

Developing a process for a responsible exit

Guideline

Introduction

Long-term and equal partnerships between purchasing companies and suppliers constitute an important basis for the joint improvement of working conditions. In this sense, purchasing companies should regard the responsible termination of partnerships as a last resort.

Both the *UN Guiding Principles on Business and Human Rights* and the *OECD sector guidance* point out that companies should end the relationship with business partners if – even after several attempts – the adverse impacts on people and the environment cannot be addressed. In many cases, the possibility of disengagement can be used by a company to effectively use its influence. If disengagement is inevitable, companies should weigh up the potential negative implications for the people who work for the business partner and take measures to prevent or mitigate these implications. Moreover, economic factors or poor product and service quality may result in disengagement. Here, too, a company should first examine whether the issues can be resolved by working together and, if this is not possible, take appropriate measures to keep the potential consequences for workers to a minimum. This guide sets out step by step how you can develop a process for your company that ensures a responsible exit.

What does 'responsible exit' mean?

'Responsible exit' refers to terminating a business relationship in a responsible manner. Responsible means taking measures at an early stage to either minimize or mitigate adverse impacts on employees at suppliers. All Partnership members are asked to ensure, that an appropriate process is established in their own companies, as part of their due diligence.

General information

- First check which departments and colleagues you need to involve in the development of a responsible exit process (CSR, Purchasing, Compliance/Law, etc.).
- The responsible exit process should be derived from how dependent a supplier is on your company, in other words what proportion of the supplier's total business is made up of orders from your company and the scale of the impact on the local workforce.
- Depending on the reason and context, responsible disengagement requires individually adapted measures, with effects on steps and duration of the process.

Step 1: Define the scope of the process

You should first define the suppliers and business relationships to which the process should apply. The following factors should be considered, depending on the procurement model:

- Applies to long-term relationships; for example, the Fair Wear Foundation defines "long-term" as a period of more than one year and at least two orders (see *Fair Wear guidelines*).
- Also applies to indirect suppliers, meaning that the process also applies if the contractual relationship with a production facility is ended by an importer or agent (see *ACT Policy*).
- Also applies to suppliers with which no orders are placed for a season or longer (see *Fair Wear guidelines*).

Different requirements depending on the proportion of total business and the size of the supplier; as an example, if your business accounts for over 20%, different notice periods must be adhered to, the consequences must be investigated more extensively, etc.

Step 2: Define grounds for disengagement

The process should apply to disengagement following gross human rights and environmental violations, economic or quality reasons that, after several attempts, could not be resolved.

Human rights/environmental violations, compliance incidents	Economic reasons	Product and service quality
<p>Applies to the following cases:</p> <ul style="list-style-type: none"> - After all attempts to prevent or mitigate severe adverse impacts have failed - When adverse effects are irreversible and cannot be resolved - If there is no realistic prospect of change - If serious adverse impacts have been identified and the party causing the problems does not initiate immediate measures for prevention or mitigation <p>See also: <i>UN Guiding Principles on Business and Human Rights</i> (Principle 19) and <i>OECD sector guidance</i> (3.2.5)</p>	<p>Examples:</p> <ul style="list-style-type: none"> - Changes relating to demand or the company's strategy - The supplier's insolvency - Changes to trade regulations/trade agreements and geopolitical changes <p>External factors such as changes to trade agreements can be foreseen up to a certain extent and should be communicated openly and discussed with the supplier as early as possible.</p>	<p>Examples:</p> <ul style="list-style-type: none"> Poor product and service quality Limited availability of technical innovations Ongoing delivery difficulties <p>Internal factors such as poor quality or supply difficulties can often be corrected through continuous improvement processes and in dialogue with the supplier.</p>

Step 3: Formulate process and define responsibilities

Before the exit

Previous escalation process

- As there are several different reasons for an exit, the impetus can come from different departments. This means that different departments may possibly have different information and evaluate the initial situation differently. For this reason, all relevant departments in the company (CSR, Purchasing, Compliance, etc.) should initially seek to share information with the aim of coming to a joint decision after the end of the escalation process.
- Before disengagement, you should first have made efforts to overcome problems and challenges by working together with the supplier. In short, a business termination should always be the last resort. You should first notify the supplier prior to the escalation measures regarding disengagement and thus give the latter opportunity to improve. You should monitor the efforts made by the supplier and adapt the escalation process as required. If a supplier is making an effort to improve without success, you should grant a longer escalation period.
- When determining the escalation periods, you should take into account the severity and nature of the human rights violations. Even before entering into a business relationship, you should inform your supplier about how you deal with zero tolerance topics such as child or forced labor.
- In order to exercise better influence on business partners, you should make use of opportunities to cooperate with other purchasers. Use the platform of the Textile Partnership for this.
- Document the efforts made, e.g. based on correspondence, minutes taken from phone conversations, etc.

Internal communication, documentation and initial assessments of human rights risks

- If the escalation process does not bring any improvements and disengagement is unavoidable, CSR, Purchasing and, if necessary, further relevant departments should compile all required information on the supplier relationship and together undertake a human rights risk assessment for the termination.
- Important information includes, for example, the reason for ending the relationship, the escalation history, the duration of the supplier relationship, the order volume in relation to the total capacity of the production facility (and, if relevant, its variation), the number of employees in the production facility, the date of the planned final delivery and, if applicable, information on the supplier's other production facilities and the funds that exist to provide the employees with social protection.
- The date for disengagement should be defined, based on the information gathered. Here the following guiding values are advisable: with a low level of capacity utilization, a period of at least three to six months between notifying the supplier and actual disengagement are recommended but a minimum of six to twelve months if the level of capacity utilization is high. In addition to the share you have in the supplier's total business, other factors such as the size of the supplier, the length of the business relationship and your own market power should be accounted for, too.
- The aim of allowing this period is to give the supplier the opportunity to find new customers or, if inevitable, to reduce the number of employees at the facility in an appropriate fashion.

Communication to the supplier

- Inform your supplier at the earliest possible stage that you are ending the business relationship. The information should be provided in comprehensive written form, and state the grounds for disengagement and a timeline for order planning. Make sure that your supplier has received the notification.

Defining measures with suppliers to prevent/mitigate the impacts on employees

- Assess the impacts on employees together with your supplier. At the same time consider the weaknesses and gaps in the available state support measures to alleviate negative human rights consequences. Furthermore, involve further stakeholders in the assessment, especially employee representatives. If a formally recognized local trade union exists, it should always be consulted.
- If redundancies are subsequently unavoidable, you should seek to protect the employees affected and ensure that those members of the workforce who are going to be dismissed are selected according to objective criteria. Those affected should be informed at the earliest possible opportunity and the valid period of notice should be complied with. Make sure that national law, international labour standards and the provisions of collective agreements are adhered to. Further useful resources on how to deal with the situation are available, e.g. *FLA Retrenchment Guidelines* or the *Better Work Retrenchment Guidelines*.

Monitoring the implementation

- Make sure that the employees who have been made redundant receive the salaries and severance payments due to them after their employment has been terminated. Check this, for example, by communicating with employee representatives or using the supplier's documentation.
- Check the implementation of further agreed measures.

Complaints and remedies

- Even after disengagement, problems may arise that still relate to the previous business relationship, e.g. if outstanding severance payments are not made. Make sure that suitable channels for complaints are available so that those affected can raise these complaints and a remedy can be found.
- Work with the supplier and involve other stakeholders to find the solution to a complaint together.

It may be helpful to **develop a checklist for your own process** in order to clearly define the steps, time windows, responsibilities, etc. This checklist should be communicated to all departments and colleagues involved. If appropriate, provide further training on requirements.

Example: Responsible exit checklist:

Activity	Who	By when	Completed
Before the exit			
Escalation measures for disengagement have been communicated to the supplier and time has been given for improvements to be made.	Purchasing	June 20xx	✓
All information on the supplier affected specified in the Responsible Exit Guideline has been shared with the CSR Team.	CSR Purchasing Management	August 20xx	✓
A joint risk assessment of the disengagement as it affects human rights has been carried out.	CSR Purchasing Management	September 20xx	✓
Implementing the exit			
...			

You can find further inspiration in the [ACT Responsible Exit Policy and Check-List](#) or in the [FWF Responsible Exit Strategy Guidance](#). Additionally, the Centre for Research on Multinational Corporations ([SOMO](#)) has released various publications and position papers on the subject.