

The Warehouse Group: Tackling the challenge of ethical sourcing



wbcscd Global Network Partner

The Warehouse Group (TWG) is the country's largest general merchandise retailer, aiming to help Kiwis live better every day. With 260+ retail stores across the motu, and thousands of products in each store, TWG's supply chain is vast and as complex as you might imagine – but that hasn't stopped its Ethical Sourcing team from working to ensuring the integrity of the supply chain.

For its private label programme, The Warehouse partners with nearly 700 different supplier factories, primarily located in China, Bangladesh, India, Vietnam, Malaysia, and Pakistan, that employ around 350,000 people. The biggest risk with these suppliers is noncompliance with local labour environment, health and safety regulations, explains TWG's Head of Ethical Sourcing Trevor Johnston.

“Especially in developing countries, central and local governments often lack either the political will, or the capability, to enforce their own laws and regulations. Hence companies with responsible sourcing policies, like The Warehouse, are compelled to compensate for these weaknesses through their own due diligence and remediation activities.”



Production worker assembles The Warehouse party speakers.

“This disconnect between local law and regulation and actual practice presents a big challenge for any responsible sourcing programme, as in effect they may be swimming against the tide of local practise – for example, there might be different tolerance levels for things like long working hours, bribery, document falsification, unauthorised sub-contracting and more. These risks are compounded as you descend the value chain with a proliferation of supplying entities and relationships”.

Establishing an ethical sourcing policy

TWG’s ethical programme dates to 2004, when the team first formulated a policy, contracted an external consultancy to provide good practice advice, began to map its supply chain, and started a small and targeted programme of discovery audits.

There are many advisory services and international service providers who can advise on the formulation of policy and the following due diligence programmes, but this is no substitute for securing a strong executive mandate for this work, developing in-house responsibility and capabilities, and a high-level of integration within the business management systems and commercial sourcing practices already in place.

TWG outlined its commitment in its ethical sourcing policy, which was benchmarked internationally against the Ethical Trading Initiative (ETI) Base Code and the Global Social Compliance Programme (GSCP) Reference Code, and signed off by the CEO before being put into practice. The policy has 10 main pillars:



An Ethical representative from The Warehouse converses with a worker in Bangladesh.

- 1. Management Systems**
- 2. Child Labour**
- 3. Voluntary Labour**
- 4. Health and Safety**
- 5. Wages and Benefits**
- 6. Working Hours**
- 7. Freedom of Association and Collective Bargaining**
- 8. Environment & Climate**
- 9. Subcontracting**
- 10. Business Integrity**

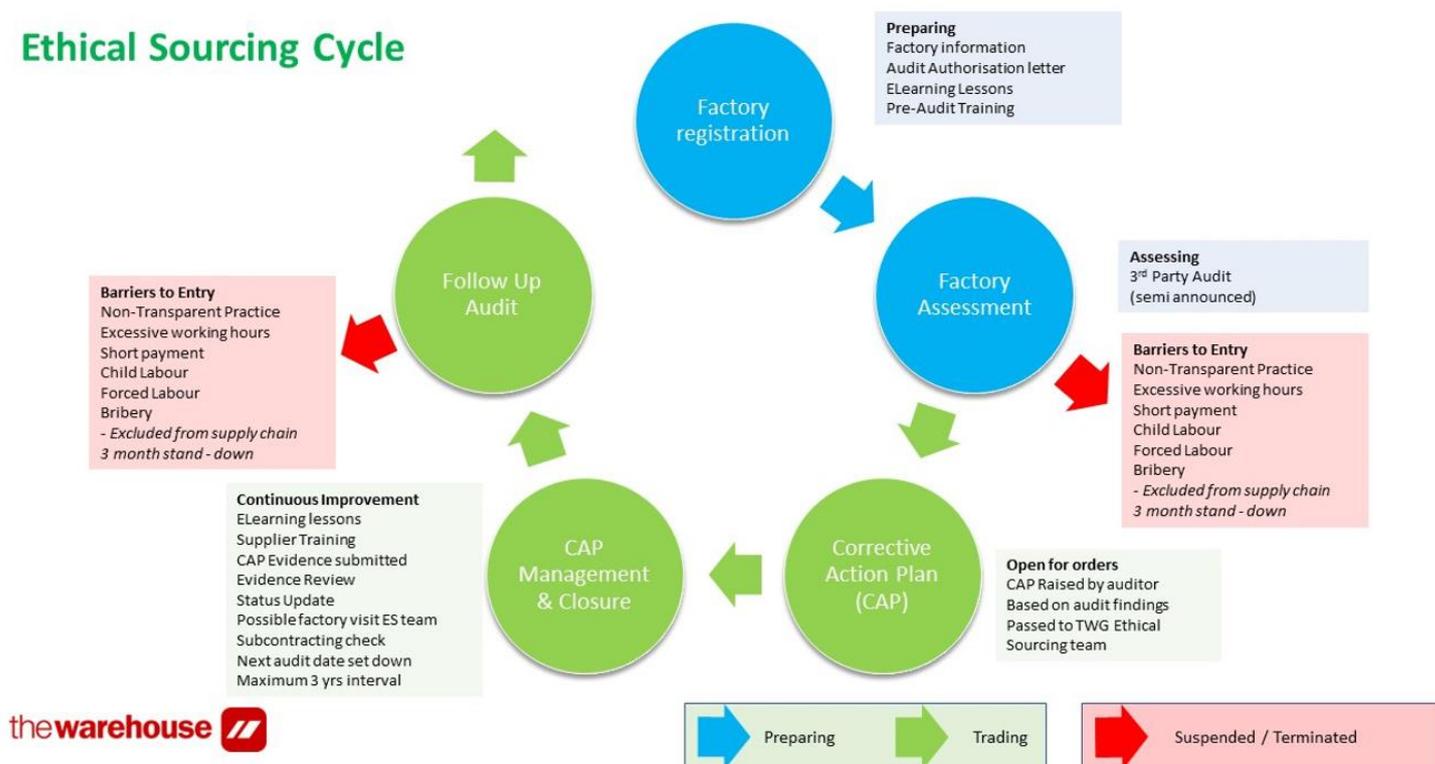
Translating policy into impact through due diligence

These policy pillars are then extended into TWG's supply chain through its due diligence and remediation processes. Every manufacturing site wishing to join TWG's private label supply chain must first undergo a formal assessment (usually an onsite assessment by a suitably qualified third-party auditor) in relation to these 10 pillars.

From August 2022 to the end of July 2023, TWG had 184 new factories enter its supply chain, having undergone its due diligence processes and being assessed as meeting or exceeding its Ethical Sourcing Policy requirements.

Once qualified, the factory remains subject to ongoing monitoring and a cadence of follow up assessments, and any non-compliance or risks identified are remediated via a corrective action plan programme.

Ethical Sourcing Cycle



“This ongoing monitoring is of equal importance to the initial formal assessment, as it is where we can have the greatest impact on labour and environmental standards.

To illustrate, of 266 third party assessments conducted in FY2023, 145 were follow up audits. Importantly, if the most serious issues identified within the audit cannot be successfully remediated, The Warehouse will terminate its relationship with that factory.”



In one case with a strategically important supplier, repeated audits identified a systemic problem with foreign migrant workers needing to pay excessive recruitment fees, and as a result, being debt bound to their workplace.

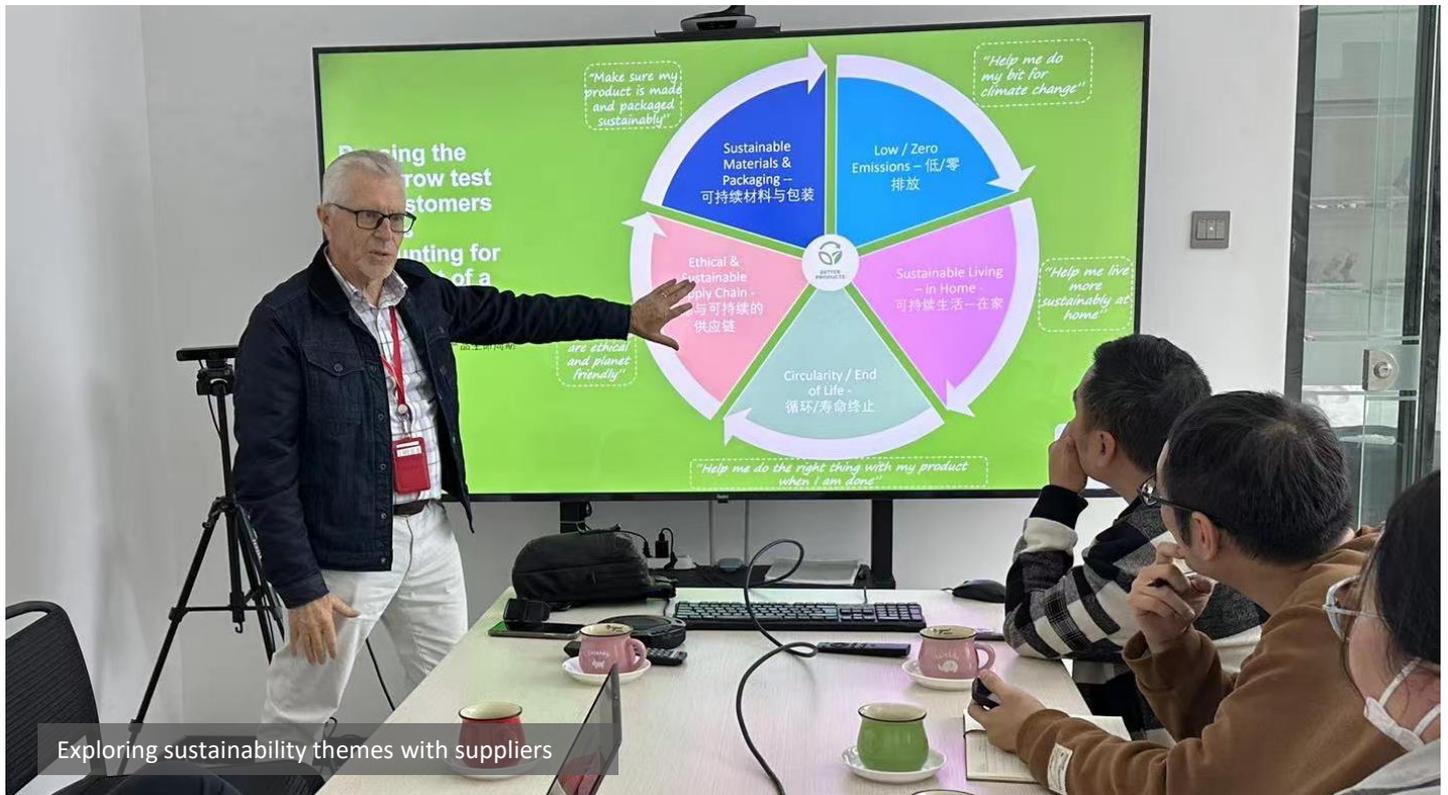
“Despite our engagement efforts, the management team proved unwilling to address the situation, so the Ethical Sourcing team decided to escalate our concerns and extensive findings to a Director of that company.

As a result, we were able to secure retrospective compensation for some workers, and we and the management then co-funded a responsible recruitment training and certification programme aimed at their migrant worker recruitment agents and at the migrant workers themselves, informing them about their rights and establishing a grievance hotline,” Trevor explains.

Not only did this engagement (which spanned several years) result in a transformation of management attitudes and worker awareness, it also contributed to the supplier’s ability to win business from international customers similarly concerned about modern slavery risks within their jurisdiction.

Engaging with and educating suppliers

Supporting suppliers to correct any shortcomings identified in audits is the most important aspect of TWG's programme, as it is here the most tangible improvements in wages, working hours, or health and safety for workers can be delivered.



“In the past year, around 300 factories participated in these continuous improvement efforts, which included in-person or virtual trainings focused on improving factories’ labour and environmental standards.

Over the past two years, our team also completed thirteen ‘worker voice’ case studies, conducting in depth onsite interviews with workers (additional to those conducted in third party audits),” says Trevor.

Sometimes, however, even this level of engagement and training isn’t enough. In the past year TWG has ceased trading with twenty factories due to standards failure and, in one case, ended its relationship with a large vendor that represented multiple factories because of the vendor’s persistent failure to implement adequate policies within its supplier base.

In addition to the ongoing monitoring and training of factories and vendors, TWG's broader Ethical Sourcing programme involves identifying and supporting joint industry initiatives (such as the RISE Initiative and the Better Cotton Initiative) as well as the provision of transparent reporting to its teams, leaders, and the public.

Measuring and reporting impact

Monitoring and reporting are critical to the success of TWG's Ethical Sourcing programme, particularly in the context of proposed Modern Slavery legislation in New Zealand, and there are a number of performance measures that the Ethical Team reports on internally and publicly. Some of the most important measures are:

- Average supplier assessment scores.
- TWG's ability to successfully remediate critical findings.
- Audit transparency ratings – a very important proxy for the reliability of the team's due diligence and the effectiveness of supplier engagements.
- Procurement traceability – the percent of purchase orders that can be linked, via due diligence processes, to a qualified site.
- The number of factories being actively monitored within TWG's continuous improvement programme.



Looking to the horizon

The Warehouse Group is diversifying into a broader set of source countries, which brings new risks in the form of factories' willingness and capability to adhere to its standards, and localised business integrity and social stability challenges. TWG will be integrating climate-related risks, including managing and reducing Scope 3 emissions, into its due diligence approach. This will be a challenge and will inform and influence its sourcing decisions in the future.

Looking out even further, the effects of climate change or viral disease-driven events are unpredictable, but likely and very potent contingencies businesses will need to plan for. TWG is endeavouring to take a systematic, risk-based approach to managing its material ESG risks across its supply chain.

Here are Trevor's final three pieces advice for other organisations looking to implement a similar ethical sourcing programme.

- 1. Maintain a narrow but deep focus,** targeting risk hot spots on supply chain participants where you have scale and influence. This is likely to be both more cost effective and more impactful from a human rights perspective than attempting a broad but shallow sweep across an overwhelming number of supply chain tiers and participants.
- 2. Be prepared to get properly stuck into it.** Relying solely on the large multistakeholder assessment mechanisms will not yield very reliable insights and is no substitute for internal capability and direct engagement with suppliers and their workforces.
- 3. Have realistic expectations.** However morally desirable it may be, it is not commercially or practically sustainable to maintain pervasive oversight and responsibility for all tiers of your supply chain – you cannot function as a labour inspectorate or human rights watchdog over all the complex interactions and actors within your value chain! By adopting a risk-based focus relevant to your scale and direct influence, you can have a significant positive impact. We have observed that when combined with the work of other likeminded due diligence actors, this does yield a positive transformation of social and environmental practice in the broader value chain. It's all about ensuring our people, environment and business are thriving together.

About The Warehouse Group

The Warehouse Group (TWG) is the country's largest general merchandise retailer, aiming to help Kiwis live better every day. Having become a founding member of the NZBCSD (the predecessor to SBC) in 1999, TWG remains committed to being a leader in sustainable development for NZ business and has undertaken a number of projects addressing both social and environmental issues. Learn more about TWG's Ethical Sourcing processes and performance in its [2023 Ethical Sourcing Report](#), or about its sustainability initiatives more generally [here](#).

About SBC

SBC is a member organisation that connects businesses, partners, and sectors to create impact that no single business could achieve alone. We work with executives and sustainability professionals to maximise their positive impact for shareholders, communities and the environment. We hold our members to account by asking them to fulfil member commitments. We deliver impact by championing our members to be at the leading-edge of sustainability and inspire other businesses to take action.