

ETI's Public Seminar on Labour Standards for Investors October 2002

Background & Context

Background:

Labour standards in overseas supply chains are one of the most prominent issues in SRI. An increasing number of fund managers and pension funds are raising labour standards issues with investee companies as part of their SRI work. This is not easy. Many companies sound good on paper, and it is not always easy to distinguish genuine commitment from corporate spin.

The purpose of the seminar was as follows:

- Provide fund managers and other investors with a toolkit of questions and issues that should be addressed in assessing company performance on labour standards in supply chains
- Hear from labour standards specialists drawn from retailers, the ETI and institutional investors, who will discuss the practical challenges posed by their work
- Give investment managers and other specialists a chance to raise and discuss the issues they face in working on labour standards

Who Participated?

19 participants attended and 4 ETI Secretariat. Participants included fund managers, analysts, researchers and policy advisors

The roundtable was introduced and chaired by *Alan Roberts, Chair of ETI*.

Key points from presentations

WHAT THE ETHICAL TRADING INITIATIVE DOES, AND WHAT ETI MEMBERSHIP INVOLVES.

Dan Rees, Director, ETI

The Ethical Trading Initiative (ETI) is a UK body which brings together businesses, trade unions and non governmental organisations (NGO) with the aim of improving working conditions in supply chains of member companies. It has the support of, and is partly funded by the Department for International Development.

The employment standards adopted by ETI members are international standards that come from the core Conventions of the International Labour Organisation.

ETI's goal and purpose is to improve the lives of workers and their families in global supply chains by working together to identify and promote good practice in code implementation.

Companies in ETI commit to:

- Adopt the Principles of the ETI Base Code
- Communicate company code throughout the company and to their suppliers
- Monitor the compliance of their supply chain with the Base Code
- Establish improvement plans with their suppliers where breaches are found
- Support independent verification of compliance
- Report annually to ETI on their progress
- Participate in Pilot Projects to develop monitoring and verification techniques and improve code implementation
- Establish confidential means for workers to report code violations

For full presentation notes, contact Adil (adil@eti.org.uk)

ETI GUIDELINES FOR FUND MANAGERS PRESENTATION

Dan Rees, Director, ETI

After discussions with Fund Managers and Investors, ETI and Just Pensions (UKSIF) agreed to prepare some draft guidelines to assist investors in determining how far companies are implementing Codes of Labour practice.

The purpose of the document is to suggest questions to help fund managers get to the heart of their investee company's approach to labour standards. The discussion paper is organised into two sections addressing :

1. Questions you could ask.
2. Issues you are looking for / What to assess?

Improvement to Workers

It is important not to lose sight of who the beneficiaries of codes of conduct are intended to be. While accurate measurement of this is not possible, companies should be able to gauge the difference they have made to workers and be able to show some evidence of this.

The following indicators may help.

- Policies

These are a good place to start and most investors make an assessment of corporate codes and the relevant international standards. ETI has produced a list of the relevant conventions and recommendations, which is available in our Purpose Principles Programme publication (www.ethicaltrade.org). Many companies still omit trade union rights.

- Responsibilities and Partnerships

A clear management structure (from group level down) for ethical supply chain purchasing. A budget, quantification of human resources, training etc. Relationships with stakeholder organisations.

- Systems in place

Knowledge of supply "network". A system for data capture & knowledge management
Whistle-blowing indicates serious commitment.

- Implementation strategy

Clearly thought out analysis of risk by country/product/issue. Strategy to meet risks - where can a company make the biggest difference? Monitoring programme evolving from learning
Improvements on *core* labour standards. Pay for monitoring *and improvements*.
Working towards greater transparency

- Results to date

Significant improvements in working conditions. Percentage of supply-base monitored, percentage "compliant/non-complaint". Collaboration with other companies to assess progress & test methodologies. Any experiments in verification

- Vision of the future

Goals and targets. Clear business case. Commitment to on-going learning

What is ETI looking for?

ETI would welcome your comments, suggestions and criticisms on the Guidelines.

For full presentation notes, contact Adil (adil@eti.org.uk)

CASE STUDY OF GOOD PRACTICE IN CODE IMPLEMENTATION

*Ian Burgess, Group Quality Assurance Manager,
the Co-operative Group (CWS) Ltd*

Approaches To Sound Sourcing And Ethical Trade

The Co-operative Group work with thousands of suppliers all over the world. The Co-operative Group is the world's largest consumer co-operative. As a retailer, this means that we are fundamentally owned by our members, who themselves are individual consumers. Those members concerns are not dissimilar to those of shareholders in another context.

The Business Case.

At a wider level, there is growing concern amongst consumers in Europe over matters of social responsibility and how organisations act to support this. Retailers, in particular, are under increasing pressure from consumer groups across a range of issues, and this will only grow in the future. Shareholder groups are considering these same issues, and the performance of organisations in terms of corporate social responsibility is set to become just as important as financial market performance in the way the organisation is judged. They will have a tangible effect on businesses, for example in the area of reputational risk. Criticism over socially unacceptable or irresponsible practices, illegal child labour for example, can lead to serious damage to an organisation's image, possibly affecting share price and placement of future business. For these reasons, many organisations in Europe and North America are increasingly looking at aspects of social responsibility. By working on these issues they realise that their reputation can be protected.

SUPPLY CHAIN ISSUES

Communicating

Communication is perhaps the key issue, and building sound sourcing into routine technical and buying approaches is fundamental to this. We have introduced ethical trade within routine discussions and communications with suppliers, helping to build awareness and create the atmosphere necessary for change. We have also explained the aims of our policy and what our own customers and members are concerned about. Throughout this approach, it is important to take on board where suppliers raise their concerns with our code. Implementing sound sourcing needs to be through partnership with suppliers, with ongoing dialogue about issues and solutions.

Where to start

Our approach to implementing our code begins consistently with a risk assessment process, to try and gauge workplace standards. This helps us identify the likely standards, to brief our suppliers on the requirements of our code and also why we want to address these broader social issues.

We can begin to prioritise our assessment process, considering which industries and countries merit the greatest attention. We share priorities through the ETI and with our suppliers.

From here, we can consider investigating standards in detail.

IMPLEMENTING OUR CODE

Implementing our code requires looking at the following actions in detail.

- Risk assessment of suppliers
- Workplace assessment
- Workplace assessment through Co-op teams
- Specific training programme for suppliers
- Strong partnership and dialogue between suppliers and CWS
- CWS funded programmes
- Partnership with suppliers

- Tea and Produce partnerships

- Addressing all of supply base
Long term
- Linked approach with NGOs
Working alongside Fairtrade Foundation and Oxfam
Joint assessments & developing local contacts
Shared priorities and learning

The Assessment itself

- Detailed site investigation, currently with 2nd party
- 2-3 days, with 2-4 auditors
- Mixed audit team
male/female, generalist/specialists, local knowledge and language skills
- Group and individual worker interviews
- Trialing 1 day site risk assessments

Agreement of action plans with suppliers

Any assessment is only of value if subsequent follow-up action is both constructive and reviewed. We develop action plans with suppliers, agreeing and monitoring these. As the programme develops, ongoing dialogue to sustain improvement is invaluable.

Verification

A key issue is whether this process works effectively?

We are exploring a range of options including both desk based and site based verification.

Sustainability

Sustainability stems from the development of systems within the supply chain that ensure that meeting the basic standards we are aiming for becomes an integral part of the way we work with suppliers, and the way they organise themselves. These make certain that we and our suppliers work together to deliver aspects of ethical trade, supporting developments in workplace standards and linking this to long term business relationships either directly or through our agents.

Although some of the building blocks are being assembled, they are not all in place and we will need a co-operative approach to achieve our commonly shared goals.

FINDING SOLUTIONS

From a corporate perspective, we know that we are on a learning curve, and accepting some steps, even if they are not the solution is part of this. We are looking for measures, which we can begin to introduce, not to debate or research options until the initiative is lost and workers suffer.

For full presentation notes, contact Adil (adil@eti.org.uk)

Key discussion points

Q - What level of supply chain coverage is acceptable and can investor risk be eliminated?

A - The first step is to go right back to the primary producer and then intermediaries which will raise a majority of issues. Identifying major suppliers and then working back through the supply chain will also maximize the benefits. There is always a risk of poor practice but it is worth remembering this is a company responsibility. For smaller companies buying through an agent with no direct contact with a supplier, look for who else is buying from that supplier i.e. other ETI Members. This will ensure a sharing of information and importantly risk and a collaborative can be more effective.

Note: If a company can guarantee quality, why not ethical standards.

Q - How many companies have answers to these issues?

A - It is not an issue of having the answers but asking questions. ETI members do not have all the answers but the central issue is commitment. There are obvious resource limitations and business viability issues. There is no practical answer but it is important to have a starting point to work on these issues which will prove beneficial.

Q - What about if a supplier fails to meet standard?

A - It is a partnership and we need to work with the supplier to achieve the overall aim. It is better to look at the longer term than to walk away and leave the issues identified unresolved as this would have a detrimental effect on the workers you are trying to help. Demonstrating the business / quality case to suppliers will help them work with you. Collaboration is vital to ensure that code implementation is sustainable.

Next steps

SRI community were asked to provide feedback on the Guidelines paper: Assessing Company approaches to labour standards. (See attached)
Please forward your comments to adil@eti.org.uk

Other initiatives

PIRC initiative

A local authority pension initiative. An in depth benchmark study of leading retailers focused on their policy implementation including auditing procedures and reporting.

Contact: Local Authority Pension Fund Forum (LAPFF) c/o Pensions & Investment Research Consultants Limited (PIRC)

Just Pensions

Just Pensions would be interested in working with an investor grouping on labour standards in supply chains.

Please contact Cassie Higgs, cassie.higgs@uksif.org

List of contacts / useful resources

PIRC

Pensions & Investment Research Consultants Limited

Tel 0207-247 2323 www.pirc.co.uk

UKSIF

UK Social Investment Forum

Tel: 0207 405 0040 www.uksif.org

Just Pensions

Email: cassie.higgs@uksif.org

Ethical Trading Initiative

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