

## AIM-PROGRESS BENCHMARKING SURVEY

### Executive Summary – 2015 Results

The fifth annual AIM-PROGRESS Member Benchmarking Survey report summarizes the responses of 41 member companies. The **participation rate was 95%, with 41 of 43 companies** responding to the survey. This is similar to the participation rate in 2014, which was 97%, with 38 companies responding.

The document is intended to provide AIM-PROGRESS, as well as individual member companies, with the basis to **identify progress and trends** as well as improvement opportunities and to set targets or goals. As always, companies may find it a valuable resource to leverage in **internal discussions** and to identify **best practices** to implement.

AIM-PROGRESS members represent nearly a **trillion dollars of annual revenue**, reflecting tremendous buying power and leadership capacity. 2015 results reinforce that members continue to **demonstrate progress** on responsible sourcing – 27% of members report their programs are ‘Mature’ or ‘Advanced’ in 2015, an 11% increase over 2014. To support this progress, members are resourcing programs with **increasing budgets and more employees**, and report **more senior-level oversight** of their programs than in previous years. Most members have **commitments or targets**, and track **input metrics** such as the number of assessments completed. More mature members also track **impact KPIs**.

In 2015, members are doing more to **integrate responsible sourcing (RS) expectations into procurement processes** such as contracts and supplier authorization. The number of members that have RS expectations as part of **supplier authorization** has increased by 16% to 32 companies. More mature programs are more likely to integrate RS expectations into **buyer or supplier incentives**.

Members are conducting **more audits** and report **higher rates of effective remediation** in 2015. Over 17,700 audits were conducted by members in 2015, an increase of 26% compared to 2014. Members recognized nearly **400 audits as part of mutual recognition** in 2015, generating efficiencies and reducing costs. Members **plan to conduct more audits in 2016**, and to maintain a limited use of SAQs, largely as part of risk assessment. Only 10 companies report auditing second-tier suppliers, but about half of companies plan to **expand the scope of tiers or supplier types monitored in 2016**. More suppliers required corrective action in 2015 as compared to the previous two years, but **closure rates are higher in 2015**, with 86% of suppliers closing their corrective action plans by the end of the year. **Over 350,000 workers were impacted** by corrective actions implemented in the workplace.

The field continues to be strongly influenced by the **international Human Rights agenda**. 76% of members indicated that they are currently implementing or planning to implement the UN Guiding Principles on Business and Human Rights, a 10% increase over 2014. In addition to the influence of **new regulations**, such as the UK Modern Slavery Act, members highlight **forced labor and human trafficking as emerging areas of concern** in their supply chains. About half of members integrate human trafficking content in **codes of conduct** and offer suppliers access to a **grievance mechanism**.

Members continue to derive value from AIM-PROGRESS membership, and program maturity correlates with the number of years a company has been a member of AIM-PROGRESS. Members cite opportunities to **share best practices, benchmark against peers, gain external credibility, and access the mutual recognition program** as the most valuable aspects of AIM-PROGRESS. In the future, members would like to use AIM-PROGRESS to learn from the **expertise and maturity** of companies in the group, and to collaborate more deeply on **supplier capability building and collaborative auditing**.

## Section 1: Company Structure

- AIM-PROGRESS members represent nearly a trillion dollars of annual revenue – representing tremendous buying power and leadership capacity. The total revenue of 41 responding companies in 2015 was US\$906 billion.
- Most companies manage responsible sourcing exclusively from procurement, but some have cross-functional ownership. 18 companies have RS exclusively based in procurement. 13 companies have cross-functional ownership between procurement and one or more other functions. 10 companies have RS based in a department other than procurement.
- Members' programs continue to mature over time. In 2015, 27% of members report their programs are Mature or Advanced – an 11% increase over 2014.
- Companies that have been part of AIM-PROGRESS for five years or more are generally more mature than companies that are newer to the organization.
- Larger companies tend to have more mature programs. 22 of 23 companies with revenues over \$10 Billion have programs which are Established or higher.
- Risk management continues to drive the rationale for responsible sourcing. 61% of companies indicated 'Risk Management' as the number one reason for their responsible sourcing program, followed by 'Legal Compliance'.

## Section 2: Program Structure

- Responsible sourcing is increasingly being managed by senior leaders. There is an increase in the number of executives at a Director level or above managing responsible sourcing programs. This has been a continuing trend since 2012.
- Budgets are stabilizing or increasing, with nearly half of members reporting budget increases from 2015 over 2014. The remainder of member companies report stable budgets, and only 5% report budgets that are decreasing.
- Larger companies and companies with more mature programs are more likely to have larger responsible sourcing budgets, while smaller companies with less mature programs have smaller budgets.
- Companies are investing in more FTEs. In 2015, there is an 86% increase in FTE headcount across the membership as compared to 2014.
- RS is well-integrated in contracts and authorization / pre-qualification, and integration into procurement systems is increasing over time.
- Members with more mature programs are more likely to include RS expectations in standard procurement processes.
- Few members – even among mature programs – have integrated RS expectations into buyer and supplier incentives, indicating an opportunity to further integrate RS into procurement through these mechanisms.

## Section 3: Assessments

- Members reported conducting over 17,700 audits in 2015, an increase of 26% over 2014.
- The average number of audits conducted per member in 2015 was 507, but the median number of audits was 54. There is a positive correlation between size of the program budget and average number of audits conducted.

- Looking to 2016, members expect to conduct more audits and maintain a limited use of SAQs.
- Members reported shifting priority criteria for audits, with geography playing a more prominent role relative to “proximity to brand.”
- More mature programs are likely to audit a wider range of supplier types, and there is an overall trend toward more service providers being audited.
- Most audits are conducted by external auditors, but in 2015 more companies reported leveraging internal resources to conduct audits as compared to 2014.
- Only 10 companies reported auditing second-tier suppliers in 2015, but about half of companies plan to expand the scope of their audit programs in 2016.
- More suppliers required corrective action in 2015 as compared to previous years, and the non-compliance closure rate increased from 73% in 2014 to 86% in 2015.
- Members recognized nearly 400 audits as part of Mutual Recognition (MR), generating efficiencies and cost savings. However, there is an opportunity for more members to leverage and track audits as part of MR, as only 15 members report reviewing MR audits.
- The most frequent audit non-compliance findings in 2015 were working hours, fire and emergency preparedness, and other health and safety.
- Members highlight several non-compliance issues that are seen to be increasing in importance and frequency, including forced labor and human trafficking, wages and working hours, and child labor.
- While human trafficking is flagged as an issue of rising importance, nearly 30% of members do not yet have an approach to address this issue.

## Section 4: Training and Capacity Building

- Training for the procurement team/buyers is the most common type of training offered by members. More mature programs are more likely to train functions outside of procurement or offer specialized supplier trainings.
- Most members have commitments or targets for responsible sourcing (72%); members with more mature programs are more likely to have targets.
- Most members track input metrics such as number of assessments completed; more mature programs are more likely to track impact KPIs.

## Section 5: External Engagement

- The top five stakeholder types with whom members engaged in 2015 were industry associations, suppliers, CSR/multi-stakeholder groups, NGOs/civil society in home country, and trade/customers.
- Of the emerging frameworks and standards related to responsible sourcing, Human rights regulations and alignment with the UNGPs are most commonly being implemented by companies. The Paris climate agreement is the least implemented.
- Companies with more mature programs are much more likely to be implementing these frameworks.
- Transparency efforts are increasing slightly, with more members publishing audit results.