

**Fact-sheet** – How to manage a subcontractor



**What is the objective?**

**Understanding how to manage a subcontractor**

**Definition of a subcontractor:**

A company appointed by the factory to take over fully or partly either production processes or purchases, which are usually supposed to be handled within the facility's premises.

There are risks associated with using subcontractors. There is a risk that the subcontractor does not have a proper quality, social or environmental management system, which may cost the facility money. There is a risk that the subcontractor does not have proper health and safety practices in place, which again, can pose a risk for the company's business in terms of worker injury or brand image. There are also other risks. The main objective is to understand the actions which need to be taken to properly manage subcontractors.



**How to achieve the objective?**

**How can subcontractors be properly managed?**

- 1- **Pre-assessment of risk** – before entering an employment contract, the primary facility should perform a technical, social and quality assessment on the potential subcontractor. This will help the primary facility to understand if the work will be performed there and the subcontractor's ability to deliver the goods.
- 2- **Establishment of contracts** – the primary facility needs to have signed formal contracts with all subcontractors which outline the terms of the agreement of the work performed and the conditions under which it is performed.
- 3- **Establishment of policies** – the primary facility needs to have policies which ensure that all companies, buyers, customers and all other relevant policies or requirements are communicated to and understood by the subcontractor. For example, the ICS Code of Conduct needs to be communicated to and understood by all subcontractors.
- 4- **Continuous monitoring and risk assessment** – the primary company should regularly assess its subcontractors. The assessment or audit should be performed by a trusted third-party firm and/or by senior management staff, who are separate from the operating departments. The findings and corrective actions should be shared with both the primary company and subcontractors' senior management.
- 5- **Inform** – all buyers, customers and business partners need to be informed of the use of subcontractors for all applicable processes and purposes.



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#### Common non-compliances

- **Lack of contracts in place for subcontractors;**
- **Subcontractors not disclosed to customers or buyers;**
- **ICS Code of Conduct or other policies not communicated to subcontractors.**



#### Good practices

- **Training of subcontractors:** trainings delivered to workers and staff in the facility should also be delivered to subcontractors;
- **Soliciting feedback from subcontractors:** subcontractors may struggle to meet your needs due to short lead times, material shortages or unclear quality requirements. Ask subcontractors for their feedback and grievances on your management and business practices to see how to improve the working relationship;
- **Robust Capacity Management System:** having a system in place to understand your factory's maximum capacity will help avoid the use of unauthorized subcontracting and in turn, help avoid social compliance issues.

