FSSC 24000

GUIDANCE DOCUMENT CONTEXT OF THE ORGANIZATION

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TRANSLATIONS

Please be aware that in the case of translations of the FSSC 24000 Scheme or Guidance documents, the English version is the official and binding version.

DISCLAIMER

The information in these guidance documents is intended to assist with the interpretation, implementation, and auditing of the requirements contained in the PAS 24000. While this information addresses and is consistent with these requirements, it is not intended to add to, subtract from, or in any way modify them.

The requirements in the PAS 24000 need to be viewed from a systems perspective and should not be considered in isolation, i.e., there can be an interrelationship between the requirements in one clause with the requirements in other clauses.

CONTENTS

1. INTRODUCTION

For an organization to have an effective Social Management System (SMS), the SMS should be aligned with its strategic direction and take into account the internal and external issues that are relevant when planning to achieve its objectives.

Chapter 4 Context of the organization is all about determining the scope of the social management system, which should include all activities of the legal entity taking place at the site. In relation to auditing and certification: **no exclusions are allowed**. This is specifically stated in clause 4.3. Based on the scope of the SMS, processes need to be defined and implemented to control and reach the intended outcomes.

Before the scope of the SMS can be determined in detail, the organization needs to understand the organization and its context and understand the needs and expectations of interested parties. What needs to be considered to understand these will be discussed in more detail in this document.
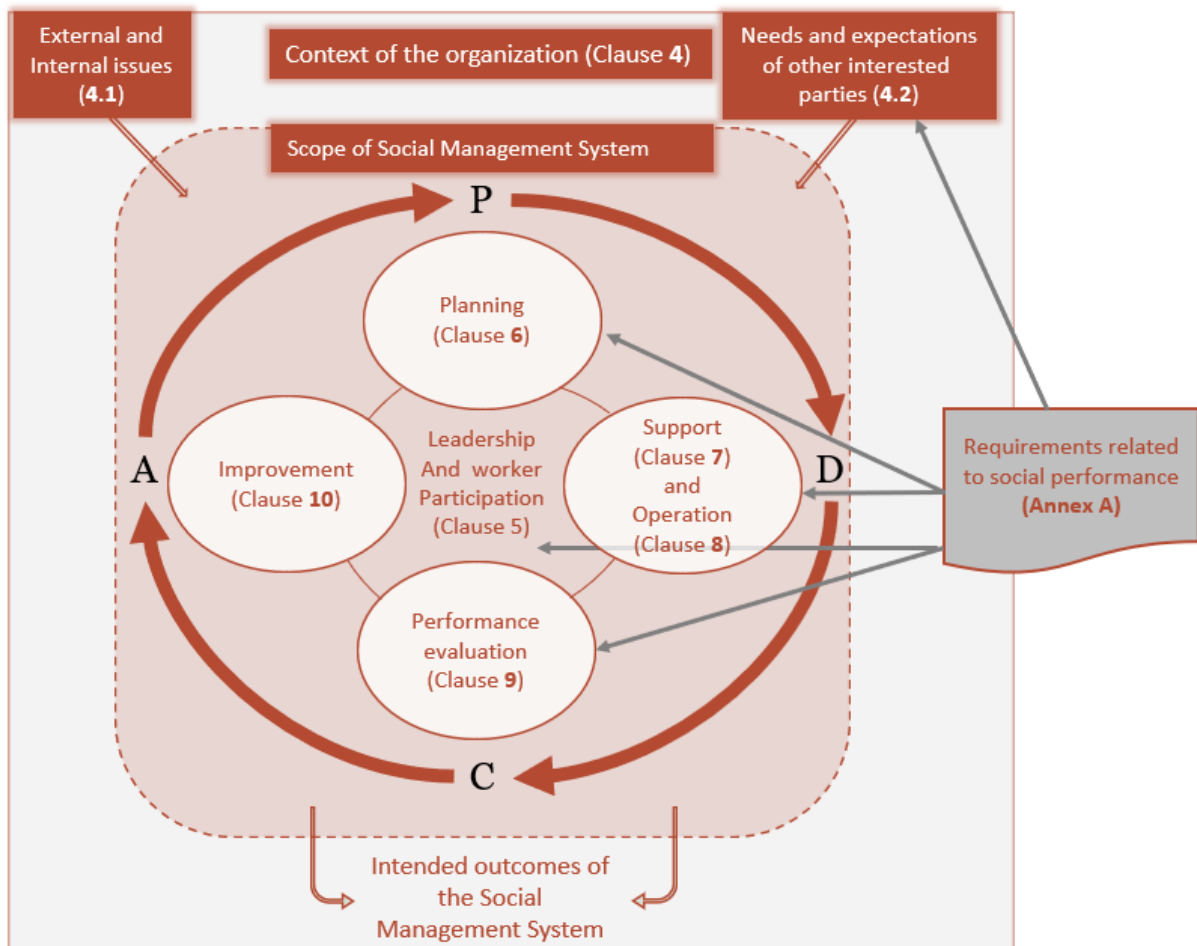
"Success always depends on careful preparation; without that preparation, failure is a fact."
Confucius

2. EXACT WORDING OF THE REQUIREMENT

PAS 24000: 0.1 UNDERSTANDING THE ORGANIZATION AND ITS CONTEXT

The organization shall determine external and internal issues that are relevant to its purpose and strategic direction (in line with its strategy as applicable) and affect its ability to achieve the intended result(s) of its SMS, including its impact on areas and activities that are important to the community in which it operates both socially and culturally.

The organization shall monitor and review information about these internal and external issues.

PAS 24000: 0.2 UNDERSTANDING THE NEEDS AND EXPECTATIONS OF INTERESTED PARTIES

The organization shall determine:

a)   the other interested parties, in addition to workers, that are relevant to the SMS;

b)   the relevant needs and expectations (i.e., requirements) of workers and other interested parties;

c)   which of these needs and expectations are, or could become, legal requirements and other requirements;

d)   which of these needs and expectations, besides the (legal) requirements identified in c), will be addressed through the SMS.

NOTE   Requirements for social performance are also specified in Annex A. The organization may set additional or higher standards.

PAS 24000: 0.3 DETERMINING THE SCOPE OF THE SMS

The organization shall determine the boundaries and applicability of the SMS to establish its scope.

When determining this scope, the organization shall consider:

a)   The external and internal issues referred to in **4.1**;

b)   The requirements referred to in **4.2**;

The SMS shall include the activities, products, and services within the organization's control or influence that can impact the organization's social performance.

The scope shall be available as documented information.

PAS 24000: 0.4 SOCIAL MANAGEMENT SYSTEM

The organization shall establish, implement, maintain and continually improve an SMS, including the processes needed and their interactions, in accordance with the requirements of this document.

3. IMPLEMENTATION AND AUDITING

PAS 24000: 4.1 UNDERSTANDING THE ORGANIZATION AND ITS CONTEXT

IMPLEMENTATION

Understanding context is about identifying important issues that may be of significance for the social policy in both the short and (especially) the long term because they present either opportunities or risks.

External and internal issues need to be determined, which:

✓ Is relevant to the <u>purpose and **strategic decision**</u> of the organization,

✓ Affect its ability to achieve the intended results of its SMS, including its **social impact** on areas and activities that are important to the community in which it operates both socially and culturally.

The core subjects of social performance are human rights, labor conditions, ethics, and business integrity, and occupational health and safety. Other issues, such as aspects relating to the supply chain or gender issues, are addressed within the framework of these core subjects. An organization should look at all core subjects of social performance to determine their relevant external and internal issues.

Examples of external and internal issues that could be relevant to the organization's context can include, but are not limited to[2]:

External issues related to:

1) Economic factors such as money exchange rates, economic situation, poverty rates, inflation forecast, and credit availability;
2) Social factors such as local unemployment rates, safety perception, education levels, public holidays, and working days;
3) Cultural factors such as local religions, ethnicity, traditions, and behavior;
4) Political factors such as political stability, public investments, local infrastructure, and international trade agreements;
5) Technological factors such as new sector technology, materials, and equipment, patent expirations, professional code of ethics;
6) Market factors such as competition, including the organization's market share, similar products or services, market leader trends, customer growth trends, market stability, and supply chain relationships;
7) Statutory and regulatory factors which affect the work environment, such as collective bargaining agreements, trade union regulations, and regulations related to an industry;
8) Disruptive factors such as recent natural disasters, pandemics, and war.

Internal issues related to :

1) Organizational identity (including its vision, mission, values, and culture);
2) Overall performance of the organization;
3) Resource factors, such as infrastructure and environment for the operation of the processes (including the necessity of personal protective equipment);

4) Human aspects such as competence of persons, organizational behavior and culture, cultural behavior of workers, relationships with unions;
5) Operational factors such as process or production and service provision capabilities, the performance of the SMS, monitoring customer satisfaction;
6) Factors in the governance of the organization, such as rules and procedures for decision-making or organizational structure.

To get to know what areas and activities are important to the community in which the organization operates both socially and culturally, the organization could establish direct channels of communication with workers to collect their opinions, could conduct a community survey, or have conversations with different representatives of the community to investigate the local perceptions of the employment site, e.g., work hours, labor issues, support for the local community, etc.

Other information which might help determine internal and external issues could include[3]:

- Business plan
- Review of strategy plans
- SWOT analysis
- Incident and complaint analysis
- Supplier analysis
- Minutes of meetings
- Competitor analysis
- Trade organizations analysis
- Labor rights index
- ESG ranking
- Sustainability indices
- Worldwide governance indicators of the World bank
- Corruption perception index of Transparency International
- UN list of least developed countries
- External consultant's reports

There are many ways and supporting techniques for organizations to observe and analyze their context. Although there is no requirement for documented information in this section, the requirement is to monitor and review information about these external and internal issues. Most organizations will find it useful to have documented information available to demonstrate this and to help them understand the rationale and level of understanding of their challenges.

The organization should be aware that internal and external issues can change – for example, due to economic reasons, new competitors, site change or high turnover of staff – and therefore, its context should be monitored and reviewed on a regular basis.

AUDITING[3]

The auditor should approach this through an interview with members of the organization's top management. It should be clear whether top management took due account of their organization's context; the proof of this may be adequately demonstrated by showing how the review outputs became the inputs into the SMS planning process (risk-based thinking, clause 6).

PAS 24000: 4.2 UNDERSTANDING THE NEEDS AND EXPECTATIONS OF INTERESTED PARTIES

IMPLEMENTATION

The intent of this clause is that the organization takes into account the needs and expectations of those parties in addition to those of its direct customers. An organization needs to identify who has an interest in its decisions and activities so that it can understand its actual and potential social impact and how to address it. This should not be limited to customers and suppliers, as every organization depends on an efficient infrastructure and a social network. Other individuals or groups may also have rights, claims, or specific interests that may affect the day-to-day work of the organization and must be taken into account. Each organization should view itself as part of, and not separate from, its corresponding local or regional structure, depending on its size and capabilities.

The intent is to target only those interested parties which may impact the organization's ability to achieve the purpose, strategic direction, and intended results of its SMS and to provide products and services that meet the requirements.

The number and kind of interested parties will differ for every organization and depend on factors such as the nature of the organization's operations, its position in the chain, its siting, and its size and ambitions.

Workers are the obvious first group of interested parties and have addressed in the requirement already.

Clause 5.4 requires the consultation of workers in the identification of the needs and expectations of workers, which means that workers should be asked what their needs and expectations are.

This can be done through:

- ✓ Worker interviews,
- ✓ Questionnaires,
- ✓ "Workers' voice" survey,
- ✓ Employee satisfaction survey,
- ✓ Content and topics of whistle-blower lines, grievance mechanisms, or complaint procedures,
- ✓ Consulting worker representatives from trade unions or other worker organizations,
- ✓ Other.

The second interested party is the **competent authority.** They expect that, at a minimum, the organization will comply with applicable legal and regulatory requirements.

One of the objectives of the social management system is meeting compliance obligations. These are obligations voluntarily entered into (such as covenants, demands from customers, and contractual agreements) as well as applicable legislation and regulations. Minimum requirements for social performance can be found in Annex A of the standard. If applicable national legal requirements set a different level of protection than specified by this standard, it is necessary to satisfy whichever affords the highest level of protection for workers.

Every organization has **other internal and external interested parties**, such as owners, suppliers (including banks and insurers), competitors, customers, and neighbors. Organizations

can also have interested parties farther away, such as sectoral organizations, unions, academia and researchers, local interest groups, and NGOs.

The organization can develop criteria to determine other relevant interested parties by considering their[2]:

- ✓ Possible influence or impact on the organization's social performance or decisions ;
- ✓ Ability to create social risks and opportunities ;
- ✓ Possible influences or impact on the market;
- ✓ Ability to affect the organization through their decisions or activities.

Considering the identified external and internal issues might help determine other relevant interested parties too.

The understanding of the needs and expectations of these interested parties can be built up by both direct contact and desk research.

Methods to understand the needs and expectations of interested parties include but are not limited to[2]:

- ✓ Reviewing orders received ;
- ✓ Lobbying and networking ;
- ✓ Participating in relevant associations ;
- ✓ Benchmarking ;
- ✓ Market surveillance ;
- ✓ Reviewing supply chain relationships ;
- ✓ Conducting customer or user surveys ;
- ✓ Monitoring customer needs, expectations, and satisfaction.

Examples of interested party requirements include, but are not limited to[2]:

- ✓ Customer requirements regarding conformity, price, availability, or delivery;
- ✓ Contracts that have been entered into with customers or external providers;
- ✓ Industry codes and standards;
- ✓ Agreements with community groups or non-governmental organizations;
- ✓ Statutory and regulatory requirements for the product or service provided and those that affect the organization's ability to provide that product or service;
- ✓ Memoranda of understanding;
- ✓ Permits, licenses, or other forms of authorization;
- ✓ Orders issued by regulatory agencies;
- ✓ Treaties, conventions, and protocols;
- ✓ Voluntary principles or codes of practices;
- ✓ Voluntary labeling commitments;
- ✓ Obligations arising under contractual arrangements with the organizations,
- ✓ Policies for workers.

The organization needs to balance expectations and resources. Aiming at complete coverage of all interested parties and their requirements is unrealistic. The organization needs to prioritize and balance identified interested parties and requirements and their own resources. Fundamental human rights of the workers, the requirements of the standard, and requirements of the competent authority have to be met in each case.

The organization should be aware that the relevant interested parties and their relevant requirements can be different for the different products and services provided and can change due to unforeseen circumstances or intentional reactions to markets. The organization should have robust systems in place to monitor and review the relevant requirements of its interested parties[2].

The relevant requirements of those relevant interested parties should be evident as inputs into the planning process, as potential risks and opportunities. Again, although there is no requirement to have documented information available, it would be expected that an organization would keep some account of its analysis for ongoing and future reference. This could be expressed, for example, as:

- ✓ Minutes of meetings
- ✓ Tables
- ✓ Spreadsheets
- ✓ Databases
- ✓ Hyperlinks
- ✓ External documentation, Etc.

AUDITING[3]

Auditors should understand and evaluate how an organization decides on the requirements of interested parties relevant to the SMS by considering:

- ✓ The number of interested parties taken into account,
- ✓ Criteria to select relevant interested parties,
- ✓ Aspects to select relevant requirements.

Auditors should be able to draw conclusions about the appropriateness of these practices and the manner in which this information is reviewed and controlled, for example, through management reviews.

Auditors should conduct this assessment in an interview with top management and monitor these issues during the audit. In the absence of documented information, auditors must gather objective evidence that the results of this activity are consistently reflected in the assessment of risks and opportunities, external documentation, communication, and other relevant areas of the social management system.

PAS 24000: 4.3 DETERMINING THE SCOPE OF THE SMS

IMPLEMENTATION

The intent of this subclause is to determine the boundaries of the social management system so that it is defined in a manner that helps the organization meet requirements and the intended results of the system[2].

The scope should be established based on[2]:

- ✓ the external and internal issues as determined by the requirements in clause 4.1;
- ✓ the relevant requirements of relevant interested parties as determined in accordance with the requirements in clause 4.2 ;
- ✓ the products and services provided by the organization.

The scope of the SMS, in many cases, is self-evident and defined by the activities taking place at a single location. The scope of the SMS will become more challenging in circumstances where there is[3]:

- ✓ Outsourcing
- ✓ Logistics
- ✓ Central functions
- ✓ Worker accommodations
- ✓ Service centers

From a review of the nature of the organization's operations, products, and services, the extent of the SMS should be clear. Everything within the legal entity of the site should be determined as in the scope of the SMS; NO EXCLUSIONS or limitations to the scope are allowed.

Besides this, the scope should include activities, products, and services within the organization's control or influence that impact the organization's social performance. Within the organization's control are social aspects of the activities taking place at the site.

The organization has to determine which products or services delivered by providers of the site are within their influence. For example, for a subcontractor who has workers on-site at work, the organization can influence that subcontractor and ensure the workers of the subcontractor are treated the same as the workers of the organization itself.

Furthermore, the scope statement has to comply with the Scheme requirements as follows:

1. Be within the scope of the Scheme;
2. Be clearly and unambiguously describe the process/activities, product types, and/or services that the organization supplies;
3. Not include brand names;
4. Be in English, but another language may be added (e.g., the native language of the country of the organization);
5. Not mention subcontracted or outsourced processes outside the organization's legal responsibility;
6. Not include company names

The scope should be available as documented information.

AUDITING

Auditors should review the scope statement on the above criteria, examine whether no exclusions are made and other locations are part of the SMS, and ensure to audit everything within scope.

PAS 24000: 4.4 SOCIAL MANAGEMENT SYSTEM

IMPLEMENTATION

Organizations can interpret the requirements of the management system part of the standard at the level appropriate to the nature of their activities, risks, and scope. This includes the way elements are interpreted, the level of detail, and integration with other business functions and processes. The requirements of the Annex have to be met fully.

The standard does not require a manual. To be certified, the organization should provide demonstrable evidence that the system meets the requirements of the standard and that it works.

This should be demonstrated by the documented information required in the standard, which also includes the required records.

An organization can choose to expand the documented information by also establishing processes. Such information could include[3]

- ✓ Process diagrams (input – process – output)
- ✓ Overlays showing the locations of activities and worker accommodations when provided
- ✓ Resource diagrams (e.g., capacity analysis, competence assessments, ….)
- ✓ Programs

AUDITING

The extent (scope) of the SMS should be evident in the documented information. Auditors should examine whether the documented information covers everything within the scope.

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