



Guidance for TruStone Companies on Supplier Engagement in China

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1. Introduction

This guidance paper is commissioned by CNV and the TruStone Initiative and prepared by The Centre for Child Rights and Business (The Centre). This paper aims to provide practical and concise recommendations for TruStone companies on how to effectively engage in dialogue with suppliers on priority risk areas.

Building on the report on "Social Conditions in the Natural Stone Sector"¹, this paper consists of three sections:

- First we give principles for supplier engagement;
- Then the paper briefly unpacks the local business contexts and potential incentives driving various actors;
- We conclude with practical recommendations on avenues and methods of engagement, as well as on managing associated risks.

To facilitate their engagement activities, TruStone companies can utilize the "Practical Guidance for Suppliers and Employers in the Natural Stone Industry in China" developed by The Centre, which provides practical guidance on six salient issues, including occupational health & safety, working hours and wages, decent work for youth, worker contracts, social security, and environmental risks.

¹ [Social Conditions in the Natural Stone Sector](#) (2021)

2. Principles guiding supplier engagement

While each TruStone company may have different supply chain contexts and business priorities, the following principles should guide the company's approach towards supplier engagement supply chain improvements:

- **Use the best available information.** Weak transparency and lack of concrete data are common challenges in extractive supply chains. But that should not paralyse responses and actions. Secondary information and experiences from other sectors can still provide valuable guidance on risks and mitigation strategies.
- **Risks should be understood from the perspective of workers, their families and communities.** While management structures and business continuity matter, companies' human rights due diligence responsibilities as outlined in the UN Guiding Principles on Business and Human Rights² and prevailing legislations are clearly grounded in the specific impacts experienced by specific groups. In other words, our responsibility is not only to the business, but to the people impacted by our business operations.
- **Acknowledge responsibility and focus on actionable solutions.** While we operate in a somewhat restrictive business environment, it is still our responsibility to change practices and improve conditions in areas where do business and enjoy strong business leverage. Certain "sensitive" issues can also be addressed by pragmatic measures framed within business and supply chain contexts, e.g. while Freedom of Association (FOA) is difficult to address in the current context, strong recruitment practices and effective grievance mechanisms can still offer meaningful protection to workers.
- **Engagement should be the preferred/default solution.** Engaging with suppliers on actual issues and solutions is the only way to improve transparency and conditions. When faced with a challenge, it is also helpful to remember that only by staying and engaging can we exert influence and make improvements. Disengaging at the first sign of problems will also mean losing visibility into the supply chain and the ability to change supplier behaviours. Violations will likely continue to happen; we just cannot detect or correct them.
- **Engagement should have clearly defined outcomes and expectations.** Improvements must be measured in actual changes in supplier practice and working conditions, not just in procedural stopgaps, e.g., signing a Code of Conduct or attending a training are important milestones, but cannot replace actual implementation of the measures. Apart from setting clear goals and meaningful indicators, suppliers should also be expected to demonstrate continuous improvements and willingness to maintain a high degree of transparency, as human rights challenges are not one-off events and require continuous monitoring and improvements.

While constructive engagement and incremental improvements should be the objective in most circumstances, there are situations where the human rights risks are too severe or irredeemable that terminating business relations might be the only responsible solution. Some of the "**red flag**" indicators for disengagement include:

- **Suppliers refuse to engage at all in addressing risks or remediating harm.** When it is clear that the suppliers are not committed to take any meaningful actions towards improving practices or conditions, then termination of business relations must be considered as a last resort. It is crucial, however, for TruStone members to ensure that remediation efforts are still carried out regardless of whether business relations are continued, e.g. if a supplier refuse to remediate a child labour case, TruStone members must fulfil the remediation responsibility even if relations are terminated with the supplier.

² [UN Guiding Principles on Business and Human Rights](#) (UNGPR)

- **Suppliers refuse to be transparent.** If suppliers repeatedly fail to disclose subcontractors, violations/incidents, refuse to disclose critical information or cooperate with audits/assessments/onsite visits, or are not transparent about challenges or malpractice, then TruStone members should seriously reconsider the business relations. As documented in the TruStone 2021 report, there are a host of major risk factors in the natural stone sector in China, including opaque supply chains, dominance of small enterprises, prevalence of sub-contracting, lack of traceability and transparency, and substantial proportion of stones from unknown foreign origins. It should be noted that buyers have a major role in creating an atmosphere of trust and cooperation, see section four on strategies for creating such buy-in.
- **Suppliers fail to demonstrate tangible improvements.** If despite receiving adequate business incentive, capacity building and concrete support, the suppliers still fail to demonstrate tangible improvements over a reasonable period of time, then TruStone members must consider if the business relations are still sustainable and viable.
- **Systematic and irremediable risks are detected that are beyond the control of suppliers or buyers.** This could be particularly the case in regard to prison labour or forced labour, which in China's case could involve state coercion and largely beyond the control of suppliers or international buyers. In such circumstances completely existing the particular supply chain(s)/geographic area(s) concerned might be the only responsible course of action.

3. Understand contexts and incentives

Before designing engagement strategies on the priority issues, it is also important to first understand the business landscape of the natural stone sector in China, and the potential incentives/constraints driving different actors. The Centre has accumulated considerable experience in helping companies developing supplier programs tailored to the Chinese contexts in mining, textiles, electronics and agribusiness sectors and these experiences informed below analysis on the public sector and business stakeholders.

3.1 Opportunities for supply chain human rights due diligence (HRDD) to align with government objectives

From our past experience, while the overall business environment in China can appear restrictive, there is room for pragmatic engagement if the business goals are aligned with broader central and local government objectives, and are pursued discretely within the organisational parameter of business operations and supply chains.

Industrial upgrading

One main area of convergence between government and business objectives is “industrial upgrading” for the natural stone sector, including improving the efficiency and environmental footprint of the sector, increasing value-added product and moving up the international value chain. While the natural stone sector is not a priority at the national policy level, given the sector’s strong geographical concentration and highly specialised clustering at the provincial and municipal level, there are strong incentives for local governments to support the sector’s healthy development. From this vantage point, adherence to international standards can be framed as an effective way to expand export markets, increase product premiums, and strengthen China’s comparative advantage against other stone exporters.

Strengthen social security and support for migrant workers

Another area of potential linkage between government and business objectives is strengthening social security and protection of migrant workers, especially during the current surge of COVID-19 and a period of economic uncertainty following the sudden lifting of pandemic control measures. Producers and suppliers in the natural stone sector are important employers in their locality due to their densely concentrated production clusters and specialisations. Local governments have clear incentives to support business initiatives that contributes to strengthening employment and complementing social services. International buyers can also play a constructive role in supporting their suppliers to improve social security payments, which had become a major priority in recent years due to the demographic shift in China and significant deficit in the public social insurance funds.

There is also increasing focus from the public sector on promoting family friendly workplaces, as an important component of the government’s efforts to address the demographic shift and aging population. Various Family Friendly Workplace programmes have consistently demonstrated that employer’s investment contributed to better worker relations and improved workplace performance.

Safe workplaces & anti- corruption

Work safety has been featured consistently in the government’s policy agendas and are gaining even more prominence in recent years. In 2018, the administrative and supervisory roles of the former department-level State Administration of Work Safety were absorbed into the newly created cabinet-level Ministry of Emergency Management. Work safety in the extractive sector has also been incontrovertibly linked with anti-corruption in both public and private sectors, another high priority policy domain, as past mining and workplace accidents were often attributed to corruption and weak enforcement of regulations. Therefore, investment into supplier capacity, OHS and worker protection will be received positively by local governments, as they contribute to a host of government objectives.

3.2 Limitations of aligning HRDD activities with government policies

Workplace stability

While opportunities and incentives for engagements do exist, governments at all levels are concerned with social cohesion. This means that supplier engagement and business initiatives should be framed within the parameter of supply chain improvements, organised vertically along the value chain, and communicated in terms of collective benefits. This also means that we have to realistically approach certain social compliance issues, to focus on pragmatic engagement and business-oriented solutions. Operationally speaking, it is important to ensure that all supply chain projects initiated through business relations are also transparently communicated with local stakeholders, including relevant local authorities and agencies, to ensure all stakeholders are aware of the objectives, modalities and potential benefits of the activities.

3.3 Opportunities for supply chain HRDD to align with business objectives

Business case: improved retention & productivity

The Centre's past experiences and other industry best practices suggest that business incentives and buyer influence are crucial for the success of supply chain initiatives. It is crucial for TruStone members to effectively communicate with suppliers on the business case, i.e. how improving environmental & social impacts can potentially lead to increased productivity, improved worker retention and satisfaction, and higher product premiums. Small-scale pilots with strong focus on documenting the business benefits of social investments can be an effective entry way to create wider buy-in among suppliers. For example The Centre's [Child Friendly Spaces](#), a core part of the Family Friendly Program, recorded a 30% increase in worker retention indicators (those planning to stay at the workplace for 2 years or longer) and 54% increase in worker-management trust, while 45% of workers reported being more efficient at work.

Strong business relations & leverage

Companies must also leverage their business influence to secure supplier participation, i.e. buyers must make it clear that demonstratable investment and improvement in social impacts is integral to continued business relations. Companies should be frank with suppliers about the motivations behind the supply chain efforts, including changes in the regulatory environment in Europe, higher consumer expectations and long-term viability and sustainability of the business etc. This will help build trust and partnership with suppliers, creating the recognition that suppliers are part of this broader efforts of protection and expanding the market at large.

While the COVID-19 pandemic and the subsequent supply chain disruptions might have reduced business volume and thus leverage to some extent, this does not mean buyers no longer have influence. The opposite might be true, suppliers could be even more motivated now to maintain their international client base during a period of uncertainty during the post-Zero COVID-19 recovery and weakening domestic demand from the real estate and construction sector.

Address labour shortage

Another incentive for producers and suppliers to make long term investment is the need to meet future labour demands amidst China's demographic shift. If the natural stone sector wants to remain viable and competitive on the international market, producers must take concrete measures to attract young workers into the workforce to replace the current aging labour pool. This means improving working conditions and wages, adopting modern management and production methods (including mechanisation and to some extent automation, which in turn requires better trained workers), and offering support to workers with very different needs (such as youth and young families). Failure to take meaningful

steps in improving recruitment practice and worker support could further exacerbate labour risks, i.e. as supplier facing chronic labour shortage could resort to high-risk practices such as labour outsourcing, relying on temporary workers or bypassing normal recruitment procedures. On the other hand, establishing responsible recruitment practices and appropriate HR management & support systems could help suppliers increase their competitive advantage in the labour market and create a more stable workforce, which leads to both lower HR costs and higher productivity through skill retention.

3.4 Limitations of aligning HRDD activities with business interests

While there are potential business cases to be made for suppliers to invest in social and environmental programs, a fundamental constraint is cost and the bottom line. A viable and sustainable supply chain requires equitable allocation of resources. Therefore TruStone members cannot shift all responsibility and burdens to the suppliers, but instead should closely examine business practices such as pricing structures, investment and cost-sharing with suppliers and incentive structures, so that suppliers are adequately supported in their HRDD efforts and can receive sufficient business benefit to justify the investments and ensure sustained positive changes.

4. Recommendations on supplier engagement

We have established that while China's business environment has its unique features and constraints, there are nonetheless opportunities to meaningfully engage stakeholders in supply chain improvements if the appropriate incentives and pathways are identified. Below we build on The Centre's concrete experience and offer concrete recommendations on how TruStone companies can approach supplier engagement.

Avoid sensitive domains and identify appropriate modalities of engagement

As outlined above, TruStone companies' efforts in improving the overall sustainability and condition of the supply chains broadly align with the public sector's policy objectives in maintaining economic growth and employment, promoting industry upgrading, improving protection and services for migrant workers, and safeguarding workplace safety. However, the government's focus on social stability also means that any private sector initiatives should be strictly delivered within a business context, and avoid engaging in potentially sensitive activities or domains. Identifying and engaging with the appropriate partners and stakeholders will help mitigate some of the risks and improve the relevance and effectiveness of the interventions.

Practically, TruStone companies should:

- **Identify appropriate local stakeholders and interlocutors.** This is crucial to ensure that supplier engagement is conducted within an appropriate business parameter. As mentioned above, municipal level governments, local stone chambers of commerce and suppliers have strong incentives to engage in supply chain improvement programs. However, it is important to note that while building network and collaboration in a business setting is good, too much external messaging could be problematic and might undermine on-the-ground work.
- **Use pragmatic and locally sensitive language, methods and approaches.** While the particular business environment in China limits the scope of supplier engagement, certain "sensitive" issues can be framed differently within a business/supply chain context, and discussed behind closed doors in a relatively safe setting. Below some concrete examples are given on some of the practical engagement approaches. Engaging the suppliers and their workers to highlight challenges and discuss common approaches will be key for open and constructive dialogues. Local expertise and guidance are also crucial in this regard, therefore it is important to engage appropriate local partners/service providers for initiatives such as consultations, assessments and capacity building.

Align economic and business incentives

From the business perspective, investing in supply chain improvements is in the interest of the suppliers as it helps them to expand market access, improve production performance and efficiency, and address long-term labour shortage. TruStone companies need to leverage their longstanding relations with the business partners, and create strong incentives that encourage suppliers to adopt a transparent and solution-oriented approach to the key challenges facing the natural stone supply chain. To achieve these, TruStone companies can:

- **Avoid "zero tolerance" approach.** From our experience, a "zero-tolerance" and narrowly compliance-drive approach is rarely effective in creating meaningful change in the supply chains, not at least when transparency and traceability is very weak to begin with as in the natural stone sector. In this context, "zero tolerance" approach will likely only obstruct visibility even further as suppliers have little incentive to truthfully disclose negative social impact in the supply chain or challenges they are facing, if the buyers simply punish "non-compliance".
- **Create a transparent and collaborative working relationship.** Instead we strongly recommend TruStone companies to focus on open and constructive dialogues with suppliers, aimed at first transparently sharing challenges and needs, then identifying solutions together. Companies can leverage the strong social capital and personal history

they enjoy with the suppliers to create and open and solution-oriented environment. Understanding what challenges the suppliers face, and what motivates their business decisions as outlined in the section above, will be crucial for the engagement. However, this does not mean companies cannot use business leverage or pressure, rather it is about applying pressure at the right moment to induce change in behaviour, i.e. suppliers should not be punished for having “non-compliance” or disclosing problems, instead consequences should be linked to failure in taking corrective actions.

- **Adopt responsible business and purchasing practices as buyers.** Understanding and creating incentives are important. Meaningful supplier engagement, and attempts to change their practices, must be anchored in real business incentives, i.e. responsible purchasing practices from buyers. TruStone companies should also strive to understand the linkage between their business practices and conditions in the supply chains, e.g. if pricing is fair and sufficient for suppliers to provide living wages for workers, or if order predictability and lead time is sufficient for suppliers to maintain stable contracts with workers and to mitigate high-risk practice like sub-contracting, temporary workers and excessive overtime.

4.1 Practical examples of supplier engagement

In line with the principles above and drawing on The Centre’s experiences, TruStone companies could explore below models for practical engagements with suppliers, while adapting to their specific business priorities and supply chain characteristics.

- **Support suppliers to establish/strengthen responsible recruitment practices.** Through capacity building and creating management processes with a strong Human Resources focus, these measures will be able to address key issues and create best practices on age verification, usage of labour agents/intermediaries, how to allow student worker etc.
- **Support suppliers to establish/improve Occupational Health & Safety (OHS) management system,** including supporting suppliers to:
 - Set up internal OHS committees and establish clear line of responsibility from general manager, OHS manager, down to supervisors, line leaders, and workers
 - Conduct thorough hazard and risk mapping of all production processes and work stations/positions
 - Identify mitigation and management strategies for identified hazards and risks, including but not limited to proper use of PPE. Eliminating/reducing hazards and risks should also be considered
 - Establish an ongoing OHS training system where all workers receive mandatory OHS training during onboarding, and continuous capacity building and refresher trainings throughout their employment.
 - Ensure grievance procedures (see below) and incident reporting/investigation procedures are in place and functioning.
- **Support suppliers to create strong grievance procedures, and worker-management dialogue process.** This will increase workers’ voices in the decision making process, and help to address workers’ concerns or potential violations early on. Such measures will help mitigate the absence of FOA to some extent.
- **Support suppliers to create Family Friendly Workplaces.** Concrete examples include:
 - **Child Friendly Spaces:** support migrant parent workers by enabling them to migrate with their children, or to facilitate family reunion during holidays.

- **Maternity protection:** tackle gender discrimination by supporting pregnant workers and young mothers, thus making work more accessible, improve retention and return to work after maternal leaves.
- **PhotoVoice and other inclusion project:** improve understanding and respect between management and workers, e.g. PhotoVoice enables workers to share their personal stories within the workplace, humanising their experiences, creating empathy and understanding among management and co-workers, and creating a culture of valuing each individual worker.
- **Support suppliers to strengthen supply chain mapping, including improving sub-contractor and sub-supplier management:** demonstrate how businesses in China can better mitigate risks by improving supply chain transparency and traceability, engaging with sub-contractors & sub-suppliers, and educating downstream partners on labour laws and human rights standards.
- TruStone members could **engage international consultancies with strong track records** who have a local presence in China, to support value-added projects, capacity building, prevention and remediation efforts, design of policies and procedures etc. However, it's important to vet organisations and partners closely, as industry service providers such as auditing companies had been criticised for potential unethical practices when working in China.
- TruStone members could engage in collaborations with local stakeholders such as provincial, municipal or specialised stone producer associations (see TruStone 2021 report) on low threshold topics such as OHS, Family Friendly Workplaces or worker retention to build trust with suppliers and increase sustainability & reach over time.

To facilitate these engagement activities, TruStone companies can utilize the "Practical Guidance for Suppliers and Employers in the Natural Stone Industry in China" developed by The Centre, which provides practical guidance on six salient issues, including occupational health & safety, working hours and wages, decent work for youth, worker contracts, social security, and environmental risks.

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