real world. This is simply for illustrative purposes and does not reference any existing companies.

A popular North American pharmacy chain proudly advocates for equity in the workplace, responsibly manufactured products and environmental awareness across its supply chain. In turn, it consistently attracts new customers who are eager to support a retailer that upholds ethical values. However, after a recent audit, the pharmacy raised concerns about the working conditions at one of its suppliers' factories.

### Challenge

For its best-selling white label drug, the pharmacy chain relies on an overseas factory that manufactures generic pharmaceuticals. Upon an initial audit, the pharmacy found the supplier deficient in many areas involving the factory's employees. Deficiencies included lengthy work schedules, with some employees working more than 90 hours per week. In addition, employees were not offered consistent weekly rest periods, and they worked as many as 30 consecutive days without a day of rest.

### Approaches

To ensure that the supplier could live up to the pharmacy's mission of responsibility, the pharmacy turned to UL Solutions to implement a capacity-building program. The goal of this initiative was to reduce individual working hours to a level consistent with the pharmacy's responsible sourcing program limits. As part of the initial assessment, a UL Solutions engagement team evaluated how factory employees were utilized in production operations and whether there were sufficient employees to appropriately staff areas where production bottlenecks slowed overall output. The team then evaluated possible changes in workspace design and workflow that would not compromise overall productivity.

### Results

Based on its evaluation, the UL Solutions team determined that the factory could increase the number of machines operated by a single employee simply by repositioning equipment. From this small change, the factory redeployed its work force from two teams working two shifts to three teams working two shifts, thus increasing production capacity. The factory also reduced the average number of hours employees worked per week and guaranteed one rest day per week. Moreover, because of the increased production that resulted from the changes, there was no reduction in employee compensation.

The factory continues to monitor the results by implementing a new time-tracking process expected to reduce employee underpayment. These results, along with those generated by other aspects of the factory's capacity-building action plan, are expected to address audit noncompliance issues while providing significant improvements in workplace conditions for employees and overall labor management.





# Summary and conclusion

Capacity building is an important tool in the overall effort to meet supply chain sustainability requirements in support of responsible sourcing program goals. Capacity-building initiatives focus on the root causes behind nonconformance issues, providing a foundation for actions that address core problems. Effective capacity-building initiatives not only help drive conformity with responsible sourcing requirements, but they can also improve operational production efficiencies and provide a tangible return on investment for all parties.

UL Solutions is on a shared mission with our customers and stakeholders to work for a safer, more secure and sustainable world. In addition, our focus on diversity and inclusion empowers us to build a culture that better serves the needs of our diverse customers by delivering innovative products and safety resources as well as promoting safer and more inclusive living and working environments.

This is why we have developed a range of services to help companies implement capacity-building initiatives and to address other supply chain sustainability efforts in support of responsible sourcing programs.

**For more information about our responsible supply chain management services, please visit our page on [responsible sourcing](#)**



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