Ethical CORPORATION

Updated version

Published November 2004

The Business and Human Rights Management Report

A study of eight companies and their approaches to human rights policy and management system development

AN ETHICAL CORPORATION REPORT Written by Juliet Hepker, Maplecroft. Edited by Andrew Newton.

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Introduction

Over the last decade, the notion that corporate responsibility is limited to producing a financial return for shareholders has been turned on its head. The main challenge has come from the sustainability movement causing a paradigm shift that has altered the way the role and the responsibility of business are regarded. A defining feature of this movement is its "system's approach" which offers a way of thinking in terms of interconnections, relationships and context. From this perspective, companies are seen as one type of actor that both impact on and are affected by other actors in the system. This interconnectedness means that a more diverse range of actors have a legitimate interest in the company.

These actors are termed "stakeholders" and include not only shareholders but employees, local communities, trade unions, non-government organisations, national and international governments. With the increase in number and geographical spread of multinational corporations, more and more stakeholders are located in weak governance zones where the local authorities are either unwilling or unable to regulate and police the national economy in conformity with internationally accepted standards. This can leave citizens and the environment vulnerable to exploitation. Free trade agreements guarantee business the right to access new markets and resources within many weak governance zones. The sustainability movement argues that this right must be balanced with greater responsibility.

The case for greater corporate responsibility is particularly pertinent to human rights. The term "human rights" is increasingly used not just in political but also in business circles and the meaning of the term in the business context is becoming more sharply defined. A number of multi-stakeholder initiatives have contributed to this process, but the most explicit link between businesses and their human rights obligations is made by the "UN Norms on the Responsibilities of Transnational Corporations" published in 2003. Based on the Universal Declaration of Human Rights, the Convention of the Rights of the Child and the core conventions of the International Labour Organisation, these Norms "bring together for the first time in a single comprehensive and authoritative document, agreed international principles applicable to business"[1]. Whilst the Norms re-affirm that primary responsibility for human rights protection remains with states and are at present non-binding for companies[2], they have helped put human rights squarely on the corporate agenda.

Companies can be seen to have both direct and indirect human rights related responsibilities. Direct responsibilities include adhering to international labour standards relating to equal opportunity, fair wages, and working hours, ensuring the safety of processes and products and making security arrangements that minimise the risk of violations. Businesses may be indirectly responsible for, amongst others, human rights violations committed by suppliers or contractors and misuse or inequitable division of revenue accruing to the government. While violations of civil and political rights tend to be more high profile, the denial of economic rights such as the rights to housing, education and health is more widespread and in some ways harder to tackle. Both business and the international community are struggling to draw the line between corporate and government responsibility in these areas.

While most European and US multinationals already have some activities that are informed by human rights – policies on health and safety and diversity, for example - a small but growing number are beginning to address the full implications of their human rights impact. The on-line

Business and Human Rights Resource Centre[3] has compiled lists of organisations with a company policy that explicitly mentions human rights issues, and those that explicitly refer to the Universal Declaration on Human Rights. For some companies, good ethics has long been at the centre of the company culture and ethos but for the remainder there are strong external incentives to make this kind of commitment. These are based on both commercial and social considerations. On the commercial side, companies may wish to minimise the risk of negative publicity that could damage their reputation and brand image and impact on employee motivation and retention. They may also see a more ethical approach as a source of competitive advantage. On the social side, key benefits might include decreased social unrest and the accumulation of "relationship capital" which creates a more enabling environment for business to operate in.

A key challenge is to widen the circle of companies addressing their human rights impact. For the vast majority of companies, neither the business nor the sustainable development case outlined above are strong enough alone to provide any real incentive at present. Many companies would not accept the basic premise of corporate citizenship or perceive any downside from their current approach, particularly if their impact on human rights is indirect or not obvious and their financial performance is good. Under these circumstances, such companies neither experience external pressure to change, nor develop the necessary internal impetus. Rather than continuing to rework the business case, a stronger argument might be to encourage companies to look at its competitors actively pursuing more ethical business practices. A company's competitors are its peer group and, "corporate example is frequently a more potent influence on other companies than NGO preaching"[4].

It is partly with this aim in mind that this report was undertaken. The report gathers together the experience of eight companies, across a range of sectors that have invested resources in addressing their human rights impact. The report is based on research and interviews undertaken between December 2003 and April 2004. Some case-studies focus on a specific project or policy area that is relevant to the company and where significant progress is being made. Others offer a more general overview of the company's human rights related policies and approach. The main objective of the report is to provide a corporate readership with information, not only on what policies and management systems are in place, but also how they were achieved. By taking stock of good practice and the challenges currently faced by companies leading the application of corporate responsibility principles, it is hoped that this report will foster debate about how to make progress at the implementation level, both for companies that have begun to look at their corporate responsibilities in a broad context and for those that have yet to join the circle. ■

Juliet Hepker
and Andrew Newton

1 CSR Europe (October 2003) Q&A session on UN Norms on the Responsibility of Transnational Companies with Sir Geoffrey Chandler, Professor Klaus Leisinger, Professor Alan Miller, Chip Pitts, Sune Skadegard Thorsen. [www.csreurope.org/whatwedo/unnorms_page5097.aspx]

2 UN proposals to make multinational groups legally liable for breach of the Norms were discussed with member states on 15 March 2004. If accepted, this would shift the responsibility in international law for human rights away from government and onto companies for the first time in history. Business lobby groups are generally strongly opposed to this move.

3 www.business-humanrights.com

ABB

Company background

ABB has undergone considerable structural change in recent years. Since the late 1990s, ABB has moved out of the energy generation business and divested diverse interests in insurance, banking, cogeneration and hydropower. The Oil, Gas and Petrochemicals division is also slated for divestment. In 2002 ABB streamlined its divisional structure to focus on two core businesses: Power Technologies and Automation Technologies. ABB now focuses on the provision of infrastructure that carries energy from producers to consumers, particularly electricity

In 2002 many analysts were predicting that ABB was on the brink of collapse, due to the asbestos claims made against its US subsidiary Combustion Engineering. A settlement reached last year enabled the company to draw a line under the asbestos drama.

The ABB Group was formed in 1988 when the Swedish ASEA and the Swiss BBC Brown Boveri merged under the name ABB. The company has its headquarters in Zurich, Switzerland and employs about 140,000 people in more than 100 countries and 600 facilities.

About this case-study

ABB has a direct role in human and economic development arising from the nature of its business, providing electricity infrastructure. In 2002, ABB launched its Access to Electricity Initiative to speed-up electrification in poor rural areas in developing countries. This Initiative provides the focus of the second part of the case-study.

First, the case-study considers ABB's human rights' impact and the emergence of human rights on the company's formal corporate agenda in 1999. It goes on to discuss the development of a Sustainability Affairs function which incorporates management of both the company's environmental and social performance. The creation of a Corporate Social Policy through a series of stakeholder dialogues; and the implementation of that policy through training and internal and supply chain management are then examined.

ABB's human rights impact

Human rights impact of former hydro-electric division

ABB's former hyrdo-electric division aroused the strongest criticism from a human rights perspective. In the 1990s, the ABB Group faced sustained campaigns by environmentalists and human rights advocates against its involvement in various hydro projects, notably the Three Gorges Dam in China and the Bakun Dam in Malaysia. The main human rights issues relate to the forced relocation of indigenous people – 1.3 million in China and 10,000 in Malaysia. ABB argued that dams offer a cleaner alternative to highly polluting coal-fired power stations.

Following the successful campaign against the Bakun dam, several NGOs[5] commissioned a report in 1997 to review the long-term financial viability of ABB's power sector strategy. Entitled High Risk-Low Return, the report forecast a shrinking hydropower market for companies such as ABB due to social and environmental protests and a lack of private and public finance. The NGOs ensured that the report's findings were circulated to key ABB analysts, major ABB shareholders and financial journalists and mounted a shareholder resolution at ABB's 1998 Annual General Meeting. Partly as a result of this pressure, and partly on the basis of an overall market analysis, ABB decided to sell its hydropower division in March 2000.

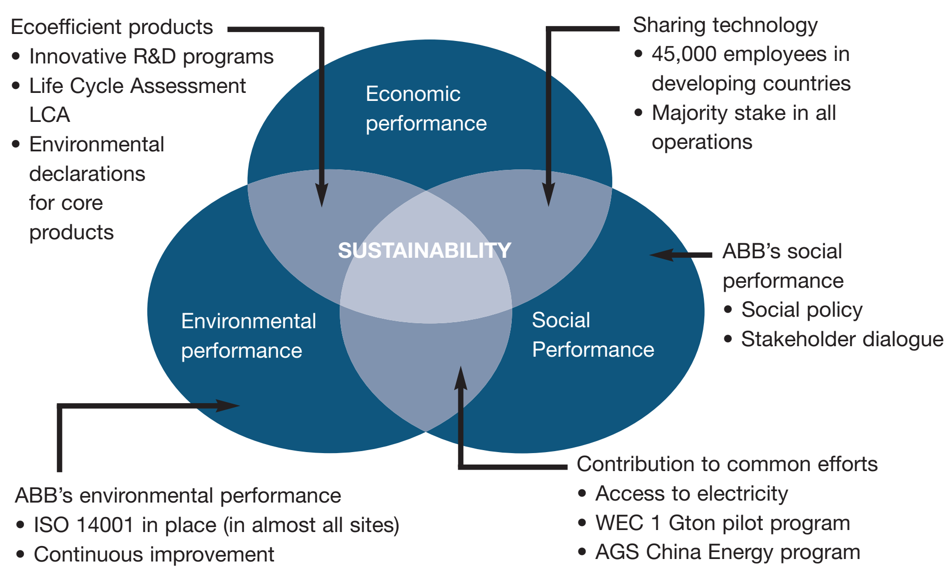
Priority human rights issues

In 2001-02 ABB conducted multi-stakeholder dialogues throughout the organisation to evaluate the company's social policy and identify which issues it should focus on. The three priority issues identified were:

Health & safety
Diversity
Supply chain management

Since then, ABB has carried out most work on health safety and some work on supply chain management. No significant measures have been taken to encourage greater diversity as yet.

How ABB supports sustainability



5 The Berne Declaration, a Swiss NGO, and the Swedish Society for Nature Conservation (SSNC) were amongst the organisations that campaigned against the Bakun dam.

Human rights impacts of core business
ABB's divestment of its hydro-electric division removed a key aspect of ABB's potential impact on human rights. However, ABB continues to have a direct role in human and economic development arising from the nature of the business, providing electricity infrastructure. This is discussed in greater detail as the 'focus topic' of this case-study.

Historical background of ABB's engagement with human rights

As a Swiss and Swedish company, ABB assert that they come from a culture of corporate responsibility. With a highly decentralised business model, different countries of operations were engaged in social issues independently of one another until 1999 when ABB decided to develop a company-wide social policy. A driving force, according to executives at ABB, was the personal interest of CEO Goran Lindahl (1997-01) who had many years experience working on infrastructure projects in developing countries in Latin America and Asia. Mr Lindahl took a leading role in the Global Compact in the late 1990s as special advisor in charge of recruiting corporate participation. He set the course to develop a social policy, the obvious missing piece in ABB's approach.

In 1999, ABB conducted a study in six countries (Brazil, China, Egypt, Poland, South Africa and Switzerland were selected as a representative sample of ABB's operations) to uncover what social initiatives the company was involved in the different countries. The study assessed engagement in social issues at three levels: among employees and families, in the local community and in society at large. The studies, particularly in Brazil and South Africa, found that social programmes were already underway which covered aspects that were later included in the company-wide social policy.[6] Managers at corporate centre realized they were not starting from scratch but continuing a natural progression: "We were knocking on open doors", recalls ABB's Head of Sustainability Affairs Christian Kornevall.

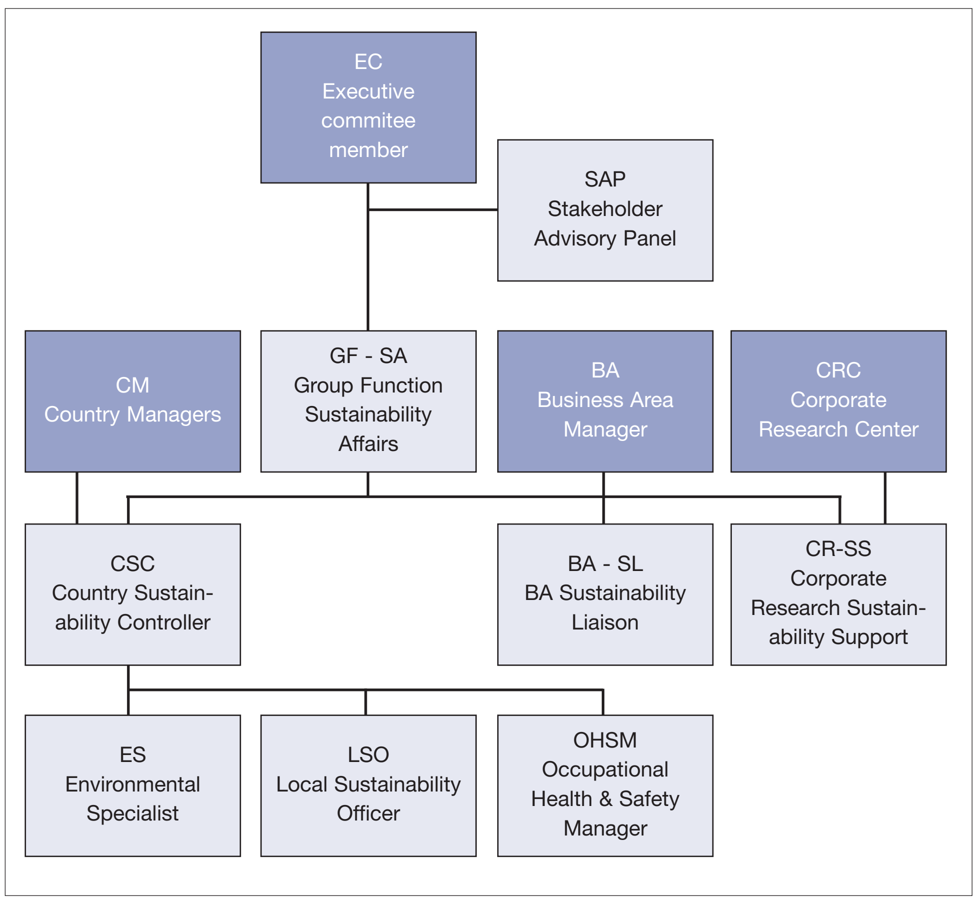
Management structure

After taking part in the creation of the World Business Council on Sustainable Development at the Rio Earth Summit in 1992, ABB's then CEO set up an environmental affairs organization to manage ABB's environmental impact. In 1993 thirty-eight countries participated in the launch of an environmental management program, with a network of environmental controllers appointed for countries and factories. Over the next few years, ABB developed the environmental management programme, and in 1996 adopted the IS0 14001 environmental management standard.

With an environmental management network already in place, ABB was able to incorporate management of social issues from 1999 without major structural changes or assistance from external consultants. "We could reach into this environmental network and turn it into a sustainability network without too much of a problem", says ABB's Head of Sustainability Affairs Christian Kornevall. There are now 500 people working in Sustainability Affairs in total, though not all full-time - largely, they are ABB quality or production engineers, or health and safety officers, who have sustainability as an additional function.

Today, South Africa has become ABB's most advanced national operation in terms of sustainability. "There is something about the environment here that makes it logical that this should be the case. With the transition to democracy, perhaps the South Africans have been able to really appreciate what is important, to adopt a holistic approach to development, the environment and people", suggest Mr Kornevall.

Group Function - Sustainability Affairs
At the heart of the organisation is the Group Function - Sustainability Affairs which governs ABB's whole sustainability management programme, including environmental, social and health and safety



6 Details of the findings of the studies are included in ABB's Sustainability Report 2000.

matters. The team coordinates group-wide common effort programmes with a present focus on "Access to Electricity," and commissions auditing programmes to verify the ABB Group is in compliance with its sustainability commitments

Stakeholder Advisory Panel

The Stakeholder Advisory Panel is a top-level panel of independent experts, meeting once or twice a year, or on demand, to offer objective advice on ABB's sustainability management program and on sustainability issues relevant to ABB's activities. The Panel is chaired by ABB's CEO or by an Executive Committee member. It replaces the previous Sustainability Advisory Board (1992-2001) and has the advantage that members are selected ad hoc for each meeting according to their individual specialities to address the particular topics for discussion. "We wanted to move from an old-style advisory board to a more flexible, high-level stakeholder discussion" explains the Head of Corporate Communications, Bjorn Edlund. Attending the stakeholder panel held in 2003 were representatives from the ILO, World Business Council on Sustainable Development, World Conservation Union (IUCN), Amnesty International Business Group, IMD (a Swiss business school), plus one major customer and one major supplier. Thus only non-financial stakeholder groups were included. The topic of discussion was ABB's sustainability report which had been sent out in advance. For the 2004 Panel, ABB is considering taking up one or two specific issues, possibly the company's Access to Electricity initiative (see box) or aspects of supply chain management.

Country Sustainability Controller

At the country level is the Country Sustainability Controller (CSC), previously just the environmental controller. There are a total of 46 country sustainability controllers responsible for establishing and communicating ABB's social and environmental policies, programs and procedures to all facilities within their countries. It is up to the CSCs, for example, to develop country-specific education and training programmes. They also commission independent social and environmental audits, and prepare performance reports. This information, stored in a database, is the foundation of ABB's reporting system.

The work of the Country Sustainability Controller (CSC) begins with a business plan sent from headquarters laying out a framework of objectives and activities to pursue in the environmental, social and communications fields. Based on this framework, the CSC draws up a plan relevant to his country, including details of resource requirements and at least one stakeholder dialogue meeting similar to that at corporate level. The CSC would typically work with a colleague in Human Resources or the Communications Controller, and also with people in production in the factories. Once the plan is agreed with headquarters, the Country Manager takes on responsibility for meeting the sustainability objectives which are then incorporated into his annual pay-related performance objectives.

These plans are drawn up on an annual basis with a review after six months. All the information is stored on computer to make it easier for auditors to verify the sustainability report later on.

Policy development

Creating a corporate social policy

External feedback prompted ABB to begin developing a corporate social policy. The company came first in its industry in the Dow Jones Sustainability Index in 1999 but the result also sparked ambition to develop a social policy, an aspect not covered by the Index. As a highly decentralised company, ABB had neither a company-wide social policy nor systems for recording relevant data, such as health and safety. As the company was already in the process of transforming the environmental network into a sustainability network, developing a written social policy and systems for monitoring performance seemed logical further steps.

To carry out this project Mr Kornevall put together a steering committee comprising the heads of the respective Group Functions – Human Resources, Corporate Communications, Sustainability Affairs, Supply Management and Legal and Compliance. They first carried out a quick benchmark of other companies' social policies. This included Shell, known to be working on social issues, several companies in Scandinavian countries considered forward-thinking on social matters and companies in Switzerland because this is where ABB is based. Ongoing discussion with the newly formed Global Compact was a source of guidance, but the team had no help from external consultants: "Actually, we're quite proud of dreaming up the policy ourselves", says Mr Kornevall. He is quick to add that managers on the team did have relevant experience.

A year later in early 2001, the team agreed on a first draft of the social policy. It included thirteen principles which define the company's standards and goals. The principles were drawn from four sources: the United Nations Universal Declaration of Human Rights, the International Labor Organization's fundamental principles on rights at work, the OECD Guidelines for Multinational Enterprises, and the Social Accountability 8000 (SA 8000) standard. There was some difficulty in narrowing down the number of principles to thirteen but on the whole, the process ran smoothly.

This first version of ABB's social policy was endorsed by the executive committee and published in February 2001 to stand alongside ABB's environmental policy, itself nearly a decade old. Simultaneously, ABB launched a programme of stakeholder consultation to evaluate the policy.

Launching stakeholder dialogues

Since the first of the policy's 13 principles is a commitment to open dialogue with stakeholders, it seemed fitting to use stakeholder dialogue to evaluate the policy. "It was as quite clear that if we believed in interacting with society around us we would have to ask them what they thought about the social policy", says Head of Corporate Communications Bjorn Edlund. Managers also recognized the danger of "dreaming something up" in meeting rooms at headquarters that is irrelevant or simply ignored by the rest of the company.

The 34 countries where stakeholder dialogues were held were selected to represent as diverse a range of culture, geography and development as possible. Key local managers – the communications manager, country manager and sustainability manager – were sent an instruction package. This included information about how to structure a panel, the kinds of issues to talk about, how to monitor the discussion and what to report back on. Further input was also expected to come from one-to-one meetings, emails and letters.

Two rounds of stakeholder dialogue have been held to date. At the first round in 2001, participants were asked to focus discussion on two main areas: First, does the social policy cover all the issues it should? What should be added and which issues are most important? And how do we put the social policy into practice? How can we measure compliance and progress? After the first round of dialogue, most countries proceeded to a second round, in which they were asked to identify the principles that should have the highest priority in their country and those where ABB was most vulnerable to criticism.

ABB employees, including senior managers and operational staff, were always involved in the dialogues. An average of three external stakeholder groups were represented at each meeting. The most common format was a roundtable discussion of between half and a whole day, with an independent facilitator.

The format of dialogues was very different in some countries due to cultural differences. In Asia, for example, dialogues were held on a one-to-one basis which seemed strange to management at corporate level until local managers explained that stakeholders would not express their views in a roundtable discussion. In Austria, a large venue was hired and employees were invited to watch the stakeholder representatives hold a debate up on a stage. In Poland, dialogues were held in every factory and some at the university. Due to the implications of the word "social" the word ethical was used instead. In the UK, the dialogue was run by a professional facilitator and very formal.

Revising the corporate social policy

ABB found its experiment in stakeholder dialogue on a global scale to be highly valuable. The comments on the social policy itself will serve as the basis for a second version of the policy to be published in 2004.

The social policy is group-wide and, in line with the consensus view expressed at the stakeholder dialogues, is not adapted to local conditions.

Implementation, measurement and reporting

The steering group responsible for developing ABB's social policy, chaired by a member of the executive committee, also laid the foundations for implementing the policy and producing guidelines.

Task-forces develop implementation guidelines

ABB's stakeholder dialogues also attracted a number of comments on implementation, measurement and reporting as a result of which the company has initiated several projects. ABB has put together task-forces of managers to develop guidelines on how each principle should be implemented. To date, guidelines have been produced for roughly 8 of the 13 principles. A few guidelines on the human resources side have been postponed until ABB's new Head of Human Resources completes some planned changes.

Task forces are put together on the basis of which country or individual manager has taken a particular interest in the issue, or according to the relevant function in the company (see diagram above). Hence the guideline for the principle on business ethics was assigned to a team in ABB's Legal and Compliance department who have developed a workshop. The guideline for the principle on suppliers was assigned to a team in Supply Management and Sustainability Affairs. The principles on ABB in society, human rights and community involvement are being covered by one task-force, comprised of a manager from headquarters and representatives from Brazil, France and Sweden who have a strong personal interest.

The guidelines are developed according to a set format, starting with an explanation of the principle to which the guideline refers, followed by the rules for implementation and key performance indicators. The depth of the guidelines will vary – health and safety, for example, will require a substantial set of documents. For human rights, ABB would like to incorporate the UN Draft Norms and, as part of the Respect Europe initiative discussed below, is currently working on turning the Norms into an implementation guide.

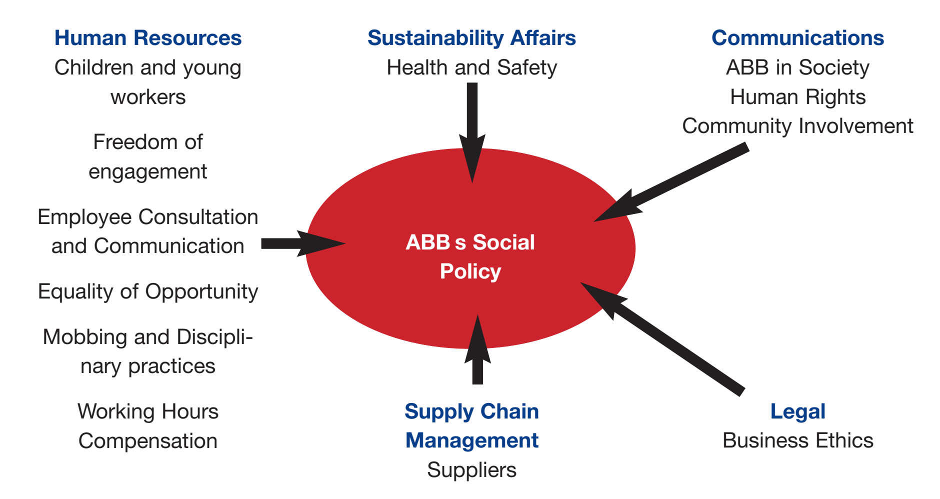
The guidelines are still in the process of being developed. They are purely an internal working document and will be made available on the Intranet. No formal training will be carried out on the implementation guidelines.

Role of the Country Sustainability Controller

ABB's Country Sustainability Controllers (CSC) coordinate implementation. In 2002 ABB conducted a series of 12 regional meetings to appraise and train the company's controllers in this role.

Based on a framework designed by the Sustainability Affairs Function at corporate level, the CSC writes an annual plan laying out objectives, activities and tasks in the environmental, social and communications fields. The plan must be relevant to the country and include details of required resources. The CSC is responsible for coordinating input from the different departments, including human resources, communications and factory workers. The

Social Policy Ownership



plan is evaluated by the Sustainability Affairs Function at headquarters and once objectives have been agreed, they are incorporated into overall annual performance targets. Progress is reviewed after 6 months.

Training

ABB sees training as an on-going process that takes place primarily on the job rather than in a traditional classroom setting. There are four main ways ABB employees are trained in social issues which include, but are not specific to, human rights.

Awareness of social issues is raised through the Sustainability Report which follows the triple-bottom-line framework articulated by the Global Reporting Initiative. This annual report was first published in 2002. It is translated into 22 languages and available on the Internet and in hard copy. ABB stresses that the report is not just for external use, but also serves to raise awareness and embed social values within the company.

The Country Sustainability Controller (CSC) reports annually on the division's performance and impact on social issues. The feedback loop between the Sustainability Affairs Function at corporate and local levels forces country managers to be addressing social issues continuously.

Implementation guidelines are currently being developed and will be available on the Intranet.

The only formal training on social issues is carried out by Country Sustainability Controllers for Local Sustainability Officers who need to learn about local laws and requirements.

Managing the supply chain

ABB estimates that it has roughly 9000 key suppliers. In 2001, there were systems in place to check suppliers' environmental and quality standards, but to incorporate social standards was an entirely new challenge. "We hadn't started to address social issues and the supply chain in a systematic way", recalls Mark Slater in Sustainability Affairs at ABB. He was responsible for benchmarking adidas-Salomon's supply chain management in China as a best practice example of how to integrate sustainability into the Supplier Qualification Process (SQM). The advantage of a benchmarking study, explains Mark Slater, is that it means you don't have to reinvent the wheel and it makes it much easier to convince operational managers of the steps the company should take. Adidas-Salomon is the world's second-largest sporting-goods company and outsources production to 570 factories worldwide, many in the developing world. It has made considerable progress in supply chain management and is ranked top in its sector by the Dow Jones Sustainability Index.

ABB's benchmarking study was a three-part process. It involved initial talks with regional managers and the head of sustainability at Adidas, providing "a chance for us to ask questions" says Mark Slater. This was followed by a week-long site visit of twoof Adidas' supplier factories in Southern China to see how things are done practically. Finally, running parallel to the study of Adidas' management systems, ABB analysed its own processes with suppliers to identify where interventions could be made.

The study revealed a number of areas where ABB can learn from adidas-Salomon to ensure suppliers meet the required standards. These include training buyers, communicating social policy standards to suppliers and helping suppliers audit their performance. ABB has incorporated social performance criteria, including human rights performance, into its Supplier Qualification Process (SQP) requirements which follow the EFQM Excellence Model standard.[7] In 2002 ABB produced guidance materials for supply managers and a standard training package for buyers. The company also conducted a more detailed briefing for the core supply management team, comprising a Supply Manager from each country.

In 2003, ABB began to consider how to identify and ensure sustainability criteria are met by existing suppliers. It conducted a pilot assessment process with two other German companies looking at how to apply relevant tools to overseas procurement. The pilot project was completed within the year and ABB is currently examining the results.

ABB identifies two key challenges in its supplier management. First, "People in the business are saying you need to be prescriptive, for example, don't invest in Myanmar", says Mark Slater. "What you really need is for the supply chain process to live in the business." One conclusion from last year's pilot is the need to train supply and quality managers in social and environmental issues to embed a sustainable approach, particularly as ABB is aware that it cannot afford to have big assessment teams. A second key challenge is how to prioritise the risk presented by different suppliers. Some suppliers, such as Mercedes, present a far lesser risk than others and the challenge is how to reflect this reality by building weightings into the SQM. ABB is working on questions such as "Are you signed up to the Global Compact?" to differentiate the risk presented by suppliers.

Key performance indicators

ABB was criticized because the indicators used in its earlier report focused on employee issues. The only external social indicators were the number of stakeholder dialogues and the amount spent on charitable donations. Since then, the scope of ABB's reporting indicators has expanded to include many of the new indicators proposed by the Global Reporting Initiative. ABB is against using reporting indicators that are not in the GRI on the basis that only by using a common set of social indicators is it possible to make comparisons across companies, creating a useful element of competition.

Each set of implementation guidelines currently being developed will be backed up by performance-measuring indicators.

Focus – Access to Electricity Initiative

Access to electricity in the context of human rights

Electricity is an important factor in social development and the fulfilment of human rights. More than 1.6 billion people have no access to electricity - 99% of these are in developing countries, mainly India and sub-Saharan Africa. Four out of five of those living without electricity are in rural areas. These people are dependent on traditional fuels such as wood, often failing to provide for basic human needs of nutrition, warmth and light, let alone the

7 EFQM is a not-for-profit membership foundation which directs the European Quality Awards which recognises organisational excellence at four levels.

possibility of harnessing energy for productive uses which might begin to permit escape from the cycle of poverty. ABB has developed an Access to Electricity initiative to grow its long-term business engagement in the least developed countries, and contribute to the electrification of poor rural and semi-urban areas. The initiative, still in its infancy, is examined in greater detail below.

Launch of the Initiative

In early 2002, ABB began working on an Access to Electricity initiative in response to the UN Global Compact's appeal to its corporate signatories to contribute to economic growth in the world's least developed countries. Through this initiative, ABB will take part in projects which will contribute to the speed-up of electrification in poor rural and peri-rural areas, and to a more reliable supply of electricity in many rapidly expanding activities in the developing world.

The initiative was not long on the drawing board before its official launch at the World Summit in late 2002. The idea originated in ABB's Sustainability Affairs function. In March 2002, ABB held a series of discussions with internal ABB stakeholders to see if they thought the idea was feasible. In May the chief executive Jörgen Centerman endorsed the project and in June he officially launched Access to Electricity at ABB's Sustainability Day in London. In the same month ABB held a series of discussions with NGOs, the World Bank and other development agencies.

A new business model

Following the launch of the initiative at the World Summit, ABB spent nine months developing a White Paper examining the link between rural electrification and poverty and setting out ABB's approach.[8] The Executive Committee examined the Initiative "under normal business conditions", says Christian Kornevall. That is, as well as providing a social function, the Initiative is expected to be profitable, though not to the extent of a normal project. This is part of a conscious effort by ABB to develop new business models for developing countries which are both profitable and contribute to social advancement. In the context of electrification programmes, the approach supports the findings of a World Bank report that: "Contrary to a widespread belief that electricity tariffs need to be extremely low to benefit rural people…cost recovery is probably the single most important factor determining the long-term effectiveness of rural electrification programs".[9]

A 'common effort'

ABB terms the Access to Electricity Initiative a 'common effort' because it is a multi-stakeholder partnership including other companies, NGOs and development agencies. In carrying out the Initiative in Tanzania, ABB is working with public and private sector organisations as part of the United Nations Development Programme's (UNDP) Growing Sustainable Business Initiative. This is part of a strategy to work on a smaller number of more significant projects, moving away from the "old ABB" style of the 1990s when a series of micro-projects left no discernable legacy. The UNDP is putting together a steering committee to oversee the progress of the Initiative and coordinate the various business/development-oriented project teams. In November 2003, ABB and UNDP co-arranged a multi-stakeholder workshop called "Growing Sustainable Business for Poverty Reduction in Tanzania", attended by 70 participants.[10] The workshop was a first step in bringing together public and private interests to get the initiative underway.

As at March 2004, ABB had built a generator for the village. As a next step now that a generator is in place to fall back on, the company will conduct a feasibility study to explore a more environmentally sustainable wind power solution. According to the WWF, ABB's partner on the project, the decision to have a wind power solution will ultimately be made by local villagers and the local project team. This bottom-up approach is intrinsic to the initiative and ABB's broader strategy to foster new business models for use in the developing world.

WWF International confirms that local ABB managers are stimulated by the project and show lots of goodwill and motivation - a key general feature of effective partnership as it allows the project to develop a life of its own within the framework of a global collaboration. However, WWF also points out that the enthusiasm of ABB's Sustainability Function is not necessarily shared throughout the company: "Bits of the company are proactive and others don't want to hear anything." The problem is perhaps that sustainability or corporate responsibility departments are still commonly considered as cost rather than profit centres and managers have to argue their case within the company. Individuals in NGOs are known to face similar difficulties within their organisation with regard to forming partnerships with business. In the end, "Both sides have to stick their necks out", says WWF.

ABB is also involved in the 100 Villages Project in Botswana, which is bringing electricity to 100 rural communities in that country. In Uganda, ABB is looking to develop a project to fit in with a World Bank scheme which includes other human-rights related projects, such as an HIV/AIDS treatment programme. This is in line with current thinking that to be sustainable, rural electrification should be part of broader development programmes such as those concerning water, roads, health and education.

Analysis and conclusions

In the last five years, ABB has redefined and repositioned itself to concentrate on a more streamlined business. Once a conglomerate, ABB's activities are now focused on the provision of energy infrastructure, particularly for electricity.

ABB's decision to sell its hydropower division in March 2000 was significant in removing the most sensitive human-rights related aspect of the company's operations. Human resources and the supply chain remain key channels through which ABB impacts human rights.

ABB has made considerable progress in its approach to human rights by establishing a Sustainability Network to address not just environmental but social issues, and developing a Corporate Social Policy

8 The Access to Electricity White Paper is available on ABB's web site.

9 Barnes and Foley, Rural electrification in the developing world: Lessons from successful programs, World Bank Infrastructure Knowledge Base on the Internet.

10 Details of the meeting can be viewed on-line at http://www.tz.undp.org/GSB_pub.html.

through an extensive multi-stakeholder consultation process. The case-study examined key implementation mechanisms, notably the role of Country Sustainability Controllers and the task forces currently developing implementation guidelines.

In 2001, ABB launched its major human rights related initiative - the Access to Electricity Initiative. The initiative is part of a broader strategy to foster new business models for the developing world which are both profitable and fulfil a development objective.

According to the WWF, an organisation which has worked in partnership with ABB, "While other companies make an intensive effort for a short period, then leave it for a while and have to come back to it, ABB plods along slowly but persistently…it is definitely moving forward". ■

Anglo American

Company background

Anglo American Corporation was founded in 1917 by Sir Ernest Oppenheimer with authorised capital of £1 million, chiefly raised from UK and US sources – hence the company name. The Group is today one of the world's largest mining and natural resource companies with operations in 61 countries in Africa, Europe, South and North America and Australia. In 2002, turnover amounted to $20,497 million and financial profit to $1,563 million.

Anglo American extracts, processes and distributes various materials through eight independent divisions: Anglo Gold, Platinum, Coal, Base Metals, Industrial Materials, Ferrous Metals, Paper and Packaging and De Beers. The company has an internationally diversified exploration programme and a variety of non-core industrial interests including manufacturing, sugar, starch and glucose products. These operations are predominantly located in South Africa and the US.

About this case-study

Anglo American was among the first companies to consider HIV/AIDS a management issue, particularly in South Africa were nearly a quarter of the company's workforce is HIV+. Anglo first began to develop an HIV/AIDS prevention and management programme in South Africa in the late 1980s. In 2002, Anglo extended this programme to include anti-retroviral therapy for employees and this year the company's focus is to widen access to treatment to dependants, contractors and communities through a cross-sector partnership.

The first part of this case-study briefly considers the development of Anglo American's overall Corporate Citizenship principles, and their implementation at both the Group and local levels. Anglo's recently developed Socio-Economic Assessment Toolbox (SEAT), designed to assist mature operations that have not previously conducted a social impact assessment, is considered in more closely.

The second part of the case-study focuses on Anglo American's groundbreaking HIV/AIDS strategy in South Africa. The development of the policy from the late 1980s, the six stage implementation process, costs and key performance indicators are covered in detail.

An overview of Anglo's approach to managing human rights

Good Citizenship Principles

The Anglo American "Good Citizenship" principles set out the Company's view about the rights and responsibilities of international companies and how it aims to conduct its businesses in a responsible and sustainable manner. The principles cover a broad range of issues, including an explicit commitment to the Universal Declaration of Human Rights. The decision to commit to these standards was prompted by a perceived need for consistency across the Group's eight stoutly independent business units, as well as the desire to be explicit about company values following the Group's restructuring process from 1999. "We could no longer assume that people would absorb by osmosis the company's core values. We needed something that was broader, more comprehensive, that would tell people what kind of Group they were working for", explains Mr Bickham.

The Good Citizenship Principles were developed internally over a 21-month period from late 2000 and are reviewed every three years. The process began with general discussion in the Executive Committee and benchmarking was carried out across the business units. In June 2002, a workshop of 50 managers from across the business units met to offer their input on what the principles should be. The workshop was facilitator-led, and the format was open discussion based on a questionnaire handed out previously. On the basis of discussion at the workshop, a first draft of the principles was written and sent to divisional heads to be evaluated. A revised draft was sent back to the board and approved in late 2002.

Engagement at the group level

In every business unit, a Business Principles Coordinator acts as the point of contact for the corporate centre on sustainability issues, including human rights. The Business Principles Coordinator oversees the annual divisional Letter of Assurance, the key compliance mechanism.

Engagement at the local level

During 2002, Anglo American adopted Community Engagement Guidelines and, at a local level, nearly every managed operation has put in place a three-year rolling Community Engagement Plan.

Anglo has also developed a methodology called the Socio-Economic Assessment Toolbox (SEAT) to assist mature operations that have not previously conducted a Social Impact Assessment to review and manage their positive and negative impacts.

The SEAT process is intended to help operations benchmark and improve the management of their local social and economic impacts. It mirrors the basic structure of the more comprehensive Social Impact Assessment (SIA) but in contrast to the SIA which is mandatory for all new operations and a major expansion, SEAT is directed at mature operations and is voluntary. It is designed as a tool for managers (with external support if necessary) to improve social performance. The three pilots carried out to test the process required the equivalent of eight weeks of a person's time over a three month period. A summary of the SEAT methodology is illustrated below.

Stage / Step	Associated Tool
Stage 1 - Profile the Anglo Operation & associated communities and identify key issues	
Step A. Profile the Anglo American operation	A1 Pro-forma operation profile
Step B. Profile the community and dialogue with key stakeholders to identify key issues	B1 Stakeholder identification & gap analysis B2 Building a basic community profile B3 Overview of potential issues & possible causes B4 Guidance on potential approaches to consultation B5 Overview & guidance on baseline data collection B6 Summary of issues raised by stakeholders & needs identified
Stage 2 – Identify & assess social and economic impacts & share results of the assessment	
Step C. Identify and assess the social and economic impacts of the Anglo American operation, and assess existing management measures and social investment initiatives	C1 Identifying Anglo activities that are resulting in social & economic impacts. C2 Assessment of issues raised during consultation C3 How to calculate an operation's value added C4 Inventory of all payments made to public sector C5 Calculating total employment generated by an operation C6 Identifying & evaluating existing community social investments C7 Guidance on assessing performance in relation to corporate level policies
Step D. Share results of impact assessment with stakeholders and get recommendations for management of issues	D1 Sharing results of SEAT process with stakeholders
Stage 3 - Develop Management responses to key issues, including planning for eventual closure	
Step E. Development of a management and monitoring plan for key issues, including formulation of KPI's	E1 Developing a management & monitoring plan E2 Developing local KPI's
Step F. Improve the implementation and contribution of non-core activities	F1 Increasing local procurement & outsourcing to support local business development F2 Establishing new community social investment initiatives F3 Developing human capital F4 How to set up partnerships
Step G. Post closure planning	G1 Guidance on closure / planning for the future
Stage 4 - Report the results of the assessment	
Step H. Prepare SEAT report and feedback to community	H1 Pro forma report template

Focus – HIV/AIDS strategy in South Africa

HIV/AIDS in the context of human rights

HIV/AIDS has clear implications for human rights. The impact of the epidemic relates primarily to sub-Saharan Africa, where 70% of the global population living with the virus resides (roughly 43 million globally). Approximately 3.2 million new infections occurred there in 2003, while the epidemic claimed the lives of an estimated 2.3 million Africans in the past year. Ten million young people (aged 15-24) and almost 3 million children under 15 are living with HIV. Countries like Lesotho, Botswana, South Africa, Swaziland and Zimbabwe have the highest HIV prevalence rates in the world.

The epidemic is having an impact on nearly every aspect of life in southern Africa. The region is faced by unimaginable personal suffering, a major decline in life expectancy, a great loss of both skilled and unskilled labour, rising costs of health care, social and economic disruption at the family and community level. Some even consider HIV/AIDS a threat to political stability.

Companies and HIV/AIDS

Companies are obviously not responsible for the spread of HIV/AIDS but are faced with significant costs associated with it. These include the loss of productivity from low morale, absenteeism and early retirement and the costs of providing pensions benefits and recruiting and training replacement staff. In light of these devastating impacts, a few companies are beginning to take on a role in prevention and treatment.

The extent to which a company engages in these efforts is partly determined by how badly it is affected. Roughly one in five of the world's largest companies have workplace policies and programmes on HIV/AIDS. There is, however, a wide variation in the specific HIV/AIDS prevention and mitigation aspects of policies and programmes, and differing coverage provided to employees and their dependents.[11]

Anglo American and HIV/AIDS in South Africa

Anglo American employs about 125,000 people in South Africa and estimates that as many as 24% of them are HIV positive – approximately 30,000 employees. "HIV/AIDS is without question the most significant social issue Anglo-American is facing in southern Africa" says Edward Bickham, Executive VP for External Affairs.

Research has shown migrant labour to be a particularly high risk group in the contraction and spread of HIV/AIDS. As a mining company, Anglo American employs a high proportion of migrant labour and some divisions of Anglo American are taking steps to mitigate the worst impacts. Anglo Coal, for example, has converted single sex hostel accommodation into family units and given every employee the choice about whether to accept money to live independently or to opt for hostel accommodation. The majority choose hostels, which offer running water and all the basic amenities. Anglo American's Base Metals division employs no migrant labour whatsoever, partly because of a deliberate policy to abolish migrant labour (and partly because it is feasible to employ only local workers for base metal mines which are smaller than gold and platinum ones).

Anglo American 2002

	Employees	Estimated HIV Prevalence
Gold	45,000	28%
Platinum	45,000	25%
Coal	7,000	20%
Paper and Packaging	5,100	10%
Base Metals	4,200	16%
Ferrous and Industry	18,000	17%
Total	124,300	24%

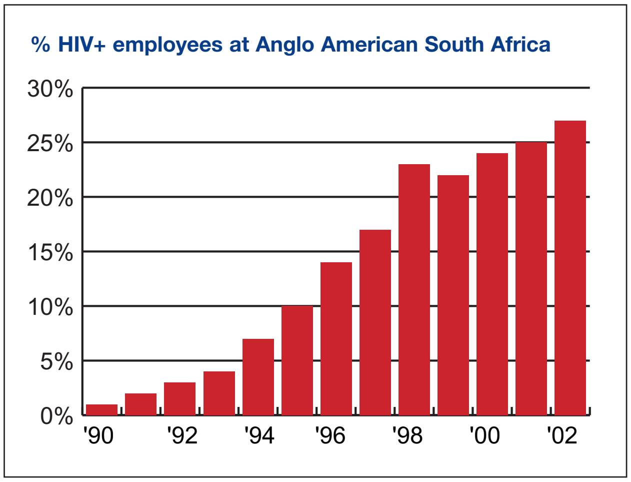
HIV/AIDS and the road to anti-retroviral treatment

According to the Chief Medical Advisor Dr Brink, Anglo American has provided its South African workforce with high standard health care services long before HIV/AIDS was an issue. For white-collar workers, private medical insurance was (and continues to be in part) provided by 'medical schemes' whereby the company and employee typically make equal contributions. For mining workers, the company provided health care through on-site hospitals "on a par with health services in the first world", says Dr Brink. Anglo was a pioneer in short-course treatment of tuberculosis, the most deadly illness before the HIV/AIDS epidemic with a particularly high prevalence in gold mines. These services were and continue to be essentially unlimited and available free of charge to employees (but not their dependents who must rely on national health services).

Until the early 1980s, the biggest health concerns in South Africa were tuberculosis and hepatitis B. "People thought HIV was a disease restricted to white homosexuals, not black South Africans", says the Dr Brink. In 1983 Human Immunodeficiency Virus (HIV) was identified as the cause of AIDS and awareness of the disease continued to grow. In response, in 1986 the South African Chamber of Mines carried out the first anonymous HIV prevalence test among the workforce. Although the infection rate was found to be less than 1%, Dr Brink recognized the dire potential consequences of the spread of the virus.

Anglo American South Africa was quick to make HIV/AIDS a management issue. In the late 1980s, an Aids Education Advisor was appointed to coordinate and assist with the development of HIV/AIDS prevention and management programmes across the business units. In 1993, the Aids Education Advisor produced Anglo American's first overarching policy on AIDS, a one-page document listing a number of straightforward but extremely progressive policy statements such as "HIV testing will not be a requirement for employment". The strategy for dealing with the virus at that time focused on awareness, education and prevention of infection amongst the South African workforce. Programmes were based on education, using a peer educator

11 Bendell, J. United Nations Research Institute for Social Development (UNRISD) (2003) Waking up to risk: corporate responses to HIV/AIDS in the workplace



approach, condom distribution and effective treatment of sexually transmitted diseases (STDs). Some community programmes were initiated, such as free diagnostic support and treatment for sex workers who are carriers of the virus. On the basis of the Group guidelines, each business unit developed its own policy, assisted by the Aids Education Officer and external consultants.

Despite these positive efforts, the rate of infection continued to increase and by 1999 the Group was forced into a major strategic re-think. The Aids Education Officer and Dr Brink combined forces in a report for the Executive Committee analysing the current situation and making recommendations. The report contained an HIV prevalence survey, a discussion of the social and economic impacts of the virus challenging management to conduct a more formal assessment, and a list of recommended interventions. An important recommended intervention was to identify the key positions in the business unit, often the more technical jobs, and develop a back-up plan in case that person became disabled. This usually involved training to ensure that employees were multi-skilled and able to fill in for one another.

The report of the Chief Medical Adviser and Aids Education Officer met an audience of senior managers among whom several already had a strong personal interest in the HIV/AIDS problem. Chairman Gavin Relly had initiated a $7 million medical project at Harvard University examining chrystalline CD4 as a potential cure, and another member of senior management Clem Sunter, was writing a book entitled "AIDS: The Challenge for South Africa" that would be published the following year. Thus in response to the report, the Chairman responded by sending out a letter to all operations in the Group requiring them to carry out these interventions and set up reporting procedures. Decisions regarding how to implement these interventions were left to senior managers in each operation who could work with the Aids Education Advisor or employ external consultants. The human resources department and, in light of the costs of HIV/AIDS programmes, the financial department were also involved.

Still the infection rate increased - to 23% by the end of 2001 - and the company had to confront the continued (relative) failure of its strategy. Traditional information about HIV/AIDS was proving to be a necessary, but insufficient ingredient for behaviour change. It was becoming too late to focus solely on prevention and for the first time, Anglo American began seriously to contemplate the provision of anti-retroviral therapies for its staff in South Africa. This, in the view of the company's Chief Medical Adviser, Dr Brink, was the one step which would provide a real incentive for people to want to be tested and to confront their HIV status and the key to challenging denial and stigma. There were, however, several obstacles to the provision of ART. Drug prices were still high and the treatment programme was at the centre of a political storm. Some believed that the drug regimen was too complex and employees wouldn't stick to it. Others were concerned about the toxicity of the drugs and ethical issues, such as continued access to treatment in the event of an employee being dismissed or retrenched.

To test the feasibility of ART, the company considered conducting a pilot study of 1200 employees across its operations in South Africa to be carried out by a fully-owned but independent research body called Aurum Health Research which had grown out of the Anglo Gold division. Unable to find a business partner, the Group sought alternative ways forward including an industry-wide approach with the Chamber of Mines. However, the Chamber of Mines would only agree to a much smaller study -400 people on 3 rather than 6 sites, most of which were Anglo American Group sites. Another concern about the pilot studies was that they would have had to run for some years before providing useful data

In July 2002, Anglo American returned to the issue with renewed urgency. At the AIDS Conference in Barcelona that year, new scientific information came through in support of ART. Anglo American's calculations showed that without some new intervention, almost a quarter of its workforce in South Africa would be dead within a decade. The company realized there would be some balancing financial savings from going down the ART route through slowing the loss of skills, reducing absenteeism, improving health and raising morale. Senior managers also understood that a human catastrophe was unfolding in slow motion around them, with profound implications for the stability and developmental opportunities of the communities associated with its operations. "While there certainly was a business case, any decision would ultimately have to be a leap of faith based on a view of the potential for companies to be agents for change. We realized we had to take the plunge", says CEO Tony Trahar. It was decided to contain costs and incentivise others to play their part by restricting treatment to company employees and not dependents.

In August 2002, Anglo American announced its decision to provide antiretroviral therapy to employees with HIV/AIDS. The immediate priorities were to develop clinical protocol, now available on the company web site, train medical staff and complete negotiations with drugs companies. It was understood that if people were to be well enough to work, they needed drugs with few side-effects rather than cheaper generics. The programme commenced in November 2002 and a full-time health economist was brought on board to monitor the impact of the company's interventions.

The focus for this year is to widen access to treatment to dependants, contractors and communities through a cross-sector partnership discussed in greater detail below. Here, Anglo American is not prepared to shoulder the burden alone. It has formed a partnership with an NGO, loveLife, together with the Nelson Mandela Foundation, the Henry J Kaiser Foundation and the Global Fund. The partnership aims to create a network of adolescent friendly clinics in six provinces where Anglo American has business units. The project will help the prevention push and establish the delivery infrastructure needed to support the planned roll-out of ART through the public health system. Anglo American's initial commitment to the project is $4.5 million but also expects to add to this the benefit of expertise from its business units and the use of its own medical infrastructure.

Implementation

The successful implementation of an HIV/AIDS policy depends on employees changing their behaviour and therein lies an enormous challenge that has so far defied the international development and medical community. Experts believe, however, that an important precondition is for the reality of HIV/AIDS to be brought down to an individual level by getting every sexually active individual to go for an HIV test. The problem is that a positive HIV test often means stigmatisation, discrimination and perhaps even death. A key aim of implementation is therefore to eliminate denial, stigma and discrimination by improving care for those who are HIV positive. Anglo American is trying to achieve this through wellness programes for HIV+ individuals. By offering a wellness programme, the company aims to encourage early diagnosis and get more people to come out with the fact that they are HIV positive - and that they can live with HIV.

Anglo American defines its key responses to the HIV/AIDS epidemic as follows:

- Elimination of stigma and discrimination on the basis of real or perceived HIV status
- Prevention of new infections
- Voluntary counselling and testing
- Care and support of employees infected and affected by HIV/AIDS
- Management and mitigation of the impact of HIV/AIDS.

Elimination of stigma and denial

The elimination of denial and stigma about HIV/AIDS underpins the implementation process. It is vital to create an environment where employees feel they can come forward for testing and face their HIV status. To achieve this, Anglo American has first made a commitment to confidentiality and non-discrimination. HIV infected employees are not obliged to inform management of their HIV status. Applicants for employment are required to pass a standard pre-placement medical examination but this does not include an HIV test, or indirect screening methods. The company works in cooperation with trade unions to communicate this policy. Second, the company attempts to "normalize" HIV prevention efforts by integrating them into other forums. These include training employees as peer educators, general well-being programmes and social events like soccer matches. An effort is also made to be creative in the way the facts are communicated to the workforce. Calendars, playing cards, T-shirts, caps and video material are all used in addition to the pamphlets and posters normally found in workplace settings. In all instances, information is provided in vernacular languages.

Prevention

To prevent the further spread of the AIDS epidemic, information and education programmes on HIV/AIDS are available to all levels of employees. These include:

- Behaviour based education and awareness
- Peer education and support
- Condom distribution
- Prevention and treatment of Sexually Transmitted Infections
- Paying special attention to the needs of the youth and focusing on high risk groups (sex workers, migrant workers, truckers)
- Preventing mother to child transmission of HIV

The initial HIV prevention programmes within the group during the 1980s, along with most prevention initiatives in both the private and the public sector, were conducted according to a biomedical model, with efforts focused on medical facilities attached to the workplace. Since then, the focus has moved from clinics and hospitals to the workplace itself with on-site education and training at all levels of personnel.

Recognizing that prevention and treatment efforts must also be extended to the communities from which workers originated in order to stop the spread of the disease, Anglo American has recently decided to work in partnership with local government and the NGO loveLife. (This is discusses in greater detail below).

Voluntary counselling and testing

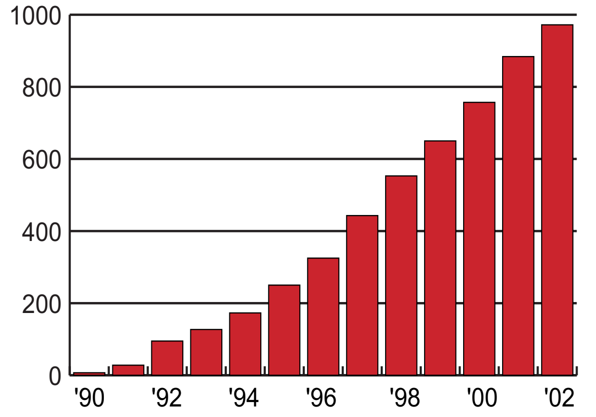
Anglo American provides HIV infected employees with access to support and counselling services, at the company's expense. Where these are not offered on site, Group companies must arrange for counselling and testing to be provided by approved HIV/AIDS counselling centres and / or outside agencies, including self-help groups and services within the local community.

Care and support

There is increasing evidence that early care and support improves the quality and length of life of people living with HIV/AIDS. The Wellness Programme is the cornerstone of care and support provided by Anglo American. The Wellness

Prevention	Link	Care and Support
• Behaviour based education and awareness • Peer education and support • Condom distribution • Prevention and treatment of STDs • Focus on youth & high risk groups (sex workers, migrant workers, truckers) • Preventing mother to child transmission of HIV	Voluntary Counselling and Testing	• HIV/AIDS Wellness Programmes • Community Home Based Care programmes • TB treatment and prevention • Social welfare • Nutrition • Income Generation • Orphans

No. Anglo American employees receiving ART



Programme aims to:

- increase understanding of the disease
- encourage a healthy lifestyle
- offer nutritional supplements / immune therapy
- prevent and treat opportunistic infections, especially TB
- provide access to appropriate, affordable and sustainable anti-retroviral therapy when clinically indicated

The backbone of health care infrastructure necessary to implement the Wellness Programme is already in place as Anglo American already runs six major hospitals and has on-site clinics attached to many of its operations. Where services are not available on-site, they are outsourced to practitioners in the community. Roughly 3000 employees are currently enrolled in HIV wellness programmes and 972 employees on ART as of 25 November 2003

There are currently 62 ART delivery sites registered, with 59 doctors, 137 nurses and 40 trained counsellors. Approximately 80% of ART is provided on-site and 20% with local practitioners. At present, there is no sharing of government infrastructure.

Management and mitigation of impacts

Group companies are responsible for developing their own strategies to assess and respond appropriately to the impact of HIV/AIDS on their operations. Impact assessment depends on accurate information on the prevalence and incidence of HIV infection in the workplace. Group companies operating in countries highly affected by HIV/AIDS are encouraged - but not required - to carry out anonymous, unlinked HIV prevalence surveys, with the maximum participation of all stakeholders.

Access to treatment for dependents

Access to treatment for dependents will be the main thrust of Anglo American's work on HIV/AIDS this year. Clearly, while productivity benefits counterbalance the cost of treatment for employees, the same is not true of dependents. Access to treatment for dependents is where Anglo American draws the line in terms of the responsibility it is prepared to shoulder alone. The company has formed a partnership with the NGO loveLife, together with the Nelson Mandela Foundation, the Henry J Kaiser Foundation and the Global Fund, to develop a community based treatment which would complement the work-place programme.

The objective of Anglo American's partnership with LoveLife is to create a network of adolescent friendly clinics in six regions where Anglo American has business operations. There are around 7-8 clinics in each region, between 40 and 50 clinics in total. Anglo American's initial commitment to the project is $4.5 million provided by the company's Chairman's Fund. This money has been used to establish the delivery infrastructure needed to support the planned roll-out of ART through the public health system next year. The Group also expects to add to this the benefit of expertise from its business units - a manager has been appointed in each business unit to champion the programme - and the use of its own medical infrastructure. Finally, when ART becomes available through the public health system next year, Anglo American has agreed to provide site specific training support for nurses.

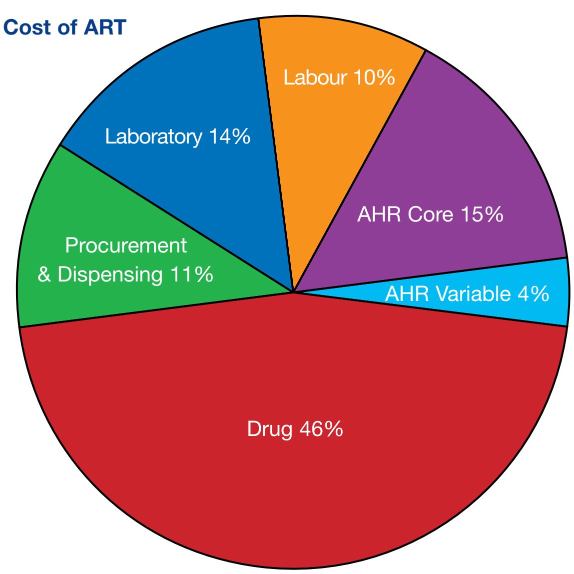
To date, LoveLife has used the funding provided by Anglo American to improve management systems and build capacity in government clinics, a few of which will be ready for training by July this year. This involves:

- Ensuring the clinic meets basic standards using ten key performance indicators, including the clinic's opening hours, systems for medication supply, maintenance of the clinic and reporting systems.
- Identifying through gap analysis what additional HIV/AIDS services / education / material are needed.
- Creating a welcoming and friendly environment at the clinic and training staff to be sensitive to people coming in for testing, particularly young people. Dr Brink believes it should take one hour from the time a person enters the clinic to the time s/he leaves in order to cover all the necessary information in a warm environment.
- Ensuring systems are in place to enrol people who are HIV+ people in wellness programmes and monitor their immune status so that they move on to treatment at the correct time.
- Ensuring the clinic is equipped to administer ART.

For one Angle American subsidiary, LoveLife was also involved in integrating a life-style programme for young people into the apprenticeship training.

The project is coordinated across the six regions by the project manager for LoveLife. A typical project team on one site would include: the project champion of the local Anglo American business unit; Anglo American's area manager; a private doctor; a representative from the government health department; CEO LoveLife; and a representative from the Chairman's Fund.

Cost of ART



Based on 5000 patients $1416 per patient per annum

Monitoring and measuring

Key performance indicators

- HIV prevalence
- Proportion employees coming forward for VCT
- Proportion HIV+ employees involved in Wellness Programme (currently 10-20%)
- Proportion employees on treatment: in wellness programme (currently 3000 involved in wellness programme, 1000 on treatment – 3:1 ration considered correct)

For Anglo American, the crucial target is for all HIV+ employees to be enrolled in a wellness programme. To achieve this, much groundwork must be covered. To be enrolled in a wellness programme the employee must first have come forward for VCT and this in turn depends on the elimination of denial and stigma from the working environment.

Experience with ART to date

- 8% workforce refuse to take ART (for various reasons)
- 10% cease to take drug after starting (largely because they started too late and died)
- 92% adherence to treatment regimen
- 89% show good viral suppression, immune system recovery and weight gain
- 40% report minor side-effects
- 2% report serious adverse side-effects

Perhaps the most important statistic for Anglo American is that 94% of employees on ART are at work

Budgets and costs

The costs to individual operating companies of providing ART will depend on the level of HIV prevalence, the rate of uptake by employees meeting the clinical criteria for ART and on the prices of drugs prescribed. In recent years, the cost of providing ART have fallen significantly. When Anglo American first considered ART treatment in 2000-01, the cost was $1.70/day. In 2002, this fell to $0.90/day, and in October 2003 it fell again to $0.60/day. In total, the cost per patient adds up to $1416/year - $584 for drugs themselves, 15% Aurum Health Research costs, 14% for laboratory costs, 11% procurement and distribution, 10% for professional services. According to Anglo American's Chief Medical Advisor, the ART programme is "more of a management than a cost challenge". This is largely due to the fact that financial benefits derived from treating sick workers offset the costs of treatment.

Analysis and conclusions

Companies in the extractive sector tend to be long-term investors and location-specific, drawn to resource-rich countries mainly in the developing world. In many developing countries, the exploitation of natural resources has generated large revenues which have not reached the public purse or been deployed for the common good. Governments raise revenue through the sale of the country's resources but in the relative absence of democracy, the rule of law and effective state institutions, human rights violations go unchecked. Where these human rights relate to company operations – through the labour standards of company or supplier employees, the actions of the company's security force or the operation's impact on the local community, for instance - the onus to adhere to ethical codes of conduct falls on companies themselves.

In recent years, Anglo American has taken a leadership role in the mining industry in its approach to corporate responsibility. In 2002 it produced Corporate Citizenship Principles and, at the local level, adopted Community Engagement Guidelines with a three year development plan for every managed operation. It has expressed its support for the Extractive Industry Transparency Initiative since it was launched at the World Summit in Johannesburg in 2002. This voluntary Initiative asks companies to make details of tax and other payments to governments available to the relevant aggregating body in each country where the host government has made the same commitment. Most recently, Anglo has developed a methodology called the Socio-Economic Assessment Toolbox (SEAT), a voluntary process to assist mature operations that have not previously conducted a Social Impact Assessment review and manage their impacts

A major human rights issue that companies operating in developing countries must face is HIV/AIDS. In many countries, the lack of government ability or capacity to cope with the growing crisis creates a strong humanitarian and business case for companies to accept some responsibility. Anglo-American is most badly affected by HIV/AIDS in South Africa where it estimates that up to 25% of its 124,000 strong work-force are infected by the virus. Anglo-American was one of the first companies to make HIV/AIDS a management issue in the late 1980s and, from August 2002, to provide anti-retroviral therapy to employees who need it, in conjunction with an on-going programme of prevention, voluntary counselling and testing and care and support. The company is now providing funding and some assistance to the NGO LoveLife to develop a community based treatment which would complement the work-place programme.

Anglo American presents its HIV/AIDS strategy as "a management rather than a cost challenge". Individual managers in various group companies play a significant role in championing the Group's approach and it would be interesting to explore how this could be encouraged from the corporate centre. The success of Anglo's partnership with LoveLife and the South African government in managing the community based treatment programme remains to be seen. As HIV/AIDS infection rates increase in other countries, the application of Anglo's experience and lessons learned in South Africa could be invaluable in developing a role for companies elsewhere. ■

The Body Shop International

Company background

The Body Shop International (BSI) is a cosmetic and toiletry retail company founded by Anita and Gordon Roddick in 1976. The Roddicks are today non-executive directors with a 15% stake in the business. The Group's principal activities are the development and sale of skin and hair care products and related items through nearly 2000 of its own shops, 70% of which are franchised outlets, in nearly 50 countries. It also sells its products via Body Shop at Home, an in-home sales program, in 48 US states and Australia. BSI has no manufacturing operations.

About this case-study

This case-study opens with a general discussion of the BSI's human rights impact in the areas of internal human resources and the supply chain. It goes on to examine the historical background of BSI's engagement with human rights with reference to the vision of its founders, Anita and Gordon Roddick, and its marketing strategy. The evolution of BSI's corporate responsibility management structure is examined.

The case-study focuses on two recent initiatives the BSI has undertaken to promote human rights, namely a campaign against domestic violence and participation in the Business Leaders Human Rights Initiative, and on BSI's new and innovative style of reporting.

BSI's human rights impact

BSI has offices, retail stores and warehouses in the UK and Ireland, several European countries including Austria, France Denmark and Germany, the USA, Mexico and Singapore. Some 70% of employees work in retail outlets. In the absence of manufacturing operations, BSI has two priority areas in terms of its human rights impact: internal human resources and the supply chain.

First, human resources. BSI has developed human resources policies in six areas which are informed by human rights. These include: Equal Opportunities and Diversity; Learning and Development; Health, Safety and Wellbeing; Compensation and Benefits; Communication; and Change Management.[12] In terms of freedom of association, BSI has established Consultation and Representation Committees (CRCs) in each country which facilitate a dialogue between the company and employee representatives on workplace policies and practices in bi-monthly meetings.

The second area where BSI has a potential impact on human rights is the supply chain. BSI relies on suppliers for product ingredients and packaging. According to BSI, the total value of purchasing amounts to roughly £4 - £5 million per year, although it is difficult to quantify discrete ingredients and accessories. Of particular concern are suppliers in Asia where the company sources accessories, such as make-up bags and sponges. BSI uses traditional screening methods including a code of conduct for suppliers, based on international labour standards, and a code for employees working with suppliers. However, the effectiveness of the traditional desk-based assessment and audit methods is increasingly under question. In March 2004, the company will publish a report on its supply chain management.

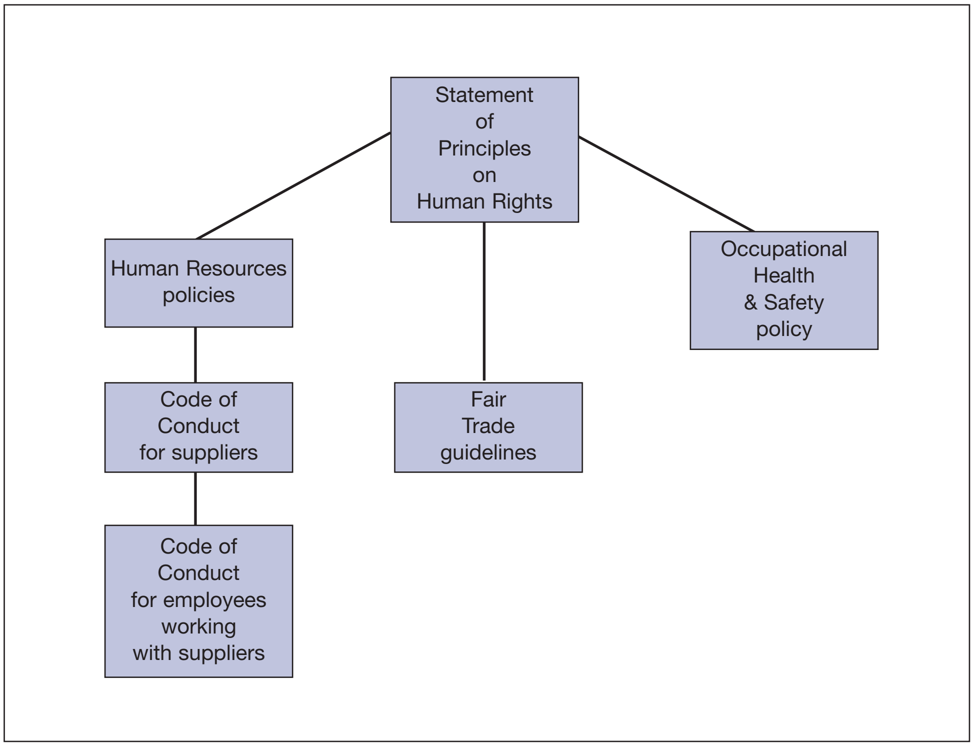
An important element of BSI's supply chain management approach is a Community Trade programme based on principles of fair trade. Through this programme, BSI aims "to make a positive economic and social difference within individual communities in return for natural ingredients and handcrafted accessories". Companies committing to fair trade are meant to go beyond just buying products; they also share expertise to help their trading partners compete on their own in a competitive international market. The goal is to nurture vibrant, independent businesses that are not dependent upon one western buyer. BSI's long-standing claim that it is committed to ethical sourcing and fair trade are a key facet of its marketing strategy, sharing equal prominence with its "natural products" and "against animal testing" themes

Historical background of BSI's engagement with human rights

In line with the vision of its founders Anita and Gordon Roddick, The Body Shop was an early pioneer in the corporate responsibility movement. Through a combination of activism and marketing, the company's stated aim is: "To dedicate our business to the pursuit of social and environmental change…To passionately campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industry." Thus BSI includes the defence of human rights among its core principles.

The Body Shop has a history of engagement with human rights issues going back to 1988 when it launched its first international human rights campaign with Amnesty International. Three years later, in 1991, co-founder Gordon Roddick brought back from New York to London the idea of a street newspaper and helped found The Big Issue. In 1998 BSI launched its second campaign with Amnesty International to mark the 50th anniversary of the Universal Declaration of Human Rights. Through the "Make Your Mark for Human Rights" campaign over three million people signed human rights petitions in Body Shop stores. That year, BSI also became a founding member of the Ethical Trading Initiative and used its base code as the basis for a Supplier Code of Conduct. In 2000, BSI launched a Human Rights Award to recognise the work of small groups or individuals on human rights issues. And most recently, The Body Shop joined the Business Leaders Initiative on Human Rights (BLIHR), a three-year programme to help integrate

12 Details of these policies are available in the "Individual stakeholder account for employees 2003" available on The Body Shop web site.



human rights in business. BSI's activities in the BLIHR is discussed as a focus topic of this case-study.

BSI's approach of engaging with human rights issues is an integral part of the company's marketing strategy. BSI has not been immune to criticism for a disconnect between its idealistic human rights image on the one hand, and its human rights related practices on the other. In September 1994 a controversial article was published entitled "Shattered Image: Is The Body Shop Too Good to Be True?" which documented exploitative business practices and hypocritical marketing of firms such as Body Shop that promote themselves as progressive and "green."

BSI says it has both improved its systems and moderated its claims after a thorough re-working of processes in the late 1990s.

Management structure

From a peak in 1992, falling profits in the 1990s led to major changes in the company's management based on a restructuring plan unveiled in early 1999. BSI reorganised into a regional structure, outsourced manufacturing operations in order to focus on retail and, finally, made a series of changes to the senior management team. Founder Anita Roddick stepped down from an active management role. The process involved redundancies in UK-based offices and the creation of roles in the four Regions. The potential sale of the business arose at several points but did not materialise.

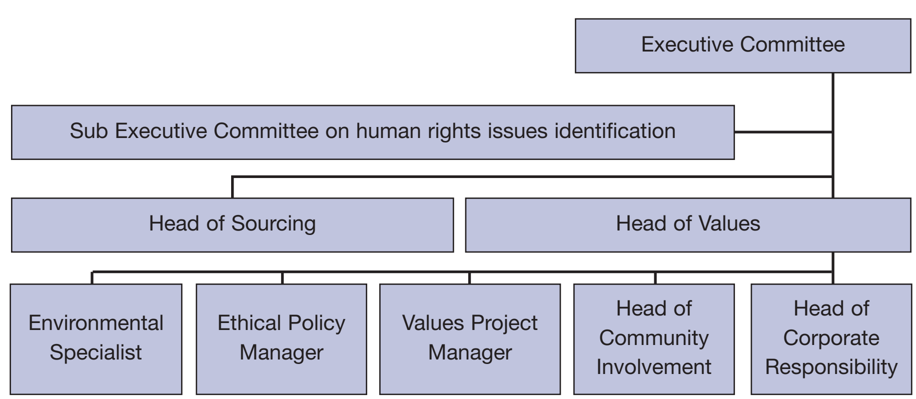
The Body Shop says it used its leadership and organisational change as an opportunity to review the company's management structure and values strategy. Specific accountabilities for stakeholder responsibilities were re-organized as follows:

- Shareholder relationships are the responsibility of the Board of Directors
- All stakeholders, particularly customers and employees, are the responsibility of the CEO and Executive Committee
- Franchisee relationships are the responsibility of Regional Directors
- Employee relationships are the responsibility of the Human Resources Director
- The Head of Values is accountable for relationships with NGOs and campaign partners and the Company's environmental responsibilities
- The Director of Logistics and Technical is accountable for supplier relationships and the integrity of the supply chain.

The Board reviews the overall strategic direction of the company's values periodically in consultation with the Head of Values. The Head of Values reports into the Chief Executive and has overall responsibility for directing the Company's social and environmental programme. As a member of the Executive Committee, he is involved in strategic decision-making on issues that affect the company's social impacts such as new market entries, the appointment of key relationships such as head franchisees and strategic partnerships with other organizations.

At the corporate center, BSI's social and environmental programme is implemented by the Head of Corporate Responsibility, an Environmental Specialist, the Ethical Policy Manager, the Values Project Manager and the Head of Community Involvement. Supply chain issues are implemented by the Sourcing Manager – Ethics and Trade, who reports into the Head of Sourcing, and is responsible for ensuring that the social and environmental impacts of the company's sourcing relationships are assessed and monitored through BSI's Supply Chain assurance programme, These managers are based at the UK head office and interact with a Marketing and Values Manager who is the main point of contact in each of the four regions. The regional

The Body Shop management structure for human rights related issues



centres carry full profit responsibility for managing all retail and franchise activities, whilst interacting with the corporate centre in the UK through regular monthly conference calls between the Head of Values, the regional heads and Marketing and Values Manager in each region.

In terms of identifying specific human rights related issues and risks that are relevant to the business, BSI last year established a Sub-Executive Committee comprised of senior managers from the key functional areas, including Legal, Products, Values, Sourcing and Technical. The Committee meet on a monthly basis to discuss emergent human rights issues and monitor risks which are ranked according to their impact. At the meetings, work on the different issues is delegated to the relevant manager to report on the following month.

Despite the restructuring process, the structure of the Values Team was "An evolution rather than a recreation" according to Ethical Policy Manager Nicky Amos. There have always been campaigning, public relations functions and ethical auditing teams have existed since the early 1990s.

Focus 1 - Stop Domestic Violence Campaign

Domestic violence against women is an important human rights issue. In 1994, the international community declared that the "human rights of women and the girl child are an inalienable, integral and indivisible part of universal human rights".[13] Violence against women impairs their enjoyment of these rights. The problem is widespread. According to the UNDP "violence against women and girls constitutes the single most prevalent and universal violation of human rights". In the EU, domestic violence is thought to be the major cause of death and invalidity, ahead of cancer, road accidents and even war for women between 16 and 44 years of age.[14] The vast majority of acts of violence against women take place within the home by an intimate male partner.

In September 2003, The Body Shop launched its latest campaign against domestic violence in partnership with Refuge, the UK's largest single provider of accommodation and support to women and children experiencing domestic violence. The issue was taken up by corporate centre following successful campaigns across the company's regional divisions – in Canada since 1994, in the USA since 2002 and in the Phillipines and Western Malaysia. The issue also seemed particularly relevant to BSI, explains the Head of Business Ethics, considering domestic violence affects one in four women in the UK at some time in her life and 80% of BSI employees and 90% of its customers are women. Further, according to employee surveys conducted in 1997 and 2000,[15] BSI employees want to campaign on human rights issues more than on any other.

The Body Shop began working on the campaign in January 2003. It spent three months on the planning phase, making changes to the company's internal approach to the issue and identifying the right campaign partner, and a further six months designing posters and pin-badges within the bounds of a specified budget. The campaign was launched in September 2003.

The steps to launch a campaign break down as follows:

Develop an annual campaign offer. This is the responsibility of the Head of Values who then presents the campaign offer to the Executive Committee to be evaluated. Regions are entitled to reject the campaign offer even if it has been accepted by corporate centre. The Middle East region, for example, has chosen not to take on the domestic violence campaign and is developing a campaign based on a child-related issue.

Assess BSI's approach to the issue to identify what needs to be done differently, be it a new policy or management system. On the issue of domestic violence, The Body Shop decided it needed a new Group policy. A benchmarking study revealed that most companies did not have a policy on this issue. The Body Shop developed its own policy with help from the metropolitan police and Trade Union Congress. The policy, which includes access to a company-paid counsellor, was released to employees and managers prior to the campaign launch. Regional directors assured their commitment to implement the policy in the regions.

Conduct training in order to raise awareness of the policy internally and create an opportunity for managers and employees to explore what to do in different scenarios, for example, how to deal with confidentiality and the right to privacy should they learn that someone is suffering violence in the home. The Body Shop has developed a training video with input from Refuge discussing the domestic violence issue and the benefits of the partnership for roughly ten minutes. After the campaign was first launched, an interview with the manager and employees of a Body Shop store talking about how they ran the campaign was included in the video. The video is also accompanied by a training script and an employee booklet including an introduction from the Regional Director explaining why The Body Shop is involved, Q&A, a section on the campaign partner, facts about the issue and company's approach. Finally, a series of question and answer sessions were held at the Body Shop's headquarters for groups of 15-20 employees.

Identify a campaign partner. "We will only campaign with a very credible campaign partner. Our commitment to operationalising our principles earns us the credibility we need", explains the Nicky Amos. The organisation Refuge was selected because it is the UK's largest provider of accommodation and support to women and children experiencing domestic violence.

Identify clear objectives and expectations on both sides. Shared objectives normally include raising awareness and

13 Vienna Declaration and Programme of Action by the World Conference on Human Rights, 1994.

14 European Women's Lobby (largest coordinating body of NGOs in the EU with over 3000 members) www.womenlobby.org.

15 In a new question that was introduced into the employee surveys for the first time in 2000, respondents were asked to rate the importance of ten campaign issues and to identify the three campaign issues that were most important to them. Human Rights was rated as the single most important campaign issue in all three surveys (Asia Pacific, UKROI, corporate center).

funds for the cause. The more specific objectives for Body Shop include raising employee awareness of the issue and BSI's policy and for Refuge, raising the profile of the organisation. BSI's expectations are that in return for the use of its UK stores and association with its brand name, it will gain the expertise of a credible partner. BSI also expects the funds raised to be spent on something tangible. The campaign is likely to run for the next two years.

Money for the Stop Domestic Violence campaign will be raised through the sale of pin badges and collection of old mobile phones, a strategy which proved successful for the Body Shop USA in 2002. For every £1 pin badge sold, 75 pence goes to Refuge and every phone donated will raise a further £2.75.

The Body Shop's campaigns are normally very focused on its high street stores. The difference with the domestic violence campaign, explains the Head of Business Ethics, is that BSI is actively seeking wider opportunities to support those who are directly affected through volunteering. Employees have been involved in decorating women's centres for the victims of domestic violence, helping at children's homes and training to work on help-lines. BSI offers employees six days off per year (half a day each month) for volunteering, and aims for 130 employees to be involved in volunteering each year.

Employee surveys in 1997 and 2000 both showed that human rights are the preferred campaign issue of the vast majority of BSI employees. Roughly 90% of employees also said they believed the company campaigns very effectively.

Focus 2 - Business Leaders Initiative on Human Rights

The Body Shop was one of seven companies to launch the Business Leaders Initiative on Human Rights (BLIHR) in December 2003. A further five companies will be invited to join this year. The Initiative is run by Respect Europe, an organisation founded among others by Anita and Gordon Roddick, using a framework the organisation calls RespectTable whereby it creates a network of European business executives who agree to participate in a social or environmental sustainability initiative.

The BLIHR follows the success of an initiative on climate change. Respect Europe invited companies to participate that it perceived to be actively pursuing a corporate citizenship agenda, but no formal selection criteria were used. From late 2002, the process of developing the human rights programme, selecting companies and determining project outputs took approximately one year. The biggest challenge, says Respect Europe's Mei Li Han, was formulating the value that companies would derive from involvement in the human rights initiative, in contrast to the initiative on climate change which produced more tangible benefits.

The BLIHR's objectives are to help industry leaders develop a better understanding of corporate human rights issues, share best practices with peers and experts, and explore the current rights-related reporting and legal challenges. The BLIHR programme is a voluntary, 3-year initiative designed to integrate human rights into business decision-making and strengthen existing initiatives that are working towards the same goal.

The working programme consists of 3-4 working groups each year and a commitment to report annually on or around 10 December, International Human Rights Day. Meetings are attended by one representative from each company, two human rights experts and a facilitator. They run over two days, starting with discussion of the work that has been circulated prior to the meeting, decision–making and finally, discussion of one or two further topics. A conclusion is then reached and further tasks are assigned for the following weeks. According to one member company, one advantage of the initiative is that it provides "a way of having busy people involved without creating any bureaucracy".

The BLIHR programme centres on three key elements:

1. Dialogue and reporting
Communicate leadership experience and understanding of the business role in human rights in the production of an annual BLIHR report

2. Tools for change
Develop a toolkit over 3 years offering practical support for business in implementing human rights. This will include a matrix to map existing activities within a human rights framework, examples of human rights assessment of business dilemmas based on 6 steps and fair societal division of labour criteria to help business define its appropriate role in human rights.

3. Communication
Explore how human rights standards can be more effectively used by managers, focusing particularly on the UN Norms.

Focus 3 - Individual stakeholder reports

BSI pioneers social reporting
The Body Shop was a pioneer in social reporting, producing its first independent social audit in 1995 and a second in 1997. At that time, there were no generally accepted methodologies for performing a social audit or assessment and no professional organization existed to provide guidance. The Body Shop benchmarked two companies, Ben & Jerry's Homemade in the United States and Sbn, Denmark's seventh largest bank which were among the few to have utilized independent consultants to conduct subjective assessments of their social practices. The three volume 1995 "Values Report" was based on extensive stakeholder consultation with employees, head franchisees, suppliers, customers and shareholders through focus group discussion and surveys. In 1997, the Group conducted further stakeholder consultation to produce a second extensive report, this time only a single volume but nonetheless containing 209 pages. The New Economics Foundation provided external verification of the reports with the help of an audit review panel.

Although the reports were criticised by some as a collection of attitude surveys rather than a social audit, they were significant in blazing the trail towards social reporting and for this, received accolades from organisations such as the United Nations. "Looking back, our first reports were highly aspirational", admits their author and recent Head of Business Ethics Nicky Amos. Nevertheless, they did identify some gaps between the company's own self-image and the impressions of its stakeholders. For example, in 1995 and 1997 less than half of responding UK

AREA			Right to security of persons		Rights of workers					Respect for national sovereignty and human rights			Obligations with regard to consumer protection		General provisions of implementation		
	A1. General obligations	**B2. Right to equal opportunity and non-discriminatory treatment**	**C3. Right to security of persons**	**C4. Security arrangements**	**D5. Forced or compulsory labour**	**D6. Childrens rights**	**D7. Safe and healthy workplace**	**D8. Adequate remuneration**	**D9. Freedom of association / collective barginning**	**E10. Respect for national governance practices**	**E11. Bribery**	**E12. Contribution to realisation of human rights**	**F13. Obligations with regard to consumer protection**	**G14. Obligations with regard to environmental protection**	**H15. Internal rules of operation**	**H16. Monitoring**	**H17. Reparations**
MINIMUM	**Compliance with national laws and regulations in the countries we work in (not detailed)**																
EXPECTED	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter	Human Rights enshrined in Company Mission Statement and Trading Charter		
	Public statements of commitment to ILO Core conventions, UDHR, etc.	Policies on equal opportunities and non-discrimination. All managers receiving training on policies Oct-Dec 03	Policies relating to data protection, lone working, confidentiality	Policies and procedures for all staff relating on health and safety and lone working	Included in Code of Conduct for Suppliers	Included in Code of Conduct for Suppliers	Human Rights Statement of Principles and policies relating to Health and Safety. Also included in Code of Conduct for Suppliers.	Included in Code of Conduct for Suppliers	Included in Code of Conduct for Suppliers	Included in Code of Conduct for suppliers	Included in Code of Conduct for Suppliers			Environmental Policy and Public Statement via Internet	Code of Conduct		
		Management system, monitoring and public reporting of basic metrics (workforce gender split by banding; pay equality monitoring, etc)	Safety management system	Safety Management System			Safety management system	Monitoring of pay by gender to ensure parity	Consultation and Representation Committees for Staff in UK/Europe	Monitoring via supplier screening questionnaire	Statement of Probity for Employees Working With Suppliers			Environmental Management System	Supply chain management system	Supplier Screening and Auditing	
								Pension provision	Recognised Trade Union Representation for Manufacturing Staff					Supplier screening	Supplier Screening		
														Procurement policies relating to environmental issues Proactive issues management on risky chemicals, palm oil, etc			
DESIRABLE	Public statement of commitment to UN Norms	Training Programme for all Managers on Equal Opporunities	Training Programme for Managers on Workplace Protection	Training for employees on lone working	Membership of Ethical Trading Initiative	Membership of Ethical Trading Initiative	Member of Business Coalition on HIV/AIDS	Membership of Ethical Tradinng Initiative	Membership of Ethical Trading Initiative	Membership of Ethical Trading Initiative		Public Campaigning		Membership of WWF 95 Plus Group	Franchisee Contracts relating to campaigning and ethical policies	Membership of Ethical Trading Initiative	
	Membership of BLIHR				Independent Supplier Audits	Independent Supplier Audits	Training programmes on HIV for employees and suppliers	Independent Supplier Audits	Independent Supplier Audits	Independent Supplier Audits		Membership of BLIHR		Supplier development programme			
							Employee Wellbeing programme offered in UK.	Benefits with subsidies linked to payscales (ie childcare subsidy greater for lower salaried employees)				Community Trade Programme					
	Sub-Executive Committee on Issues Management covering Human Rights, Safety and Environmental Protection																
								ShareSave Scheme									
								Benefits linked to Performance				Training on Code of Conduct					
	Public statement on Group wide business and behavioural values (Framework for responsible Business																

employees agreed or strongly agreed that BSI's commitment to being a "caring" company is apparent on a day-to-day basis (to take the statement about which respondents were least positive). The comparative figure for the next round of employee consultation in 2000 showed an improvement, with 64% agreeing to a similar revised statement.

A four year non-reporting period

The Body Shop had planned to follow a two-year audit cycle but was diverted by the need to restructure the business in response to underperformance. Some significant progress nevertheless took place during the period of non-reporting from 1998-2002. In 1998, The Body Shop was a founding member of the Ethical Trading Initiative and, on the basis of the ETI base-code, developed a Code of Conduct for suppliers and began to formalize supplier audits. The company also conducted formal stakeholder dialogues with new employee, community and investor stakeholder surveys carried out by Kingston University in 2000. Twenty-five per cent of employees were engaged in focus and pilot groups to help design the questionnaires and all employees were invited to comment on the draft questionnaires through their Consultation and Representation Committee representative. The results of these surveys are available on The Body Shop web site.

BSI recommits to social reporting

Last year BSI re-committed to the reporting process but with a different approach. Reports will no longer provide detailed information across an array of issues as they did in 1995 and 1997. Instead, the company is aiming for a more targeted approach that focuses on the key impacts, risks and issues that are of relevance to its stakeholders.

In 2003/4 The Body Shop published individual stakeholder accounts relating to six stakeholder groups: customers, employees, shareholders, franchisees, suppliers and the environment. These groups were selected because they each have a continuous relationship with the business. The Body Shop says it recognizes there are other stakeholders, such as communities, campaign partners and the media but that the nature of these relationships tends to be formed around specific activities, and the individuals involved are likely to change over time. The individual stakeholder accounts are intended to help stakeholders understand Body Shop's business strategy and management approach within the context of their own relationship to the company. They also seek to present a holistic picture of the business by observing the Company's approach to specific issues from a range of stakeholder perspectives.

The Body Shop's latest reports are less aspirational than earlier attempts, focusing more on managing expectations and a process of continuous improvement. BSI's Head of Business Ethics believes this reflects the company's more thorough understanding of corporate responsibility. "Corporate responsibility is about how you manage stakeholder expectations. It doesn't matter necessarily whether you can meet all those expectations".

Analysis and conclusions

One of the main points of interest in this case-study is that the promotion of human rights is part and parcel of the company's brand image and marketing strategy. The Body Shop launched its first international human rights campaign with Amnesty International in 1988 and has engaged in numerous high profile human rights issues since then, most recently an international campaign against domestic violence. The company's Community Trade Programme based on principles of ethical sourcing and fair trade has been given high prominence. The Body Shop was a pioneer in social reporting, producing its first independent social audit in 1995 and a second in 1997.

Despite The Body Shop's strong public commitment to ethical behaviour, or perhaps because of it, the company has not been exempt from the scrutiny and criticism of outside observers. An article published in the mid 1990s was particularly damaging, accusing the company of not practising what it preaches in terms of business ethics.

The author of the article and NGOs today concur that following a period of management and organisational change in the late 1990s, including the sale of all manufacturing operations, Body Shop has moderated its claims and improved its values strategy and management systems. Notably, last year the company established a Sub-Executive Committee to discuss emergent human rights issues at monthly meetings. Last year The Body Shop re-committed to the reporting process in the format of individual stakeholder accounts. The Body Shop was also one of seven companies to launch the Business Leaders Initiative on Human Rights to "road test" the UN Norms.

While The Body Shop is clearly making positive moves, it is urged by critics not to become complacent. As one points out, "Some of BSI's practices might be state of the art when their benefits flow to the bottom line – but the test of real ethics is what you do when things are going bad". ■

BP and the Tangguh Project

Company background

BP is an oil company with four main businesses: Exploration and Production; Gas, Power and Renewables; Refining and Marketing, and Chemicals. The Company has established operations in Europe, the United States, Canada, South America, Australasia and parts of Africa.

About this case-study

This case-study focuses solely on BP's proposed Tangguh LNG Project in Indonesia both because the scope of BP's operations would be too great to cover satisfactorily, and because this Project, still in the pre-construction phase, is being put forward by BP as a best practice model that will set the standard in socially and environmentally responsible resource development.

Focus – BP's proposed Tangguh LNG Project

Tangguh Project Background

The Tangguh LNG Project emerged from the discovery in the mid-1990s of two super giant gas fields in the region of Papua, approx. 3200 km from Indonesia's capital Jakarta. The project will involve tapping the Tangguh fields, processing the gas into liquefied natural gas which is easier to transport, and loading it for shipment primarily for Asian and US markets. BP is developing the $2 billion LNG facility under a production-sharing contract with the Indonesian state.

The Tangguh Project is of enormous significance to Indonesia and to Papua. Over the next 30 years, it is expected that the central government could receive more than US $8.7 billion from Tangguh, and the Papuan government could receive $3.6 billion. This will make Tangguh the largest foreign investment in Indonesia since the economic crisis and the resignation of President Suharto in 1998.

The Indonesian and Papuan political risks present formidable challenges for the Tangguh project. Although significant democratisation has taken place in the last five years, the military remains an extremely powerful and largely unaccountable entity. Corruption is endemic. In Papua, serious human rights violations still take place, and in 2003 the central Government controversially divided the province to create a new Irian Jaya West Province where Tangguh is located. This move has cast doubt about whether the 2001 Papua Special Autonomy Law under which post tax revenues will be divided between Jakarta and the regional government by a 70-30% ratio, will actually be implemented. And even if Special Autonomy were implemented, it may not be enough to satisfy the political demands of many Papuans who want self-determination and see Special Autonomy as merely a stepping stone to this end.

The Project is particularly significant to the Bintuni Bay region in the Bird's Head area of Papua. This region has only three substantial towns, each of which is well over 100 kilometers from the Tangguh site. The more immediate area of the Project is a large, pristine bay, with perhaps the world's largest mangrove forest and an exceptionally diverse marine ecosystem. The communities around the bay consist of small, isolated villages with 30 to 100 families who live in basic wooden houses with outdoor cooking and toilet facilities. There are no roads connecting the towns and villages around Bintuni Bay and public services are severely limited. Nine villages will be directly affected by the Tangguh project, according to BP. The people in these villages form clans which make up seven tribes in the Bintuni area. Complex rivalries exist both between and within tribes.

Tangguh's human rights impact

Allocation and share of revenue

The Tangguh Project will generate enormous revenue. The human rights issue is whether indigenous Papuans will be allocated a fair share of this revenue stream relative to Jakarta under the Special Autonomy agreement. This is now even more problematic following the division of Papua and the creation of the new West Irian Jaya province. Revenue must also be distributed fairly amongst the Papuans themselves, between Papuans living in the Bird's Head region and those living elsewhere, and between villages on the north coast versus the south coast of Bintuni Bay.

Papuans influence on sustainable development (including environmental concerns)

At issue is whether Papuans have an appropriate voice in the development of their natural resources, especially considering the wealth of natural resources and biodiversity of the area. A fundamental problem according to some NGOs is that the principle of Free Prior Informed Consent was not applied at Tangguh – and is not applied in Indonesia as a whole, since the Government does not recognise indigenous people's land and resource rights.[16] Other key issues include the need to improve health and education and strengthen capacity (both in local government and broader civil society) for the transparent and effective delivery of services and to avoid the development of an unsustainable 'paternalist-dependency' relationship with the company.

Security forces

A critical issue is whether the Indonesian security forces will respect the political, cultural, economic and civil rights of people living and working in the project area, such as, to express their views and conduct peaceful protests. Security forces unfortunately have an incentive to stir up trouble in order to justify their presence and/or demand payment for protection services, as is believed to have happened at Freeport McMoran's project in Indonesia. The extent of the security forces' "business activities" in Papua, namely guarding

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16 Down to Earth (February 2004) The Tangguh gas project: what hope for human rights protection in a worsening political climate? Newsletter No. 60 [www.dte.gn.apc.org]

company sites and exploiting natural resources, is related to the funding issue as 70-75% of the military budget is estimated to come from extra-budgetary activities.

Effects of in-migration

The influx of migrant labour associated with project construction could displace and dispossess indigenous communities both culturally and particularly on health issues. HIV/AIDS, rife in Papua, is a particularly dangerous risk.

Resettlement

The Tangguh Project site encompasses the village of Tanah Merah, a predominantly indigenous coastal community with 591 residents. Following consultations in 1999, the residents of Tanah Merah agreed to undergo resettlement which is now underway.

It is important to clarify that as the proposed Tangguh project is still in the pre-construction phase, the region has so far changed little with certain exceptions, such as the extensive clearing and construction for Tanah Merah Baru resettlement, and the construction of the new airstrip in Babo, which has opened the area to regular commercial flights. However, reports indicate that preparations for the Tangguh project have already created an underlying tension between "a momentum of expectation" and considerable impatience for tangible benefits on the one hand, coupled with fear and mistrust because of past experience with Freeport McMoran project.

Background of BP's engagement with human rights issues in Tangguh

BP has at times received heavy criticism from journalists, human rights groups and politicians for the human rights consequences of its operations. Most damaging were the often widely publicized attacks of BP's security policies in Colombia from 1996-99. BP's multi-million dollar security agreements (convenios) with the army and national police attracted criticism on the grounds that the Colombian army had a bad human rights record, and that BP had no certainty the money would not be spent on lethal equipment. Many allegations were made including that BP provided lethal training to the Colombian Police through a British security firm which was broadcast on The World in Action teLevi'-sion programme in the UK. The company did make some attempts to engage stakeholders in discussion of these issues, including the NGOs Amnesty, Oxfam and Human Rights Watch. A letter to BP from Human Rights Watch in 1998 states that "Throughout this research [into human rights issues related to BP's operations in Colombia], your corporation has shown great openness in meeting repeatedly with our staff and discussing openly your policies".[17] These efforts to defuse the situation in Colombia were wholly reactive, however, and came too late to avoid serious damage to BP's reputation.

Thus the period from 1996 to 1999 was a huge wake-up call for BP. In late 1999 two Colombia managers were appointed to the Tangguh Project, filling senior roles as Project Director and Director of External Affairs and Security. At Tangguh they were faced with many similar issues surrounding human rights, indigenous communities and lack of institutional capacity. In the words of one of these managers, they brought with them a determination to "learn lessons, avoid repeating mistakes and do it right in Tangguh".

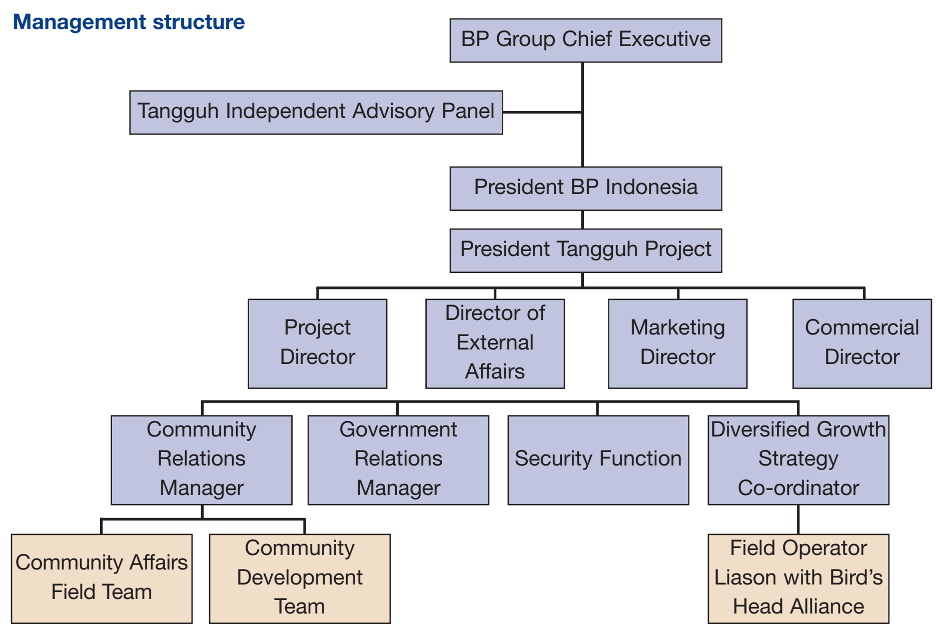
In addition to controversies surrounding its operations in Colombia, BP is also trying to learn from criticism levelled at the Freeport-McMoran copper and gold mine located two hours away by plane from Tangguh. The project has been dogged by criticism of its environmental record, for not hiring enough Papuans and for using soldiers to protect the mine.

Policy development and implementation

Developing the Integrated Social Strategy (ISS)

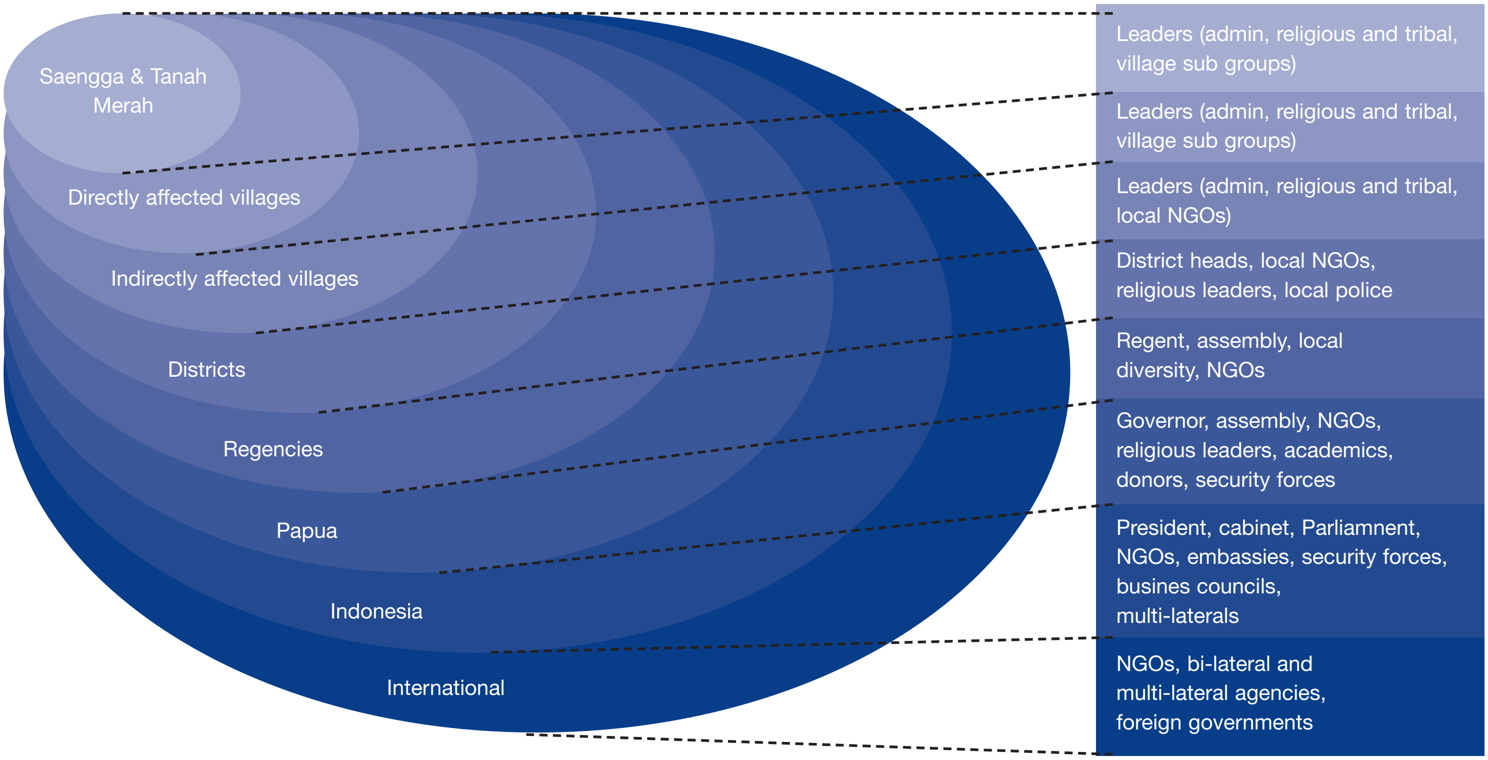
BP intends the Tangguh Project to set the standard for socially and environmentally responsible development. Throughout 2000, six years before the Project is expected to produce revenue, the Tangguh team worked on developing an Integrated Social Strategy defining the principles and programmes the Project will implement, and outlining where partnerships will be formed. In January 2001, the Tangguh team launched a three-day multi-stakeholder dialogue in Papua to evaluate the ISS and identify clear concerns early in the planning phase. Participants expressed much justified skepticism – "a key challenge was getting people to trust our intentions", recalls the then Director of External and Security Affairs John O'Reilly.

Management structure



17 Human Rights Watch (April 1998) Colombia Human Rights Concerns Raised by the security arrangement of transnational oil companies. This is a series of open letters to Occidental Petroleum, British Petroleum, and the Colombian government regarding the human rights concerns that arise from formal security arrangements between the companies and the Colombian military. Available on-line at www.hrw.org/advocacy/corporations/index.htm.

Stakeholder Map



The Tangguh team had selected five values to underpin the various programmes contained in the ISS. These came to be known as the "cepps": consultation, empowerment, partnership, participation, sustainability. As a result of the dialogue, three further values were added – human rights, justice and transparency. Other strong messages conveyed at the dialogue were that Tangguh should not induce large-scale in-migration, destabilize traditional resource rights, or produce conflict. Employment and training were also key issues for the affected communities.

Once agreement on the ISS was reached in 2002, its commitments became binding through the mandatory Environmental and Social Impact Assessment (ESIA) signed with the Indonesian government. The important feature of the Tangguh Project is that the ISS is intended to be an integral part of project organisation. The management structure is therefore designed such that the ISS Director does not report to the Project Director but to the overall Tangguh boss. This emphasises the parity between the engineering/construction side and the social dimensions.

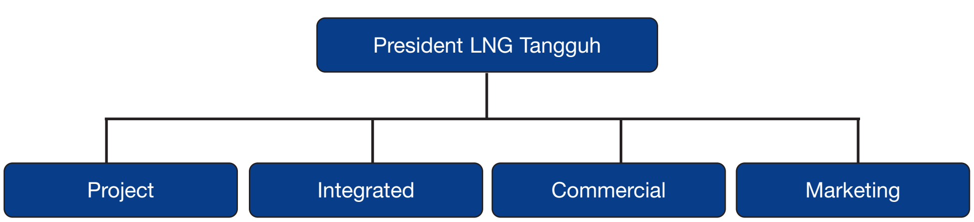
ISS programme categories

Revenue management

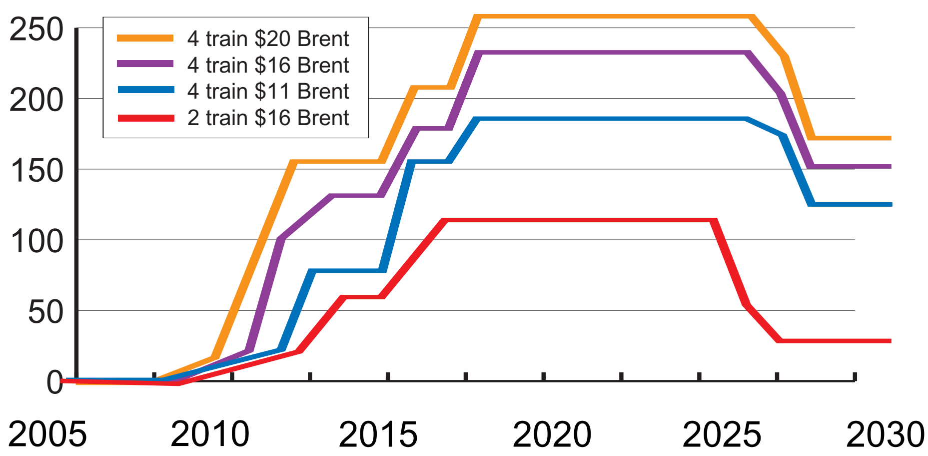
Assuming that the 2001 Special Autonomy law for Papua is not effectively negated by provincial division, revenues will be divided between the central government and the Papuan regional government by a ratio of 70:30. According to this formula, it is expected that over the next 30 years, central government will receive more than $8.7 billion from Tangguh, and the Papuan government will receive $3.6 billion. During its period of highest impact from 2011 - 2022, around $225 million annually could flow from Tannguh to the Papuan provincial government; currently, Papua's total annual budget is approximately $190 million. In other words, Tangguh's contribution could increase revenue to the Papuan regional government by approximately 125% within the next 10-15 years.

The capacity of Papua to manage these sizeable revenues in a transparent manner is of critical importance. BP defines the following role for itself:

- Fund capacity-building projects in financial management for government (consultancy advice, training, accounting structures, data systems etc.)
- Facilitate the creation of a public savings fund
- Leverage NGO partnerships to support civil society and public transparency



Estimated revenues from the Tangguh Project to Papua 2005-2003. Source – BP.



Diversified Growth Strategy

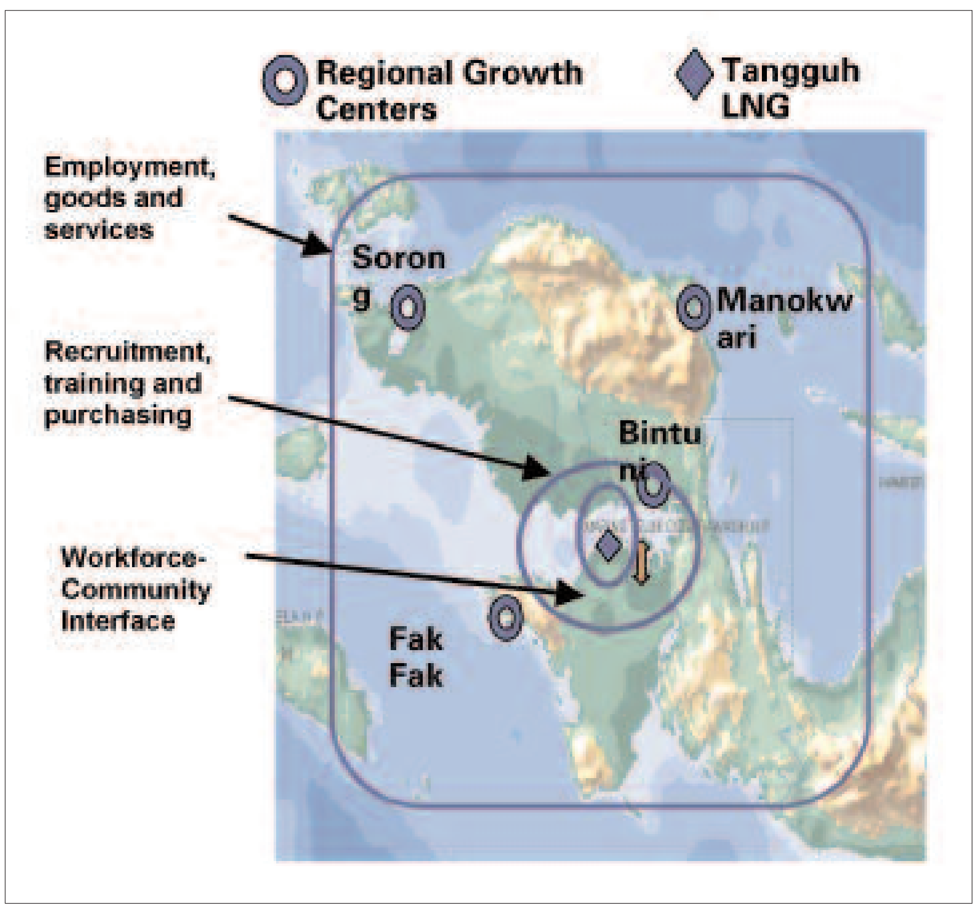
BP's involvement in the Diversified Growth Strategy (DGS) grew out of an awareness of the impacts of large-scale projects such as Tangguh gained notably from BP's experience in Colombia and from a series of meetings between Tangguh's Director of External Affairs and Security and the NGOs Amnesty and WWF in Washington in 2000 which highlighted the Project's potential secondary and tertiary impacts. The Papuan authorities at Provincial and local levels are the drivers of the Diversified Growth Strategy (DGS), and have formed a team with Tanggu and other stakeholders (USAID, UNDP and the provincial and Bird's Head district governments) facilitating and providing financial and technical assistance for human and civil capacity building. The Central Government is also playing a supporting role. BP's influence over the programme is limited as "ownership" of concept and implementation must be with the Papuan authorities and civil society. BP provides, in 2004, office space for the DGS secretariat in Jayapura (this office adjoins the Tangguh GPA office). BP Tangguh officers provide targeted technical assistance on a rotating basis. In 2002, BP also assigned a full time field operator in Papua.

The DGS was developed with two main objectives: first, to promote project-related activities in Regional Growth Centres in order to draw economic activity away from the Project site which cannot accommodate it, and second, to build capacity for district-level government agencies in regional planning and sustainable development.

To achieve the first objective to draw economic activity away from the Project area itself, the DGS team has identified Regional Growth Centres shown on the map below. In order to avoid in-migration to the Project site, these centres will be points for recruitment, payroll and R&R.

The Diversified Growth Strategy includes a number of programmes to build capacity for planning and budgeting, including infrastructure development, fiscal management and investment incentives. The overall DGS Implementation Agreement was launched at a two-day workshop on 19-20 January 2004 entitled Sharing Results Workshop. This meeting provided partners and government with an informal setting to share programmes, tools and results to date. A follow-on meeting in Jakarta (date to be determined) will further examine tools and assessments being undertaken by the 12 partners (BP and USAID) along with the DGS secretariat and UNDP and other key stakeholders working in the region, as well as how to strengthen co-ordination and timely sharing of results.

The Papuan Content programme was the first DGS project to enter the implementation phase in October 2003. It will contribute towards achieving the broader DGS objective to explore the potential for micro-enterprise and micro-finance which is hoped will foster sustainable and diverse economic development. Over 120 Papuans attended the first in a series of induction workshops for local entrepreneurs aimed at enhancing their business leadership skills and business knowledge (particularly of oil and gas). The programme is run in close partnership with BPMIGAS and local Chamber of Commerce (Kadinda).



BP is also working on a micro-finance programme. This will start with a micro-savings programme to encourage and reward saving, creating a local investment culture which will, in turn, form the basis of a micro-loan programme. Several assessments have been done or are in process that will serve as the basis for long-term programming. It is hoped that the use of micro-finance as an engine for creating small-scale enterprises in the Bintuni Bay area will contribute to the creation of an informal job sector that counteracts over-dependence on the Tangguh Project.

Community Action Plans (CAPs)

The Tangguh project impacts on nine so-called Directly Affected Villages (DAVs). Through a continuous consultation process now in its second year, the Tangguh team is attempting to mitigate the negative impacts of the project, as identified in the ESIA,[18] and address additional community priorities. The consultation process uses current international best practice - a variant of the Participatory Rural Appraisal (PRA) methodology, never before used in Indonesia. Using this methodology, feedback and guidance from local communities and Papuan NGOs are incorporated into the design of consultation processes. For example, reservations amongst NGOs about the pure PRA process led to the development of a modified version which accommodated wider involvement of Papuan students and NGOs, such as FOKER and YPMD-Papua and allowed some NGOs to observe rather than participate.

Community Action Plans are developed on the basis of week-long meetings hosted by each village in rotation and attended by up to 100 people. This includes a team of facilitators (an NGO or institution), a BP Tangguh team (comprised of representatives from the BP Community Affairs and Development Teams, and managers visiting from Jakarta) and local government staff. The logistics of these meetings are an important part of the relationship building process as transportation (by boat) can take an entire day and the host village is responsible for providing meals and accommodation.

The consultation aims to identify development priorities, required resources, implementation schedule and potential partnerships. It is integral to the relationship building process between BT and the communities. Through consultation, or so-called Participatory Planning, members of the BP Tangguh team work with communities to produce Community Action Plans (CAPs). CAPs are both developed by the communities and specify the community's role in implementation. CAPs are intended to supplement rather than substitute basic welfare that should be provided by the government.

The first year of consultations indicated community interest in education, healthcare, institutional capacity-building and community-based economic development. Several programmes have been initiated, including a $30,000 per year contribution to self-administered funds for each of the nine DAVs; a program to educate the local populations regarding HIV/AIDS; and another to facilitate a malaria survey and community treatment in the Project area.

A Community Development Team is responsible for facilitating these programmes. The team is comprised of roughly 30 Papuan development professionals, local community members and expatriates and is based in the Bintuni Bay area. It works closely with the Community Affairs Team (CAFT) which acts as a two-way channel between the communities and the company, identifying issues and communicating feedback and recommendations. Every village is assigned one or two CAFT members to act as a liaison. Located in Papua which is two time zones away from the rest of Tangguh Project managers in Jakarta, these teams have considerable responsibility and discretion in implementing the ISS programmes on the ground.

Programme priorities of CAP are implemented by the local communities and BP's Community Development Team one by one according to the agreed time-schedule. Upon completion of each program, the community together with project community development officer make a written report, before they move on to the next program priority. Each year, an independent institution will perform an evaluation of the implementation program and revisit the CAP. During the evaluation, the CAP may be modified to accommodate any new needs or aspirations that are progressing in the community.

BP's greatest challenges working with communities on local development matters are first, to manage the risk of raised expectations and second, to mitigate the danger of perceived competition over benefits. The Tangguh Independent Advisory Panel warns: "The process already has produced "a momentum of expectation" at all levels and considerable impatience for tangible benefits…. BP's presence already has led to a series of escalating requests, bordering on demands, by those affected by the Project". The Advisory Panel and NGOs are recommending that BP now move more from planning and dialogue to provision of benefits in the areas of health, education and infrastructure. BP's approach to managing this matter is, "by being consistent, and continuously communicating our roles and responsibility… Involvement of Government officials on our programmes should also help manage this issue as the local government will in turn fully manage the development of the area, as this is the Government's responsibility. We have been making effort to build the capacity (through training and consultation) within both the Government and community to make them better understand our role and responsibilities." (BP's Tangguh managers in Jakarta).

Training initiatives and workforce management

BP has developed a Workforce Management Plan with three main aims: first, to maximize opportunities for employment and training among local Papuans - a key expectation; second, foster employee sensitivity and positive interaction with community; and finally, to plan appropriate post-construction demobilization of the workforce.

The Workforce Management Plan covers socio-cultural awareness raising, codes of conduct, industrial relations procedures, recruitment procedures, health and safety practices and human rights awareness.

BP is implementing a three-fold training effort for construction-phase employment, operations-phase employ-

18 The Indonesian equivalent of ESIA is known as AMDAL.

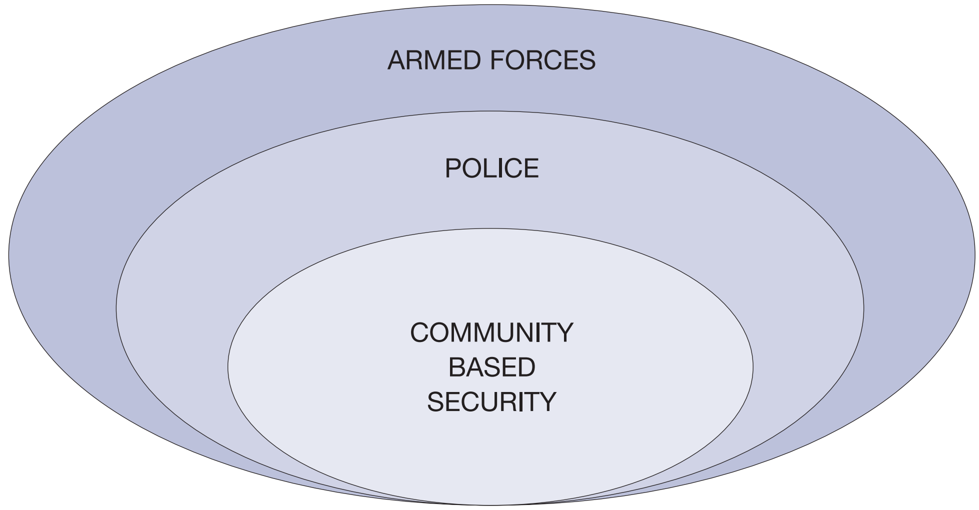
ment (BP was awarded operator role in March 2003) and general support for education and vocational training in Papua. Construction-phase employment demands only short-term training. Special effort is being made to recruit some of these jobs from the nine Directly Affected Villages (DAV) which is a key expectation amongst the locals. BP has offered one temporary Construction Phase position to each family in every DAV. Operating roles require higher competency levels and longer-term education and training. To date, BP has recruited twenty-three Papuan college graduates who are being trained in more sophisticated aspects of LNG operations. BP is working with Papuan educational institutions to encourage them to train Papuans for careers in technology-based businesses such as BP. By 2026, BP aims for the workforce to be 85% Papuan.

In addition, training has been integrated into community development programmes. BP's Community Development Team has implemented programmes to train local villagers in basic skills such as plumbing, electrical and catering. Some of these villagers are working for BP's contractor on the construction of Tanah Merah Baru.

The key issues identified by the Tangguh Independent Advisory Panel for this year are to monitor and enforce the contractual commitments of BP's contractors and subcontractors to recruit, train and employ local people and to undertake measures to safeguard and enhance the fishing livelihoods of local villagers.

Community based security

On the basis of an independent security assessment, the Tangguh team decided that the day-to-day security of the Tangguh project should be provided by local communities themselves - an approach dubbed Community Based Security (CBS). At peak construction, the CBS will consist of roughly 250 unarmed Papuan guards, 40% of whom will be recruited from Directly Affected Villages. The rationale is that by directly involving local villagers in Tangguh's security system, the villagers will feel they have a direct stake and less likely to view the Project as an "alien, exclusive or hostile entity".[19] Equally, this means they will have an incentive to stir up trouble in



order to justify their presence.

The basic concept of Community Based Security won quick approval from community representatives and Papuan civil society groups in 2001. But from the start it was recognized that the success of CBS hinged on the formal endorsement by the industry regulator (first Pertamina, later Indonesia's Oil and Gas Implementing Body BPMIGAS), the police (Polri) and the military (TNI), which is certainly a key stakeholder, not least because of its constitutional role in defending "vital national objects" which Tangguh may be declared. The formidable challenge is to define the relationships and responsibilities of all the key stakeholders and thus avoid the outcomes that provoked criticism in Colombia.

To achieve clarity on this critical issue, project planners embarked in late 2001 on what became known as the "Lemhannas Process". The strategy followed a logical step-by-step engagement process to clarify security roles among diverse stakeholders, especially TNI and Polri. This took two years, during which Tangguh proceeded with the recruitment of 89 community members in security roles and hired the international security consultant Shields as a contractor for the provision of specialized training in peaceful conflict resolution. The two-year process of negotiations with TNI and Polri culminated in the Lemhannas Consultation Forum on 8 July, 2003. Unfortunately, at the last minute TNI cancelled the attendance of its representatives which meant the seminar did not produce an official TNI endorsement of CBS. A Memorandum of Understanding (MoU) on the project security arrangement was signed only by BPMIGAS (Indonesian oil and gas regulatory body) and the Indonesian Police (POLRI). BP says it received assurances at subsequent meetings with the TNI Chief and the National Chief of Police that the TNI would not be directly involved in security and this would be the responsibility of the Indonesian police. Further to the Memorandum of Understanding, Tangguh is currently working on the Operating Procedures with the POLDA Papua (Provincial Police Headquarters) which will establish how the community based security system will be implemented at local provincial level.

However, a number of issues give continued cause for concern. First, the fact that the Community Based Security has not been formally endorsed by the TNI. In the absence of such an agreement, the NGO Down To Earth maintains that "the TNI will decide as and when it suits whether Tangguh needs protection, no matter what BP wants". The NGO has also discovered that the Chief of Police BP is currently dealing with, Colonel Timbul Silaen, was in charge of police operations during the run up to the August 1999 referendum when military-backed pro-integration militias were permitted to terrorise the population. He has been charged with crimes against humanity by East Timor's Serious Crimes Unit. A third issue of concern is the proposal that BP should contribute to the increased police costs in the region, due to the establishment in 2003 of Bintuni Bay as

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a separate new district. This has been criticised by national and international NGO on the grounds that establishing a financial relationship between the company and military and police personnel creates an incentive for security forces to prioritise the interest of companies over communities.

Following through on its commitment to the Voluntary Principles on Security and Human Rights (a mandatory element of the ESIA), BP will employ contractors to train the guards in security, human rights and non-violent conflict resolution. BP has committed to Cultural Awareness Training for the entire Tangguh workforce to foster employee sensitivity and positive interaction with the community. The training is one of the commitments in the Tangguh AMDAL documents (ESIA). Dispute resolution is the specific responsibility of the CAFT teams but the topic is also included in the general Tangguh security training programme. Implementation of this programme has not yet begun.

The first workshop to have been carried out to progress the implementation of the integrated community-based security system (ICBS) was a community policing programme which ran for three days from 18 to 21 December 2003.[20] The workshop was sponsored by the Tangguh Project and run by representatives from several local and Papuan stakeholders groups from the south shore area of Bintuni Bay. The Project is planning to sponsor representatives from other Papuan stakeholders on the north shore to participate in a similar event designed to support the implementation of ICBS.

The Community Based Security force will be responsible for standard security measures such as patrolling the area, preventing trespassing and on-site drinking. For "normal" law and order issues among the local communities, the presence of a well-trained police force is essential. Only in very serious security problems, such as violent protests, would the armed forces be required. This is a highly sensitive issue owing to the possible fear and disaffection of the Papuan people with respect to this military activity. Thus a key aspect of security discussions is the protocol for adjusting security levels, that is, deciding where to draw the line from one mode of security to the next illustrated in the diagram. BP commissioned a Human Rights Impact Assessment, discussed in greater detail below, which dealt in large part (approx. 40%) with how to implement the Voluntary Principles Security and Human Rights but critics insist this has not been achieved fully. According to the former Director of External Affairs and Security for the Tangguh Project John O'Reilly, there is a worrying deficiency in crisis management systems to deal with more extreme security issues, particularly in recording reporting and making appropriate representations should human rights violations by the security forces take place in the company's area of operations. This is a fundamental element of the Voluntary Principles on Human Rights and Security notwithstanding its sensitivity. On this, the Tangguh project managers stated "We are always seeking ways to improve our preparedness for unforeseen eventualities".

Tanah Merah Relocation

The Tangguh Project site encompasses the village of Tanah Merah, a predominantly indigenous costal community with 591 residents. Following extensive consultations in 1999, the residents of Tanah Merah agreed to undergo resettlement.

International best practice requires resettlement projects to at least restore incomes and living standards to pre-move levels. The Tanah Merah Resettlement Programme seeks to go beyond this benchmark and to actually improve incomes and living standards such that resettlement-affected communities are better off than before the move. BP is using the World Bank's Impoverishment Risk and Livelihood Restoration (IRLR) Model as a planning matrix, to analyse poverty risks and formulate strategies to overcome them. An independent Advisory Panel of resettlement experts provides the project with detailed advice and planning assistance. The Panel is also engaged in an oversight and assurance role throughout the resettlement implementation phase.

Long-term planning is going into the resettlement project, with emphasis on community participation in all phases. These include choosing a new site, the planning, design and construction of a new community, and income continuity programming to ensure independent family livelihoods are re-established. To do this, BP interfaces routinely with a local Tanah Merah Resettlement Committee, a specially formed body comprised of 20 members chosen by the community. Together, they carry out data collection and research that is the backbone of long term planning efforts. Research has focused on identifying natural resources, mapping traditional land boundaries and creating inventories of physical assets to be replaced. Various surveys have analysed the communities' culture, environment, health status and livelihoods from agriculture and fisheries. This information has contributed to an in-depth understanding of livelihood strategies and social structures, which in turn guides programming and provides benchmarks for on-going monitoring and evaluation.

The Tanah Merah community was offered a choice of resettlement sites and has chosen to resettle in two separate locations. The community contributed substantive input into the designs of their community facilities and houses. Over 50 community members have received skills training for employment in the village and plant construction.

The Tanah Merah Resettlement Programme describes three distinct types of measures to mitigate impoverishment risks associated with land acquisition and resettlement:

Cash compensation was paid to three clans who relinquished traditional land rights; to the owners of tree crops; and to the Tanah Merah community for sago stands. An Indonesian charitable foundation (yayasan) has also been established to accommodate a long-term endowment fund for the benefit of the three clans.

Replacement of assets foregone will include village land, house plots with certified title, houses, village facilities, water, electricity, sewerage, gardens and access to natural resources.

Development investment will aim to

20 Pariticipants at the workshop included the Chief of Babo Police, a Papua police representative, the Chief of Babo District, representative of LMA Babo (local customary (adat) institution), Mr. Ronny Bawole from University of Papua and the Chiefs of Saengga and Tanah Merah

ensure income continuity and improve livelihoods and living standards. Programmes in this area pertain to capacity building, skills training, employment, support for government services (such as health and education), and support for agriculture, fisheries and community-based enterprises.

A major challenge that has emerged from the decision to provide new housing to the villagers from Tanah Merah is that this has led to parallel demands by villagers from the north shore. According to the Independent Advisory Panel, "there is a clear tension with respect to the anticipated allocation of revenues from the Project among the province of Papua, the Bird's Head region, and the villages on the north versus the south coast of Bintuni Bay, all of whom expect to benefit substantially".

Forum and Foundation

Forum

BP is in the process of revising its initial plans for a multi-stakeholder Forum and a Foundation, having realized that complex rivalries among local people could make the original idea unworkable. BP's initial plans were to establish a multi-stakeholder forum for dialogue about development in the broader Bintuni Bay area and issues cut across all the communities such as security, in-migration and large-scale development programmes. The Forum would be representative of local stakeholders, including community representatives and religious leaders, with BP playing a facilitating rather than a controlling role. Meetings would be held quarterly, in different cities, on different topics, with rotating chairs. The priorities agreed at the Forum would assist the Foundation allocate funds.

BP's aspiration was for the Forum to become sustainable as the villages take on a greater sense of unity in considering broader issues that affect them all. As the company becomes more aware of the rivalries that exist between and within the seven tribes in the Bintuni Bay area, the risks associated with establishing such a Forum became more obvious and plans are now being revised.

Foundation

Together with the Forum, BP intends to establish a Foundation to distribute funds for development programmes. The funds would come from companies with interests in the area (of which BP is only one of many), as well as multilateral and other donor agencies. The outstanding feature of plans for the Foundation is that BP would be represented in these institutions as a member of the Forum, and with a seat on the board of the Foundation, but would not lead in the development or operation of these institutions.

Key feedback and advisory mechanisms

BP has established three voluntary advisory mechanisms. First, a one-off Human Rights Impact Assessment which appears to be the first ever human rights impact assessment prepared on the front end of a major extractive project. Second, the Tangguh Independent Advisory Panel was established to produce annual reports with analysis of the project and recommendations. And third, a series of Stakeholder Review meetings are held around the world each year focusing specifically on the Tangguh project.

i) Human Rights Impact Assessment

BP Indonesia decided in mid-2001 to commission an independent human rights assessment of the proposed Tangguh project. The assessment was conducted by two former US Deputy Assistant Secretaries of State for Democracy, Human Rights and Labour - Gare Smith and Bennett Freeman.

There are a number of key differences between the Human Rights Impact Assessment (HRIA) and the Tangguh Independent Advisory Panel's report. First, the HRIA's mandate was far narrower, namely to focus on human rights issues taking account of but not covering the broader social issues, such as resettlement and regional development. Whereas the TIAP produced 25 pages double-spaced on a broad sweep of social issues, the HRIA comprised 70 pages single-spaced and focused only on human rights issues. Other important differences are that the HRIA was conducted by half the number of experts and intended to be a one-off, as opposed to an annual report. Finally, in producing their report, the TIAP had the completed HRIA at their disposal. "The TIAP's recommendations on human rights were highly derivative of the HRIA", says the HRIA's co-author Bennett Freeman.

The Assessment attempted to meet three key objectives:

- Identify key human rights issues that could arise
- Offer specific proposals to avoid human rights violations and resolve unavoidable human rights conflicts
- Propose broader approaches and model processes to protect and promote rights of communities and people affected by the project

The Assessment was both analytical and prescriptive, and was prepared through a

Minor challenges	Major challenges
1. To adapt the HRIA into a template for other Greenfield extractive sector because within the next two years, BP will have sufficient experience to be able to indicate point by point how they implemented the HRIA's recommendations.	1. How to use the HRIA model for on-going projects since companies are less likely to be open and candid about risks involved in an established project.
2. To use the security section of the HRIA as a road-map of how to implement the Voluntary Principles on Human Rights and Security. In this section of the report, six key sets of security issues are identified, including the conduct of forces, accountability, training and the relationship between forces and local communities, with a discussion of how the Voluntary Principles can be applied.	2. To extrapolate a template from the HRIA for use by companies in other sectors.

three-part process from August 2001 to March 2002:

August – December 2001: Research on Tangguh project issues, relevant international legal standards and corporate responsibility best practices through consultation with BP executives, Indonesia and Papua experts and interested NGOs. Particularly important, highlights Bennett Freeman, were consultations with NGOs Human Rights Watch, Amnesty UK and Tapol (UK based Indonesia Human Rights Campaign).

January 2002: A trip to Indonesia had been planned for October 2001 but following the 9/11 attack on New York and Washington, was postponed until January 2002. The trip broke down into three stages: First, 24 hours in Jakarta for meetings with senior BP executives; Second, a week in Papua for meetings with provincial governors and legislators, Major General of the TNI, Deputy Chief of Police, 8 local NGOs, religious leaders and Freeport McMoran managers. Two days were spent at the project base camp during which a 3 hour meeting with 18-20 community leaders was held. This meeting, and most of the meetings with NGOs, were held privately without the presence of BP managers. Another two days were spent at the Tanah Merah relocation village. Finally, another week in Jakarta for further meetings with BP managers, the US and UK Embassies, national human rights NGOs, the National Human Rights Commission and the press (including, the Far Eastern Economic Review, Time and Jakarta Post).

February – April 2002: Post trip consultations with key international NGOs prior to drafting and editing assessment. The final HRIA was delivered to BP in April 2002.

Once the HRIA was completed, there followed a spirited debate within BP and between BP and London NGOs on whether the report should be published. Despite the repeated requests of NGOs and against the wishes of the former Tangguh Director of External Affairs and Security who had played a key role in commissioning the report, BP decided not to risk the potential legal consequences of the section which related to security issues and human rights violations. The view held by the report's author Bennett Freeman is that "I would have loved 99% of the report to be published but 1% would have got BP in hot water in ways that would be counter-productive". As a compromise, BP published the recommendations with a detailed response to each one (both of these are available on BP's web site), but not the main body of the text. According to O'Reilly, "The Report contained nothing that was not already in the public domain. The refusal to release it meant the argument became one of transparency – what's BP trying to hide? – and this distracted attention from the Report's far reaching recommendations. The company's timidity was a shame."

The HRIA was presented by its authors to interested NGOs, SRIs and government officials at an 8 hour meeting in London in February 2003 and a 5 hour meeting in Washington the following month. Several NGOs boycotted the meetings on the grounds that the report had not been published.

The HRIA of the proposed Tangguh Project appears to be the first ever human rights impact assessment prepared on the front end of a major extractive project. This provokes the question: how can the HRIA model be adapted to address human rights issues and risks in other projects? According to Bennett Freeman, there are two easy challenges and two difficult ones.

BP's Group Policy Adviser for Development Issues David Rice has initiated talks with the International Business Leaders Forum and the Global Compact on how to extrapolate general principles from the HRIA. There has been one meeting with each organisation to date. IBLF will coordinate the project.

ii) Tangguh Independent Advisory Panel

The Tangguh Independent Advisory Panel ("TIAP") was established by BP's CEO John Browne to provide external advice to senior decision-makers regarding non-commercial aspects of the Tangguh LNG Project. The Panel is chaired by U.S. Senator George Mitchell and includes Lord David Hannay of Chiswick from the UK, Ambassador Sabam Siagian from Jakarta and the Reverend Herman Saud from Jayapura. The mission statement for the Advisory Panel is as follows:

"The Panel is charged with advising BP on how Tangguh can achieve its potential as a world-class model for development, taking into account specifically: the Project's effects on the local community; its impact on political, economic and social conditions in Indonesia generally and Papua in particular; and its evaluation of Indonesia and Papua country risk."

The TIAP has so far produced two reports, in September 2002 and November 2003. The 2002 report and BP's response are available in the Tangguh LNG project location report on the BP web site.

iii) Stakeholder Review meetings

Every year, BP hosts a sequence of stakeholder dialogues on the proposed Tangguh Project. This year, the workshops will be held in London, Jakarta, Washington and Australia. They are conducted in quick succession in order for the operational managers to be present, including 3-4 Tangguh managers and 2-3 managers from corporate centre. The workshops are attended by local and international NGOs, SRIs and academics, usually around 20-30 people, and hosted in a neutral space, such as a hotel. The dialogue is opened with a project up-date from BP, followed by discussion sessions on specific project-related issues. Stakeholders are invited to give their feedback or ask questions on the content of the dialogue, with a commitment from BP to follow up on any unanswered questions. Participants also receive a quarterly e-mail up-date.

Annual stakeholder review meetings also take place in Papua. Participants include Community Leaders of Bintuni Bay, Intellectuals of Bintuni Bay, Universities in Papua, NGOs, Local Government and Institutions, and Bintuni Bay Students.

Analysis and Conclusions

The Tangguh Project will generate enormous revenue both for BP and potentially for the people of Indonesia and West Papua. On the basis of two LNG trains and the significant assumption that the Special Autonomy law is implemented, the central Government stands to gain $8.7 billion and the province of Papua $3.6 billion over the 30 year project life-cycle. During the period of highest impact, Papua will receive the equivalent of 125% of its current budget each year from the Tangguh project alone. This money could improve considerably the level of socio-economic development in the region

However, the Indonesian and Papuan political risks present formidable challenges and in this context, BP is having to work extremely hard to justify its “licence to operate” from a human rights perspective. Indeed BP has put the Tangguh project forward as a “best practice model that will set new standards in socially and environmentally responsible resource development”. NGO and SRIs such as Insight Investment say they are impressed with BP’s transparent and participative approach. Ultimately, the main objective is to ensure that Project revenues translate into tangible benefits for the people of Indonesia and particularly West Papua.

Starting six years before the flow of any revenue from the Project, BP is evidently putting in considerable groundwork. Human Rights Watch points out that “One thing that stands out is the extent to which BP has taken human rights into account in various assessments”. In 2001 BP commissioned what appears to be the first human rights impact assessment (HRIA) on the front end of a major extractive project. This is a significant step, despite BP’s controversial decision not to publish the full report. In addition to the one-off HRIA, BP has established a prestigious independent Advisory Panel to produce an annual report on the Project’s impact and make recommendations. Insight Investment suggests it may be interesting even at this stage to apply the questions and experience of these panels in other projects. On a practical level, BP has teamed up with development organisations and provincial government to develop a number of programmes that will ensure diversified growth across the region and avoid mass in-migration into the immediate Project area which cannot accommodate it. In the nine directly affected villages, BP is working with locals to develop and implement annual Community Action Plans. There are significant challenges such as the need to manage the risk of raised expectations and also to mitigate the danger of perceived competition over benefits but by all accounts, these programmes are likely to be very positive. BP is aiming to surpass international best practice in the resettlement of Tanah Merah by improving incomes and living standards and is working with an independent Advisory Panel of resettlement experts.

The two most significant risks militating against the people of Indonesia and Papua deriving full benefit from the exploitation of their natural resources at Tannguh relate to security and revenue management, not least because they are issues over which BP has relatively little control. The different modes of security required to deal with different levels of disturbance have been outlined in this case-study. They include a Community Based Security strategy for day-to-day security, a police force to deal with “normal” law and order issues and, in the case of the most security problems, the armed forces. There are potentially serious problems with each of these security modes, notably that the CBS has not been endorsed by the Indonesian military TNI and the worrying deficiency of crisis management systems to deal with extreme security problems. Revenue management is related to the security issue as money provides funding and stakes for conflict. The government’s decision to divide the province of West Papua into three does not bode well for the 2001 Special Autonomy agreement according to which post tax revenues would be divided between the province and central Government in a 30:70 ratio. In any case, it is not clear that this would satisfy either the Papuans, many of whom see Special Autonomy as a mere stepping stone to complete independence, or the Government over whom the nationalist military TNI, known for its brutality and human rights abuse, apparently exerts increasing control.

Despite BP’s sucesses in forging a new standard of best practice, the Indonesian and Papuan political risks present formidable challenges and there is a very real danger that the increased revenue and security presence generated by Tangguh will bring underlying tensions to the surface. In this context it is perhaps surprising that risks have not also been assessed through a more conflict-specific lense. The real test for BP’s Integrated Social Strategy will come at the construction and implementation phase. ■

BT

Company background

BT is a telecommunications provider, with almost 140,000 employees in locations in the UK, Japan, Hong Kong, India, Latin America, Malaysia, New Zealand and Singapore. Since its restructuring in 2001, BT has been reorganized into five independent production units: Retail, Global Services, Openworld (Internet access provider), Wholesale and Exact (research, technology and IT operations).

About this case-study

BT has played a pioneering role in corporate responsibility, and particularly ethical sourcing, in the Information and Communications' Technnology (ICT) sector.

The first part of this case-study considers the human rights' impact of companies in the ICT sector through the use and supply chains. The case-study goes on to discuss the emergence of human rights on BT's agenda, the development of BT's corporate responsibility principles 'The Way We Work' and the company's innovative stakeholder consultation mechanisms. BT's corporate responsibility management structure is also covered.

The second part of the case-study focuses on BT's Sourcing with Human Dignity Initiative, the product of the company's leading role in ICT sector supply chain management. There is a discussion of how the Initiative was developed and is being implemented through a supplier risk assessment questionnaire, training and an internal 'health check process', and the role BT is playing in raising awareness within the industry. The costs of the Initiative are briefly considered, followed by a discussion of the monitoring process and key performance indicators.

Human rights-related impact

Companies impact on human rights through two channels: the use chain, that is, the effect of the use of the company's products and services after they have been sold, and second, the supply chain which refers to the working conditions under which the products purchased by the company are produced.

The use chain

The use of Information and Communications Technology (ICT) has the potential to impact positively on human rights. "The two trends of a human rights culture and the information society are intimately related and hold the potential of enhancing each other" said one speaker at the World Summit on the Information Society.[21] The right to use ICT is enshrined in the Universal Declaration of Human Rights in terms of freedom of expression, incorporating the right to seek, receive and impart information through any media and the right to share in society's scientific advancement. These rights are commonly violated. In China, for example, Amnesty International took up the case of 54 people jailed for expressing their opinions on the Internet in early 2004.

The use of ICT, in addition to being a right in itself, is also a means for advancing human rights in general. ICT offers unprecedented opportunities to empower individuals and groups through advancing shared knowledge in areas critical for human development, particularly the rights to health, education and adequate food - in 2001, the UN set up a task-force to explore these opportunities. As increasing numbers of governmental functions use these technologies to facilitate basic services people need to maintain an adequate standard of living, ICT will become an ever more important human right.

At present, however, there exist massive disparities in access to information and the means of communication, particularly between the developed and developing world. For some, this "digital divide" is detrimental to social development and therefore human rights, on the basis that "Unless ICTs are made available on a vast scale to those who are at the losing end of the digital divide, the information and communication society will remain a force of relative impoverishment of large swaths of the world's population and consequently a source of instability and deprivation."[22] For others, however, concern about the digital divide is misplaced. Bill Gates for one has questioned whether access to technology is the key to social development and emphasizes corporate philanthropy instead.

So what is BT doing to promote digital inclusion? With no residential customers outside the UK, BT has practically no role in promoting digital inclusion internationally. In 2001, the company was criticized in India for being "strongly focused on the middle classes, who are the exclusive focus of their marketing strategies and product offerings" (ERM) but BT has since sold 3 out of 4 of its joint ventures there. The challenge with regards promoting digital inclusion in the UK is to reach unserved communities and consumers with a high-quality Internet content that increases opportunities for education, employment and democratic participation. An independent report on digital inclusion commissioned by BT finds that, "The potential of ICTs to address social exclusion is not being fully realised. There is growing but by no means universal access, and usage remains focused on entertainment and e-commerce without changing existing patterns of wealth creation or social exclusion."[23]

Besides the issue of digital divide, ICT can have other impacts on human rights through the use chain. As Wired Magazine aptly put it, "Any technology that makes the good things in life easier probably makes bad things more convenient too". Of particular concern are the use of the Internet for activities with human rights implications such as pornography, incitement to violence and hatred and deliberately offensive or disturbing sites.

21 For further information visit www.itu.int/wsis or www.geneva2003.org/wsis/indexao1.

22 Statement on Human Rights delivered at the World Summit on the Information Society in Geneva 2003.

23 Zadek, S. & Raynard, P. (2001) The Digital Divide [www.btplc.com/Societyandenvironment/Betterworldreport/PDF/digital_long.pdf]

Finding ways to protect children from these activities is a key issue. An ICT company's products and services also have implications for the right to privacy, through unauthorised use of personal information such as financial and medical records, excessive junk mail or telemarketing and workplace monitoring of Internet and telephone use.[24]

The supply chain

The supply chain - the second channel through which ICT companies can have an impact on human rights – relates to the working conditions under which products purchased by the company are produced. Compared to the retail sector, little research has been carried out into ICT supply chain issues but given that they source from many of the same countries, it is likely they face similar issues. A recent report by CAFOD on working conditions in the electronics sector brings to light evidence of "unsafe factories, compulsory overtime, wages below the legal minimum and degrading treatment".[25] The report outlines how pressure to cut costs, improve quality and meet tight deadlines is passed down the supply chain and, in the frequent absence of trade unions, creates a downward spiral in working conditions, particularly with regards health and safety. BT's initiative in ethical supply chain is discussed later as the focus of this case-study.

BT's engagement with human rights issues

Human rights first emerged on BT's agenda when the company revised its statement of business practice in 1999. This was the first time BT sought guidance on how to approach specific human rights issues from several non-government organisations (NGOs). A document was developed entitled "The Way We Work" that sets out BT's principles in twelve areas and specific commitments to key stakeholders (customers, employees, shareholders, partners, suppliers and community). Although no explicit reference is made to human rights, the Universal Declaration of Human Rights or the ILO core Conventions, three principles relate to the human rights issues of diversity, health and safety and privacy.

Consulting with stakeholders on human rights issues

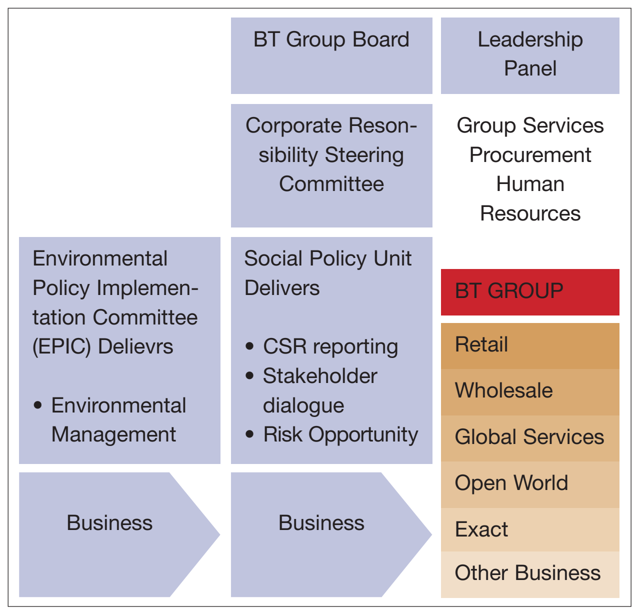
Since then, BT has consulted with NGOs about human rights issues on a needs basis. Focused dialogue on specific policies or procedures leads to more relevant conclusions and stakeholders like to see that their input is incorporated directly, explains one manager in BT's Social Policy Unit. BT has worked with human rights NGOs on a number of initiatives, including the Sourcing with Human Dignity initiative and a position statement on the digital divide. Most recently, BT has worked with CSR Europe and Business for Social Responsibility on benchmarking its progress in the human rights area.

BT also commissions NGOs to write reports on so-called Hot Topics. Using selection criteria approved by the Leadership Panel, topics are identified which focus on key issues that would not normally be covered in stakeholder dialogue. The reports examine the issue itself and how BT is addressing it and are written by independent external authors to add balance and credibility. BT's Social Policy Unit plays a facilitatory role by encouraging relevant managers within the company, as well as contacts in Trade Unions and government, to make themselves available for interview. Once the authors of the Hot Topic have reached conclusions and recommendations, the onus is on BT's Social Policy Unit to embed this knowledge in the relevant departments. To date, BT has published eight Hot Topics available on the Internet, including the digital divide, mobile phones and health and, most recently, BT's policy of outsourcing to India.

A final important way BT has consulted stakeholders on human rights issues is by hosting discussions on a series of occasional papers. To date, BT has published six occasional papers which are available on the web site. The discussions on these papers have progressively grown in size – from a business breakfast attended by 20-30 people to debates of over 150 people. The most recent occasional paper entitled "Just Values" asks the question "What happens when responsible business doesn't pay?" On this occasion, BT turned the process around and held the discussion before writing the paper. BT has decided to continue with this format from now on, allowing stakeholder discussion to inform management thinking and policy rather than the other way around.

Management structure

BT's corporate responsibility management structure comprises three main bodies. First, the CSR Steering Group which is made up of senior managers from each line of business. The Group oversees the company's overall CSR strategy and has met quarterly since early 2002. Second, the Social Policy Unit which is responsible for implementing CR policies, embedding knowledge and understanding of the issues internally. Finally, there is the Leadership Panel which is the result of a merger between two predecessor panels (the Reporting Panel formed in 2001 and the European Stakeholder Panel formed in 1999). The Leadership Panel is comprised of six external experts who meet quarterly in an advisory capacity.



The Sourcing with Human Dignity

24 For detailed information on how technology affects personal privacy rights go to www.privacyrights.org.

25 CAFOD (2004) Clean Up Your Computer – working conditions in the electronics sector. [http://www.cafod.org.uk/var/storage/original/application/phpYyhizc.pdf]

Initiative is implemented by the procurement department – a function located in BT Group which serves across the business units.

Focus – BT's Sourcing with Human Dignity Initiative

Developing the Initiative

There are three aspects of corporate responsibility in BT's procurement: environment, human rights and supplier diversity. The procurement department took over management of environmental issues from a separate department within the company in 2002. The human rights aspect of procurement is covered by the Sourcing with Human Dignity initiative launched in April 2001.

The Sourcing with Human Dignity initiative was the result of a growing awareness within BT's Social Policy Group of increased media pressure on many companies to be accountable for human rights issues in the supply chain. At the time the initiative was first conceived, this pressure was largely focused on the retail sector rather than ICT. Aware of the questions being asked of other companies, the Social Policy Group realised it would be unable to answer them for itself. "We didn't know where things were coming from and therefore didn't know under what conditions they were made", recalls the Ethical Trading and Environment Manager Rowena Wright. In light of the group-wide principles BT had just committed to in "The Way We Work", an ethical sourcing initiative was a logical next step.

Rowena Wright joined BT's procurement department just as the Social Policy Group decided to develop an ethical trading policy in early 1999. She has been directly involved in every stage of the process which she breaks down as follows: First, as companies in the ICT sector had not yet addressed these issues, BT carried out a benchmarking study of six companies from other industries. BT then consulted with Save the Children and Amnesty UK on how it should approach specific human rights issues. This research led the company to consider how the Ethical Trading Initiative base-code could inform its own standards. Discussions were held amongst key buyers and suppliers, the head of the Social Policy Unit Chris Tuppen and Rowena Wright in procurement. Eventually, after some disagreement, the Sourcing with Human Dignity principles and standards were established.

The main obstacle in this process was disagreement over the specific wording of certain aspects of the ETI base code. These disagreements were "potential deal breakers", recalls Rowena Wright. With regards freedom of association, for example, the ETI code states that "the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining". The phrase "the employer facilitates" was unacceptable to US suppliers who threatened to abort the whole process if the wording was not changed. These difficulties led to a key turning point in BT's approach to developing the Sourcing with Human Dignity initiative. Initially, BT's plan was to adopt standards first and then define principles. When agreement could not be reached on appropriate standards, however, BT decided to go back and establish its principles first. This was an internal process which involved the procurement policy team and the head of the Social Policy Group. They decided on the following principles:

- Working together
- Making a difference
- Public reporting
- Awareness raising and training
- Monitoring and independent verification
- Continuous improvement

On the basis of the first and sixth principles – working together and continuous improvement – BT decided it was preferable to reach a less ambitious agreement on which to build, as opposed to none at all. A compromise was reached with suppliers over some aspects of the wording in the standards. In this example, the wording was changed to "the employer will consider facilitating".

The significance of the Sourcing with Human Dignity initiative is that despite some compromises, it is clearly based on international standards incorporated in the Ethical Trading Initiative Base Code, including specific provisions on freedom of association, child labour and inhumane treatment. Further, the initiative sets standards aimed specifically at suppliers, rather than merely building provisions on suppliers into the company's general business code.

Implementing the Initiative

Contractual agreement with suppliers

BT initially intended for the Sourcing with Human Dignity standards to be incorporated into all supplier contracts from the start of the initiative in spring 2001. In the event, a phased approach was adopted to ensure a manageable workload and allow time to implement lessons learned. Rowena Wright now recommends this approach to companies starting down the same path.

Thus from April 2001 to July 2002 only BT's key Network and IT suppliers - together with contracts of 'known risk' - were contractually required to work towards the Sourcing with Human Dignity standards. From July 2002 all new contracts with a value of over £250,000 were also required to incorporate a Sourcing with Human Dignity contractual commitment. This year, BT removed the contract value condition such that all suppliers now have to agree to Sourcing with Human Rights standards.

As part of BT's broad supply chain management, BT's 20 key Network and IT suppliers are included in a Relationship Management Programme and assigned an individual manager to take care of the account. Prior to the Sourcing with Human Dignity initiative, these suppliers signed a corporate agreement stating that they take full responsibility to deal with human rights issues themselves. During a Partnership Evaluation Management process carried out by four key suppliers, it emerged they were not meeting human rights standards by themselves which indicated the need for a more engaged approach with all suppliers. When the Sourcing with Human Dignity standard was incorporated into the corporate agreement with key suppliers in April 2001, BT took on a role in the implementation and monitoring process for the first time.

Risk assessment

Under the Sourcing with Human Dignity Initiative, all suppliers with whom BT has entered into a contract must carry out a web-based risk assessment questionnaire. As the assessment is only completed after the contract has been signed, it is unlikely to have an impact on whether the supplier is selected. The purpose of the exercise is rather to get a snap-shot of how the supplier measures up to the standards and whether it falls into a high, medium or low risk category. In this way, explains Rowena Wright, BT is using a risk based approach (principle 2) to work together with the supplier (principle 1) in order to bring about continuous improvement (principle 6) - the supplier has already committed to adhering to these principles in his contract.

The risk assessment questionnaire is web-based and the supplier risk is calculated automatically, thus keeping the long-term resource requirement to a minimum. The questionnaire is designed to be quick and easy with only seven basic questions. The programme was developed internally by the procurement policy team together with BT's IT department over a 2-3 month period. Ten trials were undertaken before the programme was officially launched.

The process of completing the risk assessment is as follows. The BT buyer initiates the process by logging on to the web site and selecting to submit a new supplier (the buyer also has the option of viewing all the other questionnaires stored in the system). The buyer is required to fill in limited information about the supplier, such as the product type and industry. Questionnaires are then sent automatically and simultaneously to both the buyer and supplier. The supplier is allocated a security number to enable both parties to access the questionnaire again. As the supplier answers the questionnaire, a "no" response will lead straight onto the next question, a "yes" response will lead to more detailed questions. Once the questionnaire is completed, the supplier is categorised as low, medium or high risk. This is done automatically by the computer programme, largely based on a comparison between the likely risk of human rights abuses given the type of product and industry, and the supplier's evaluation of that risk and purported policies and procedures in place. An e-mail is sent to the buyer with details of the supplier's responses and risk category. A shorter e-mail is sent to the supplier – if he has been categorised as high risk, the e-mail will only say "BT will now begin liasing with you". The buyer will contact the supplier to arrange a conference call, usually lasting ? hour, attended by the buyer and unit representative on one side, and the supplier and Managing Director, quality manager or Human Resources manager on the supplier side. On the basis of the conference call, the BT team makes a judgement about whether or not to conduct an audit which will, in turn lead to corrective action.

Training

BT was running a series of half-day awareness training courses designed to introduce BT buyers to the rationale behind the Sourcing with Human Dignity initiative, its key features and the role of buyers in ensuring its successful implementation. The course was attended by 176 (54%) of BT's buyers. In early 2003 BT hired external consultants to develop a Computer Based Training (CBT) package to enable the remaining 46% of BT buyers to undertake the course and complete an online assessment. The package is also available on the BT Intranet as an awareness raising tool for others in BT.

The accreditation body BVQI carries out a 3 day assessor training course covering the Sourcing with Human Dignity standards in depth.

Corporate responsibility 'health check' process

The CR Health Check process is a means of embedding the CR strategy into each line of business. In the procurement department, the health check is carried out by the unit representative for environmental and social issues. During the bi-annual health check process, the unit rep sits with a buyer and takes notes of their work, such as whether they are including the correct information into contracts. At a later meeting, the unit rep shares their observations with the buyer and they discuss any errors that were made and decide on how this could be improved – through training, posting information on the Intranet or increased resources. A gentle approach is taken to the health check process - the objective is to find ways of working towards continuous improvement.

Participation in ethical trading forums

Since the launch of the Sourcing with Human Dignity initiative, BT has held five ethical trading forums with key network and IT suppliers to share experience and examine opportunities for collaborative work. BT's objective is not to mainstream the Sourcing with Human Dignity initiative but rather encourage other companies to adopt their own equivalent standards.

The most recent forum was in February 2003. In total, 20-25 people from 17 major communications companies shared experiences and were presented with perspectives on ethical trading from a major UK investor and an expert in corporate responsibility. The forum provided an opportunity for companies to address, in smaller groups, the issues most appropriate to the stage of development of their programmes. These included: Why bother with ethical trading?; First steps in implementation; Managing ethical trading issues with suppliers. The forum resulted in a number of companies expressing an interest in forming an industry-wide working group to address supply chain working conditions.

Launch of industry-wide group

In July 2003, BT was among six companies to form an ICT sector corporate responsibility working group. Due to the geographical diversity of the companies, meetings are held by conference call roughly every two months. The group's first project was to hire a consultant to examine what is best practice in corporate responsibility for companies in the ICT sector. The group's next project is to develop shared tools in order to reduce the duplication of work. Specifically, a common supplier self-assessment tool is currently being developed which will mean suppliers no longer have to fill in numerous questionnaires for different companies. BT will use the supplier self-assessment process where it is not possible to conduct an on-site assessment.

The group is open to all ICT companies, on condition that they are paying membership fees to the Global E-Sustainability Initiative (GESI). The advantages of joining an industry wide group are not only shared knowledge and experience, but also increased leverage to influence suppliers behaviour.

Costs

In terms of the cost of launching an initia-

BT s 10 Social and Environmental Key Performance Indicators

Customers
1. Customer Dissatisfaction – a measure of the overall success of BT's relationship with its customers
2. UK Addressable Broadband Market – a measure of the geographical reach of broadband

Employees
3. People Satisfaction Index – a measure of the overall success of BT's relationship with its employees
4. Diversity – a measure of the diversity of the BT workforce
5. Significant Incident Rate – a measure of BT's success in health and safety

Suppliers
6. Ethical Trading – a measure of the application of BT's supply chain human rights standard (number self-assessment questionnaires completed by suppliers)

Community
7. Community contribution – a measure of BT's investment in society Global Warming CO2 emissions – a measure of BT's climate change impact

Environment
8. Global Warming CO2 emissions – a measure of BT's climate change impact
9. Total Waste and Recycling rates – a measure of BT's resource impacts

Integrity
10. Awareness of the BT Statement of Business Practice – a measure of the company's success in promoting integrity

tive like Sourcing with Human Dignity, Rowena Wright has encouraging news - "You can do a lot with relatively little money". Of course, it is difficult to calculate exact costs as many of them are hidden or absorbed by other departments, such as time spent by the IT department setting up data-bases or auditing carried out by quality managers. Miss Wright estimates that the ethical and environmental programmes in the procurement department have a combined budget of well under 100k per annum. This breaks down into four main areas:

- Auditing – Main cost.
- Set up costs – Time to develop policy and databases.
- Training – One-off payment to consultants to developed Computer Based Training for buyers which, in the long run, will decrease buyer training costs. Costs of assessor training carried out by external accreditation agency. Costs of developing a supplier self-assessment questionnaire covered by GESI
- On-going human resources cost – Four full-time staff in Ethical Trading and Environment team. Costs of IT personnel absorbed by IT department.

Monitoring and measuring performance

On-site assessment

BT undertakes on-site assessments of supply chain working conditions in those areas identified as being at the highest risk of falling short of the Sourcing with Human Dignity standards.

BT's assessment methodology currently includes management interviews, documentation reviews, worker interviews and premises 'walk-rounds', including worker accommodation where this is provided. A scoring system is used. 'Improvement required' means that progress is needed on at least 51% of the aspects in that category. 'Some Improvement required' means that progress is needed on at least one aspect in that category. The observations are discussed with the supplier and (where required) improvement plans are agreed and monitored. Re-visits are also undertaken and can cover some or all of this process, depending on the issues identified.

In 2003 BT conducted 14 on-site assessments to ascertain the extent to which suppliers were meeting the Sourcing with Human Dignity standard. In all instances BT has sent the assessment reports to the suppliers and discussed observations with them. BT has either agreed improvement plans with suppliers and is monitoring progress, or for the more recent assessments are still in the process of agreeing improvement plans. A further seven re-visits were made to facilities where improvement plans had already been put in place and being monitored. Two of the re-visits included full reassessments and the others are scheduled for a full reassessment every two years, provided they remain as suppliers to BT.

One of the re-visits led to the discovery that a subcontractor was allowing serious shortfalls of the Sourcing with Human Dignity standard to persist, including excessive and forced overtime and intimidation of workers. The subcontractor was also falsifying records in an attempt to disguise these issues from the auditors. As a result, no further BT orders have been placed with the subcontractor and they are no longer supplying products to BT. This is the first and only supplier to date that BT has ceased trading with due to a serious breach of the Sourcing with Human Dignity standard. The decision-making process for this takes the form of recommendation by the Chief Procurement Officer to the Board which then makes the ultimate decision.

That BT stopped working with a supplier in continuous breach of its code shows a willingness to follow through, but the decision should not be overstated. In this case, the supplier was indirect and his loss would have only a minimal impact on the business. The example does illustrate one of the key problems companies can have in trying to influence suppliers, namely that they lack sufficient buying power to give them leverage with the supplier.

Key performance indicators

BT's Social Policy Unit carried out a consultation process in early 2003 to identify its ten most important Key Performance Indicators (KPIs). As a large number of KPIs had already been developed, the aim was not to create more but rather identify the ten that would provide an at-a-glance overview of BT's social performance. BT selected 18 KPIs and contacted a wide range of stakeholders for feedback through informal conversations in person and on the phone. These conversations were tailored to the type of stakeholder, consumers being less familiar with the language of KPIs than SRI investors, explains Dunstan Hope.

A clear consensus emerged for some KPIs; there was wide agreement that a diversity indicator should be included whereas total miles travelled by BT's transport fleet was not. For other KPIs, a value judgement had to be made. The real difficulty was to select the indicator that would most effectively reflect the information. With regards ethical trading, two possible indicators were the number of non-compliances in the supply chain and the number of risk assessment questionnaires completed by suppliers. The number of non-compliances found in the supply chain could reflect a number of factors, such as the quality of the audit. BT's key performance indicator for ethical trading is therefore the number of risk assessment questionnaires completed by suppliers.

Analysis and Conclusions

Since the mid-1990s, media and NGO pressure for improved supply chain management has focused on the retail sector. In developing the Sourcing with Human Dignity Initiative in 1999, BT played a pioneering role in the Information and Communications Technology (ICT) sector which had thus far avoided the spotlight on ethical sourcing issues. The initiative has many noteworthy elements. It is based on international standards incorporated in the Ethical Trading Initiative Base Code, including specific provisions on freedom of association, child labour and inhumane treatment. It addresses suppliers directly, rather than being merely incorporated into the company's general business code. And among the six principles underpinning the code is a commitment to work with suppliers in a process of continuous improvement which offers an incentive to them to invest in improving labour standards.

The real test of any policy lies in the degree to which it is implemented. BT has taken some positive steps to embed the rationale and application of Sourcing with Human Dignity internally. In particular, BT has begun awareness training for its buying units on the standard and how to incorporate the issues into their procurement contracts. This year, BT aims to ensure all remaining buying units inside and outside of the UK have received this training, and will also be launching a Computer Based Training Package to assist with this process. Further, for all fourteen audits conducted last year, BT discussed the assessment report with suppliers and helped them develop corrective action plans.

BT has recognized the need to join forces with other companies. This year it pioneered an industry-wide working group to develop a common supplier self-assessment questionnaire.

Thus BT is at the forefront of developments in ethical sourcing in the ICT sector. However, there is clearly some distance still to go in translating principle into practice. Many consider supplier self-assessment to be inadequate in the long term and pressure for a more participatory approach is growing. The formation of an industry-wide working group is a positive step in this direction but whether the group is able to break new ground in the implementation of ethical sourcing principles remains to be seen. ■

Chiquita Brands International

Company background

Chiquita Brands International is a global marketer, producer and distributor of foods in two business segments, Fresh Produce and Processed Foods, under the Chiquita and other brand names. Once the United Fruit Company, Chiquita began marketing bananas when the industry was in its infancy over 100 years ago. Today, the company accounts for a third of the global banana market, selling primarily to EU countries and North America. Besides bananas, other product lines include fresh fruit and vegetables, fresh cut fruit, juices and beverages, packaged foods and fruit ingredients.

About this case-study

Chiquita was prompted to embark on a group-wide CSR programme following the embarrassment of an 18-page expose entitled "Chiquita's Secrets Revealed" by the Cincinnati Enquirer, the town where Chiquita's headquarters are located. This case-study considers Chiquita's human rights' impact and the historical background of the company's engagement with human rights and examines the development and implementation of the company's CSR programme

The focus topic of the case-study is Chiquita's groundbreaking agreement with trade-unions. The agreement is hailed a best practice example of stakeholder engagement.

Chiquita's human rights impacts

The nature and location of the banana industry and the large number of independent banana growers and other suppliers working for the company mean Chiquita has a potentially significant impact on human rights.

South American countries have been so entwined with the banana industry historically that the term "banana republic" was coined to describe them. Today, 21,500 out of a total 26,000 employees working for Chiquita are based in Panama, Costa Rica, Colombia, Guatemala and Honduras. In addition, Chiquita employs a large number of independent banana growers and other suppliers based in these regions. Roughly 40-45% of Chiquita bananas are produced on its own farms, and the balance is purchased from independent growers.

Bananas grow year round, in 13-week cycles, and need to be harvested daily. Because the stems have to be cut by hand, the process is highly labour intensive. Once the stems have been harvested, workers take them to packing plants where they are separated into bunches, sorted, cleaned, labelled and placed in cardboard boxes ready for transportation. This too is labour intensive and also creates a demand for infrastructure and factories to create ancillary products such as cardboard boxes which lengthens the supply chain.

The South American banana industry is cause for a number of human rights concerns, notably the rights to freedom of association, a fair wage and health and safety at work. Recently, labour unions and non-governmental organizations have focused much of their attention on Ecuador, which exports twice the amount of bananas as any other Latin American country. Chiquita does not own any farms in Ecuador, and purchases only a small portion of bananas there (roughly 5%). But Chiquita has consistently relied on Ecuador to provide volume in response to seasonal variations in production or demand and when natural disasters reduce available supply elsewhere. Ecuador has nearly doubled its export volume over the last ten years, while exports from other Latin American countries have grown by less than 15%. This expansion has been fuelled by lower labour, social, and environmental standards than are generally present in the rest of Latin America. Freedom of association and child labour are of particular concern.

A systemic issue, not just in South America but in the agricultural industry, is health and safety, primarily around pesticide use which can cause skin and eye lesions, sterility and contaminate the water supply.

Historical background of Chiquita's engagement with human rights

Turnaround in Costa Rica

A turnaround in Chiquita's approach to its social responsibilities began in Costa Rica in 1991. The small Central American republic was the scene of some bitter disputes between the industry and environmentalists over the expansion of banana plantations. Chiquita's local management experienced a rude awakening to its social and environmental responsibilities.

The following year, the Costa Rican managers were approached by a local non-government organisation, Rainforest Alliance, with a proposal to implement an environmental management and certification programme through its Costa Rican partner Fundacion Ambio. The programme came to be known as the Better Banana Project. Chiquita responded to the proposal first by conducting pilots of the programme in two Costa Rican farms to test whether the programme was practicable and, second, by hiring experts at the Tropical Science Center to evaluate scientifically whether the Project would be of benefit to the environment. Feedback from the pilot project in Costa Rica and the Tropical Science Center were positive and local managers decided to move ahead with the programme in Costa Rica.

"The first certification of standards in Costa Rica in 1992 raised the bar and signified a clear challenge to other managers to follow suit", says Chiquita's Senior Director for CSR George Jaksch. The Better Banana Project resulted in three main benefits: first, increased pride in the work-place and therefore worker motivation; second, direct financial savings from better environmental management, such as decreased pesticide consumption; and third, the introduction of "operating discipline" that created a culture of doing it right the first time and focus on the process.

Expanding the Better Banana Project

At the corporate level, a dual process was creating space for a broader understanding of the company's stakeholders: "Improved communications meant that outside observers were better able to judge the company's behaviour [external process] and generational change brought in new managers with a greater awareness and interest in CSR [internal process]", explains George Jaksch. Further, improved communications between headquarters and the company's remote producing locations also made it more feasible to consider applying common standards across the company.

In 1995 the Costa Rican management team publicised its efforts, and consequently head office summoned it to Cincinnati to find out what it was doing. Determined to win the support of senior management, the team focused on three objectives: first, create internal recognition of the fact that there were issues to be addressed (for example, Chiquita had no waste management systems); second, highlight that the Better Banana Project was not threatening to operations; and third, prove that the Project was credible and would mitigate risks. The commitment and vision of the Costa Rican management team carried the day. As a last test of the Project, Chiquita asked eight experts at Conservation International to carry out another scientific evaluation of the Project, comparing certified farms in Costa Rica to non-certified farms in Panama. Again, the results were positive and senior management decided to extend the programme across all its Latin American operations.

Chiquita embarks on CR

Despite these positive efforts, by 1996 the Better Banana Project was coming under criticism from local trade unions, organic farmers and outside observers. The close relationship between one big company and a certifier was seen to reduce the stringency of the environmental standards, and therefore the credibility of the whole initiative. Further, the Project was criticised for ignoring workers' rights, particularly to health and safety with the lack of effective restriction of the use of agro-chemicals such as the highly toxic DBCP. Many of Chiquita's local managers were already aware of problems and the need to extend the work of the Rainforest Alliance to include social standards. Although they accepted certain criticisms, others were believed to be completely unfounded. From management's inability to counter allegations came the realisation that it lacked proper monitoring and evaluation processes.

Two years later, in 1998, Chiquita came under attack again and only then did it embark on corporate responsibility in a serious way. The attack came in the form of an 18-page expose by the Cincinnati Enquirer entitled "Chiquita's Secrets Revealed". The findings included allegations that Chiquita secretly controlled dozens of supposedly independent banana companies, partly in order to squash unions on its farms, and that the company engaged in pesticide practices that poisoned workers and nearby residents. The report was extremely embarrassing for Chiquita, particularly for the one thousand employees working in head office in Cincinnati where morale dropped to a low point.[26]

Besides the pressure of media attack, several other factors contributed to Chiquita's conversion to corporate responsibility that year. First, the company recognized that some European supermarket chains, highly valued customers, were working at adopting codes for their suppliers. And second, following the acquisition in the mid-1990s of several small US companies in the canning and processing industry, Chiquita realized it had created a disconnect between 80% of its business producing bananas in Latin America and 20% now based in factories scattered around North America. The small US companies also gave rise to a number of other issues, such as migrant workers, which the company didn't know how to deal with.

Arguably the key factor explaining Chiquita's turn-around, however, was the commitment and zeal of then COO Steve Warshaw. It was he who is widely seen to be behind Chiquita's decision in mid-1998 to pursue a disciplined path towards corporate responsibility. A team of external consultants from American corporate responsibility consultancy firm Smith O'Brien, was brought in to assist with this process over the next three years. As the head consultant recalls: "The mission was to adopt CSR as a way of doing business, but the real agenda was to change the culture – the relationships and communication between the corporate centre and divisions."

Management structures

Chiquita's journey started with the creation of new management structures responsible for corporate responsibility. Chiquita wanted a structure that would achieve two main aims. First, facilitate consensus building at senior management level. "It is important to use persuasion to build consensus and overcome scepticism wherever possible, even when this means delay.With the willing support of leading persons in a large organisation, your ability to bring about change is dramatically increased", explains Senior Director for CSR George Jaksch. The second aim was to ensure representation at senior management level both geographically and in terms of competency.

Thus in October 1998, Chiquita established the Senior Management Group for Corporate Responsibility supported by the Corporate Responsibility Steering Committee, integrating corporate responsibility into the highest echelons of management. In May 2000 a Corporate Responsibility Officer was appointed to sit on the Steering Committee.

The Senior Management Group

The Senior Management Group is made up of twelve senior managers including the Presidents of Chiquita's main divisions, the Vice President for Human Resources and the Chief Financial Officer. The Group meets for a half day every two months specifically to discuss the company's corporate responsibility strategy and performance. The Group is responsible for providing vision and leadership for corporate responsibility.

The Steering Committee

The Steering Committee is involved in the nuts and bolts of the design and implementation of Chiquita's CR work. Its function is essentially to identify key issues and recommend processes or completed tasks for senior management to discuss further and perhaps adopt. The Steering

26 Quotation from interview with Jeff Zalla.

Committee is deliberately made up of a mix of people from throughout the company, from both corporate and operational levels. This includes the Vice President of Human Resources, five directors and managers from representative Chiquita business units, the Corporate Responsibility Officer (from May 2000). There is also and a rotating member of Senior Management who sits on the Steering Committee for two to three months a year to become familiar with the nature of the CSR debate and the progress Chiquita is making at the implementation level. The Steering Committee meets for a whole day every month, for which all the committee members fly in from wherever they are in the world. In time, as management and accountability systems are strengthened, Chiquita expects to phase out the Steering Committee and rely on the Senior Management Group for all aspects of its CSR management.

The Audit Committee

In 2000, Chiquita expanded the role of the Audit Committee to include oversight of whether the Company has the right people, policies and programmes in place to properly manage corporate responsibility. The Audit Committee has three members, all of whom are outside directors. The Company's Corporate Responsibility Officer has open access to Audit Committee members and reports to them periodically as part of regularly scheduled Committee meetings.

The Banana Working Group

Another important management structure called the Banana Working Group was created four years later, in May 2002. This includes a team of representatives of all tropical production locations from Costa Rica, Panama, Colombia and Honduras and headed by the Senior Director of Environmental Affairs, David McLaughlin. The Group met on a monthly basis, mostly in Costa Rica which is centrally located, until the end 2002 (since then the Group has had no physical presence but communicates via e-mail). The role of this team was to create management systems known as Standard Operating Practices (SOPs) to cover every social standard included in the SA8000 code and how each standard should be implemented. The interest in doing this was three-fold: first, to develop a standardised set of management systems that would be credible in all countries; and second, to encourage sharing and participation across the divisions, down to the wording of each document; and third, to address cross-cutting issues, such as how to deal with suppliers that work across different countries.

A sub-committee focusing on health and safety issues spun off from the Banana Working Group, half way through developing the management system on Health and Safety.

Policy development

For six months from October 1998 to March 1999 the Steering Committee worked concurrently with the Senior Management Committee to define Chiquita's core values. The format in both forums was open discussion, facilitated by an external consultant. Senior Management first agreed on a draft version of the Core Values, taking into account the views of the Steering Committee. Once consensus was achieved, the Steering Committee coordinated efforts to gather feedback from different divisions at operational level. Using a cascade approach, general managers were consulted first, followed by local managers and workers. Comments were related back from the workers through local meetings run by farm managers who would then communicate with divisional managers sitting on the Steering Committee. Divisional managers, who are in contact with workers on a day-to-day basis, were also able to solicit workers' reactions to Chiquita's values directly. Often proposals would reflect cultural differences - the Latin American division, for example, requested that the core values recognise the importance of the family.

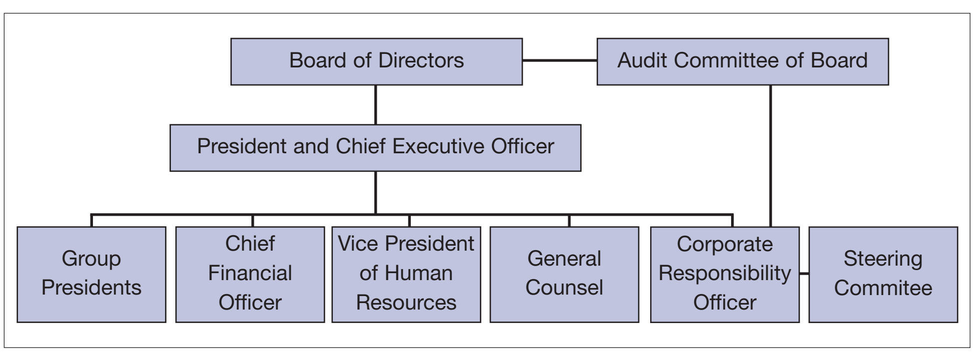
In August 1999, after nearly a year of discussion and with input from over 1000 employees, the Senior Management Committee adopted a final set of four Core Values – integrity, respect, opportunity and responsibility. These values are intended to guide the daily actions and decisions of all Chiquita's employees and to provide the context for strategic business decisions.

The next step was to develop a Code of Conduct which would translate the Core Values into everyday behaviours. Initially, the Steering Committee wanted to base its Code of Conduct on standards developed internally, rather than adopt an external code. They thought the process of developing standards internally would encourage buy-in within the company and have greater credibility. Conversely, the Committee was also aware that internal standards would be met with scepticism by outside observers.

Chiquita's criteria for the code was that it had to

1) cover environmental policy, labour rights policy and community issues;
2) be global;
3) be flexible;
4) generate support from a wide-range of stakeholders; and
5) be relevant to the products Chiquita engages in. The codes had to address these aspects and be credible.

At the same time as developing its own standards for the Code of Conduct, the Steering Committee began to examine existing external codes. Since Chiquita is part of the international labor conventions, it looked at the conventions of the International Labor Organization (ILO) and found that the codes were geared towards governments and, therefore, not a good fit for companies. Other Codes were also examined, including those of the ILO, the Banana Group, and Fairtrade—but there was not a perfect match in scope and



Corporate Responsibility Timeline

1992	1998	1999	2000	2001	2002	2003
Rainforest Alliance Engagement	Steering Committee	Core Values 3rd Party pilot audits	Code of Conduct (SA8000)	**IUF/ COLSIBA Framework Agreement**	Regular IUF meetings	Regular IUF meetings
			CR Officer		2nd internal audit with observers	3rd internal audit with observers
			1st internal audits		ETI Worker training member	3rd Report, includes logistics
			100% BBP Certification		2nd CR Report	SAI Advisory Board
					SA8000 certification in Costa Rica	CERES - ACCA Sustainability Reporting Award
					BSR Board	

product-relevance. Even the Ethical Trading Initiative (ETI) codes, although considered very good, lacked an implementation process (Chiquita later joined the ETI in 2002).

Chiquita was most impressed by the SA8000 code for a number of specific reasons. First, it is based on key international agreements such as the Universal Declaration of Human Rights and core ILO labour standards. Second, it has the support of a broad coalition of experts, including Trade Unions. Third, it includes a section on management systems with clear guidelines for auditors and for accrediting firms in the auditing and certification process. Fourth, it is verified by external observers which adds credibility.

Chiquita set about testing SA8000 to determine whether it would work for Chiquita. The code was tested on a ship, in a banana plant, and in a canning plant in the United States. The Steering Committee concluded that on the whole, the code could work but was unsuitable in certain key areas due to the nature of Chiquita's business - SA8000 was previously used mainly in manufacturing rather than farming. The question arose as to whether Chiquita could agree to the principles of the SA8000 guidelines and use some of the language without actually adopting the Code. After some discussion, a compromise was agreed between Chiquita and SA8000 whereby Chiquita was allowed to adopt a modified version of the code, tailored to the farming business. Thus four exceptions to the code were made. One exception included working hours which were unsuitable for Chiquita's shipping industry, where workers have very irregular hours. Another exception was child labour because family-owned farms in the United States rely on family labour.

The Code of Conduct that was finally adopted by the Senior Management Committee in May 2000 is a hybrid of internal and external standards. The bulk is made up of standards developed internally in the areas of labour standards, employee health and safety, community involvement and so on, plus a modified version of the SA8000 code.

Implementation

After completing the Core Values and Code of Conduct policy documents, the Steering Committee began work on an implementation strategy. An entire implementation plan was drawn up at the beginning, incorporating all the different functions of the company. This included IT, communication, distribution and shipping, all the divisions and financial and legal departments. To encourage employees to internalise what the policies stood for, the Steering Committee recognized it was important to build consensus within the organisation so that CSR was not just a top-down effort that would be ignored. The challenge was to use existing organisational networks to transmit the Core Values and Code of Conduct methodically.

Training

The Steering Committee decided to conduct a series of communication and training sessions in 2000, focusing on what corporate responsibility and the Core Values mean in each business. These sessions were held throughout the organization, from top management down to farm, plant, or facility managers in each major business unit. The content of the training package was developed by the Steering Committee with external consultants, and closely monitored by senior management.

In 2001, Chiquita developed a worker-training pamphlet and began a two-year education programme on Core Values and employee rights and responsibilities. The pamphlet is written in Spanish with easy-to-understand text and drawings that illustrate the key messages of the Core Values and Code of Conduct. Training is conducted together with union leaders. The pamphlet now also includes a section on Chiquita's agreement with the IUF and Colsiba.

In addition to the training sessions and pamphlet, Chiquita communicated key messages through face-to-face meetings, formal communications from senior managers, Core Values posters and a bi-monthly Corporate Responsibility newsletter.

Training on the Core Values and how to interpret them is on-going, carried out by local managers together with local trade unions. Chiquita has found that SA8000 help operationalize these values – working hours fit into respect for the family, for example.

External communication with trade-unions

When Chiquita started down the road of corporate responsibility in 1998, senior managers did not want to communicate their corporate responsibility efforts outside the organisation. For many months, there was no communication outside the Senior Management and Steering Committees. At that time, Chiquita's relationship with trade unions was not particularly good and managers were reluctant to begin dialogue on contentious issues while still uncertain themselves as to whether they could pull this off.

As communication and confidence grew internally over time, a closer relationship with trade unions became part of the implementation strategy. As is discussed in greater detail later on, Chiquita's talks with the International Union of Food Workers (IUF) and the Coordinating Committee of Banana Workers (COLSIBA) developed from 1998-01, culminating in an important agreement.

Inclusion of CSR in employee pay structure

Chiquita's annual corporate responsibility objectives are set by the Steering Committee. To achieve these objectives, the Steering Committee creates a strategic plan of steps to be taken that year. These are linked in to a time-line. Responsibility for achieving these objectives is assigned to the relevant managers, be it the CR Coordinator, the Human Resources manager, the general country manager or the farm manager. At the end of the year, a weighted score on a scale of 1-4 is worked out for each manager's performance against his objectives. The results account for roughly 10-15% of the manager's bonus.

Monitoring

Internal assessment

After Chiquita adopted a Code of Conduct in May 2000, fifteen highly placed managers were selected to carry out peer audits of the Code of Conduct. These managers were trained in the auditing process by SustainAbility in order that they meet the standards of external auditors. Of these fifteen managers, several teams of four or five were created to include a cross-section of skills and expertise in human resources, production, quality and the environment. Teams were made up of managers from different functions and divisions, and assessments were organised such that no-one assessed their own division.

The purpose of these audits was essentially to carry out a gap analysis of where Chiquita's employees fail to measure up against the Code of Conduct. The task of team members was to determine how well, measured on a scale, managers in each division live the company's values and treat other employees. Audits were conducted on an interview basis leaving considerable room for personal judgement. As well as providing feedback, these peer audits were an important implementation tool. The fact that teams were comprised of highly placed managers sent a clear message throughout the organisation that Chiquita was taking corporate responsibility seriously. Further, through the interview process, the managers on the audit teams and the interviewees were gaining an understanding of what the company's values mean in real life, day-to-day activities and relationships.

The findings of each team were written up in reports and sent to the Corporate Responsibility Officer, Jeff Zalla. They provided a base-line assessment which assisted the Steering Committee with how to proceed and what to focus on.

Auditing

Having conducted peer audits in 2000, Chiquita adopted a different model to carry out audits on its farms, opting instead for teams of more experienced, professional assessors.

Each team is responsible for auditing several locations. On arrival at a location, the audit team starts by giving a presentation to senior management at the location about the objectives, procedures, timing and logistics of the audit. The team lists some, but not all, of the farms it intends to visit. This is followed by a meeting with the regional trade union whose representatives are invited to comment or raise areas of concern.

On the day of the audit, audit teams arrive before sunrise at about 5am to ensure they will have contact with workers before they start. The audit team first meets with the farm union representative and gives an assurance of confidentiality. It then begins with the first interview. Workers are interviewed in groups of about 12 as this is known to be most effective in terms of gathering feedback and given time constraints. The farm workers are interviewed first, before they go to work, followed by representatives from the packing station which includes women. Groups of women are then interviewed alone. For this, there is always also a woman present on the audit team. Interviews are then conducted with administration personnel and foremen, following the same format. Finally, at the end of a 4-5 day visit, the audit team meet with farm management to give feedback, be it positive or negative. After completing all the audits, the audit team meets in Costa Rica, first for a preliminary meeting with other audit teams, and then with local managers to communicate its conclusions and classify any non-conformances into major or minor.

Since February 2002, interviews have been conducted by an independent observer and two auditors so that one can focus on interaction while the other takes notes. A fourth person is responsible for going through documentation such as whether workers have contracts, records of accidents, records of analysis of drinking water and so on.

In February 2002 Chiquita invited independent observers to participate in the monitoring process. The independent observers include German Zepeda, president of COSIBAH (Coordinator of Banana and Agro-industrial Unions of Honduras) and former coordinator of COLSIBA (Coordinating Committee of Banana Workers' Unions), and members of the Guatemalan labour rights monitoring organization COVERCO (Commission for the Verification of Corporate Codes of Conduct). The observers participated in every aspect of the assessment process, including planning, stakeholder and worker interviews, reviews of records and facilities, and meetings with management.

Streamlined auditing

Chiquita is currently using three auditing systems – Better Banana Project, SA8000 and Europe Gap. Not surprisingly, much work is duplicated and Chiquita's heads of division say they are suffering from audit fatigue. This year, Chiquita aims to take all three auditing systems and simplify them into one, integrated approach. An external consultant has been hired to help with this process.

Other feedback mechanisms

Chiquita has four systems in place which allow managers at corporate level to monitor activities at the operational level, and equally for workers to have their voices heard by management.

Chiquita has installed letter / suggestion boxes throughout the organisation, in every farm and office, for employees to communicate with more senior management. There are written procedures to assure the anonymity of this feedback. Each box is pad-locked and can only be opened by a selected CSR representative who is responsible for determining a "corrective action" (SA8000 terminology). Each case is clearly documented.

Chiquita's agreement with the IUF and Colsiba provides a hot-line to workers' voices.

Banana Working Group is an important forum for feedback, comprised of the CR coordinator from all Chiquita's Latin American divisions

Chiquita gains feedback through the audit process. Under SA8000, auditors make observations and comments indicating areas of major and minor non-conformance (see SA8000) which the company must use to create a "corrective action plan". There is a follow-up procedure and the process must be clearly documented.

Key performance indicators

The two key performance questions for Chiquita are: do we comply with our values?; and second, do we comply with SA8000? To answer these questions, Chiquita uses an internal auditing scorecard, as well as SA8000.

Above and beyond the SA8000 indicators Chiquita includes in its CR reports, the following KPIs are being used internally:

- use of pesticide (toxicity, application etc.)
- number of areas reforested
- accident rates
- absenteeism
- % distribution in age and gender

The Banana Working is Group is currently developing a quarterly report which will cover food safety, the environment and social issues and relevant KPIs for all three areas. The report will be for internal use only and will assist managers in tracking performance throughout the year.

Reporting

In 2000 Chiquita published its first Corporate Responsibility report in both English and Spanish. The first report is a base-line assessment of Chiquita's financial, environmental and social performance and lists the corporate responsibility goals for that year. A highlight of the report is its stakeholder map which identifies key stakeholders and Chiquita's understanding of their expectations and strategic value. The map was constructed with the help of external consultants: "Stakeholder analysis had meant nothing to us at first…it took us some time to assimilate the idea", recalls one Chiquita manager. In 2001, Chiquita strengthened its social reporting to include verification opinions from independent observers of labour rights performance in Latin America.

It is testament to Chiquita's commitment to corporate responsibility that it developed its first Corporate Responsibility Report, an investment of significant resources, in the face of financial crisis. The crisis was partly due to the European Union's decision in 1993 to enact a restrictive quota system, and partly down to poor management in the early 1990s. From 1991 to 2001, Chiquita had lost more than $700 million and watched its stock price plunge from a high of $50 to a low of 48 cents. In January 2001, just as the Corporate Responsibility Report was being prepared, the company began Chapter 11 bankruptcy proceedings. "Other companies would have stopped everything", says the senior consultant working with them at the time, "but Steve Warshaw saw the value of the investment. And by that stage it would have been a bit late – we were two years into it and finally getting buy-in from both senior management and workers." Chiquita emerged from Chapter 11 bankruptcy in March 2002, in part the result of Chiquita's commitment to a new way of doing business.

Chiquita's 2002 report outlines progress against the previous year's objectives in three categories – achieved, in progress / redefined, not achieved. It begins to extend transparency along the supply chain, covering for the first time Chiquita's Global Logistics operation which transports bananas and other cargo between Latin America and primary markets in Europe and North America.

Chiquita has decided to include in its reports shortcomings and instanced where the company has failed to meet objectives. This approach was agreed on the basis of the mandate on the company's Core Values, notably the principle that "We communicate in an open, honest and straightforward manner". The approach adds credibility and is proving successful - Chiquita's 2002 report was ranked first in the world of food companies by SustainAbility and the UN Environmental Programme.

Chiquita considers that the Corporate Responsibility Report is not only for external use, but it also assists with implementation internally.

Focus – The Framework Agreement between Chiquita, IUF and COLSIBA

Background

The outstanding aspect of Chiquita's corporate responsibility efforts began before the Steering Committee had been established. In July 1998, German Zepeda (then regional coordinator for the Coordinating Committee of Banana Workers' Unions COLSIBA) invited Chiquita and several other banana companies to discuss regional labour standards. This invitation ultimately led to an agreement which, by incorporating not only the content but also the terms for future dialogue, sets the standard for participative stakeholder engagement.

At first, Chiquita's senior management were unsure how to respond to German Zepeda's invitation, fearing that engaging with Colsiba would damage their relationship with local unions in South American. Before replying to the invitation, Chiquita met with representatives of these major unions and asked about their affiliation with COLSIBA and how they thought the company should respond. At the same time, several outside stakeholders, including the U.S. Labor Education in the Americas Project (US/LEAP), members of the Interfaith Center for Corporate Responsibility, and Danish Coop, a large food retailer, were urging all major banana companies to accept the invitation.

In November 1998, Chiquita met with COLSIBA in Guatemala and began a serious dialogue on regional labour standards for banana workers and macro-economic issues affecting the industry. It was established that local issues would be dealt with primarily on the local level between duly elected union leaders and local managers. During 1999, Chiquita met with representatives of COLSIBA two more times.

Watershed meetings

By May 2000, the dialogue had widened to include the International Union of Food workers (IUF) and several non-governmental organizations. Chiquita was invited, along with other major banana companies, to a two-day meeting in Miami to create a framework for the entire banana industry.

Pressing issues identified by the banana unions included:

- Fear that weak market conditions would hurt banana workers
- Allegations of improper (and possibly illegal) anti-union activities by the companies
- Union concerns about poor social protections and lack of freedom of association in Ecuador
- Environmental issues affecting worker health.

The concerns that banana companies presented included:

- Weakness in the banana markets due to oversupply
- Illegal EU banana licence regime in place at the time
- Pressure from supermarkets for lower banana prices.

Chiquita and one other banana company met again with COLSIBA and the IUF in 2001 in San Jose, Costa Rica.

The Framework Agreement

Following the San Jose meeting, Chiquita, the IUF and COLSIBA continued to meet in an effort to negotiate a framework agreement on labour rights. On 14 June 2001, Chiquita signed the IUF/Colsiba and Chiquita Agreement on Freedom of Association, Minimum Labour Standards and Employment in Latin American Banana Operations at the International Labour Organization (ILO) headquarters in Geneva.

There are three sections contained in the agreement. Part 1 covers minimum labour standards, affirming "the fundamental right of each employee to choose to belong to and be represented by an independent and democratic trade union of his or her choice, and to bargain collectively." It thereby excludes the theory and practice of solidarismo – the company unionism which banana companies have historically cultivated as a cover for union-busting – as an alternative to trade unionism. The agreement specifically commits the company to respect ILO Conventions 87 (freedom of association), 98 (right to organize and collective bargaining), 135 (protection and facilities guaranteed to workers' representatives), 29, 105, 138 and 182 (forced and compulsory labour, minimum age/child labour), and 100 and 111 (employment discrimination).

Part 2 covers the procedures to be invoked in the event of changes or transfers in production. There is also a requirement that "suppliers, contract growers and joint venture partners" attest to their compliance with these standards.

Significance of the Agreement

The significance of the IUF/Colsiba Agreement is four-fold:

- It commits the company in a public and forceful manner to the process of continuous improvement and dialogue. This also has the effect of reassuring employees that Chiquita's efforts in corporate responsibility are genuine and not just PR.
- It strengthens the organizing and bargaining power of local trade unions which tend to lack the strength to negotiate effectively. It creates an international bargaining table from where local developments can be jointly evaluated.
- The Agreement is backed up by a commitment to action from both sides.
- It issues a challenge to other companies in the sector to similarly commit themselves to raising social standards as measured against concrete, verifiable benchmarks.

As with every agreement, however, the proof will be in the application. The success of the agreement will ultimately be measured by the degree to which unionization at Chiquita and its suppliers advances and the living and working conditions of union members improve. All the parties emphasize that conditions will not be transformed overnight with the stroke of a pen. This is seen as the beginning, not the end, of a long and difficult process to improve the labour and human rights standards in the banana industry.

Implementation

The implementation process is covered in Part 3 of the Agreement itself. A Review Committee with representatives from IUF and affiliated local trade unions and Chiquita representatives is responsible for the oversight of the Agreement. The parties are entitled to appoint up to four members each, but there are normally only three from each side or half a dozen in total. The Review Committee meets every 6 months and an extraordinary meeting may also be convened at the request of either party. The agendas for the meeting are agreed in advance and the parties have all identified a contact person to facilitate communication.

The Review Committee's purpose is to review any problems in labour relations which have not been resolved by local negotiations, with a commitment from both sides to take actions which are followed up at the next meeting. Copies of the Action Points agreed at the last meetings are available on-line on the IUF web site HYPERLINK "http://www.iuf.org" www.iuf.org. The forum also provides an opportunity for affiliated IUF unions to bring further problems to the attention of the Committee, for example, problems with Chiquita's suppliers.

Health and safety workshop

The Agreement also includes provision of a health and safety workshop to implement the ILO's convention 184. This involves the creation of committees of workers and management in each workplace to establish health and safety procedures. The Committees are made up of two worker and two farm management representatives to review performance, identify areas of concern and work jointly to reduce risk. The health and safety manager acts as the coordinator of local committees and the ILO provides training. Pilot projects are underway in Honduras and Colombia where there are the best opportunities for cooperation

Future Developments

Chiquita has three major goals to further implement its Core Values and Code of Conduct in the area of corporate responsibility.

- To gain SA8000 certification for all Chiquita's farms in Colombia,

Panama, Honduras and Guatemala
- To achieve the full and successful cooperation with IUF / Colsiba in implementing the framework agreement
- To improve continuously environmentally and socially sustainable banana production with suppliers.

Analysis and Conclusions

Chiquita's turn-around in its approach to corporate responsibility in the late 1990s was stark. Key factors behind the move included strong media criticism and the awareness that some European supermarket chains were working at adopting codes for their suppliers. The driving force, however, came from key individuals in the organisation, at first locally in Costa Rica and from the late 1990s at corporate level with COO Steve Warshaw. Once begun, the company's commitment to following a path towards more ethical and transparent behaviour is perhaps more remarkable in light of the serious financial difficulties it experienced throughout the period.

In 1998, Chiquita integrated corporate responsibility into the highest echelons of management with the establishment of the Senior Management Group for Corporate Responsibility supported by the Corporate Responsibility Steering Committee. These bodies worked concurrently to identify Chiquita's Core Values, incorporating feedback from employees, and adopt a Code of Conduct which draws largely from SA8000. Internal assessment teams carried out peer audits and a base-line assessment was produced of employee performance in terms of its Code of Conduct in 2000. External auditors from the Better Banana Project, SA8000 and Europe Gap carried out audits on Chiquita's farms (this year, Chiquita aims to simplify the three auditing systems it is currently using into one, integrated approach). In 2001-02, Chiquita strengthened its social reporting by inviting independent observers to participate in the monitoring process.

The Framework Agreement between Chiquita, the International Union of Food Workers (IUF) and Colsiba on Freedom of Association, Minimum Labour Standards and Employment in Latin American Banana Operations is a particularly noteworthy aspect of Chiquita's corporate responsibility efforts. The Agreement specifically commits the company to respect key ILO Conventions and establishes a Review Committee with representatives from both IUF (and affiliated local trade unions) and Chiquita. By incorporating not only the content but also the terms for future participative dialogue, the Agreement is an example of best practice in stakeholder engagement. Chiquita was the only company to stay the course and enter into this Agreement.

Of course, the true measure of the success of Chiquita's CR efforts including the Framework Agreement is the impact of their implementation. All Chiquita's 127 farms achieved certification to the standards of the Rainforest Alliance's Better Banana Project in 2000. Chiquita's Costa Rica division earned more comprehensive Social Accountability 8000 (SA8000) certification in 2002, followed by Colombia and Panama this year. Chiquita says its farms in Santa Marta, Honduras and Guatemala are on track to earn certification next year. Chiquita has gained industry acknowledgement of the benefits of its approach, including Social Accountability International's (SAI) Corporate Conscience Award in October 2003 and Rainforest Alliance's Sustainable Standard-Setter Award in 2001.

However, critics want to ensure the company does not rest on its laurels. Some of the company's recent actions have been met with strong disapproval from NGOs and trade unions. In particular, allegations were made that Chiquita failed to consult its employees over plantation closures in Guatemala in October last year. And in December it emerged that the company is to sell all its Colombian operations to a national company which is unlikely to be able to offer employees the same level of wages and benefits they had negotiated with Chiquita. Further, claims have been made that in Costa Rica, persecution of trade union members on Chiquita's own plantations is as persistent as before the agreement signed with regional and international unions in 2001. With these issues in mind, the NGO Banana Link has expressed concern that new senior managers appointed in late 2003 do not share the same commitment to corporate responsibility as their predecessors. While Chiquita's progress to date has won broad recognition, it remains to be seen how far the new management will build on the foundations in place. ■

Levi Strauss & Co.

Company background

Levi Strauss & Co. (Levi's) is a global branded apparel company that designs and markets jeans, jeans-related and casual clothing and accessories for men, women and children under the Levi's and Dockers brands. With operations in forty countries, Levi's employs approximately 12,400 people, 1,500 based at the company's San Francisco headquarters. Levi's is privately held by descendants of the family of Levi Strauss. Shares of company stock are not publicly traded.

About this case-study

Levi's was the first multinational company to establish a comprehensive ethical code of conduct for suppliers in 1991. As other companies followed suit, there developed a trend to rely heavily on audits in the implementation of codes of conduct for the supply chain. According to the Head of Ethical Sourcing Patrick Neyts, by the late 1990 the company realised that this approach had "inherent flaws" and began trying to develop what it calls a "participatory approach".

The first part of this case-study considers the human rights' impact of companies in the retail sector, the historical background of Levi's engagement with human rights and the company's CSR management structure.

The second part of the case-study focuses on Levi's supply chain management through the development and implementation of its Global Sourcing and Operating Guidelines. The differences between the traditional audit focused approach and evolving participatory approach are assessed and a number of pilot projects where the new initiatives are underway are explored.

Human rights impact

The key human rights related impact of companies in the retail sector is through the supply chain. Historically, companies in the textile and garment industry have often been the first to outsource to developing countries where there is an abundance of unskilled labour able to manufacture clothing/footwear etc. at a significantly lower cost. This allows companies to concentrate on increasing profit through design and marketing. Despite the low cost, quality requirements remain the same and the trade off is low labour standards. Host governments implicitly and explicitly exacerbate the situation. Violations are overlooked as governments, eager to attract foreign direct investment and sometimes lacking in capacity, fail to produce or enforce labour legislation and discourage effective worker organisation. Labour standards are affected in a number of ways:

- **Wages -** Low basic pay and overtime rates are not the only problem. Wages are often reduced further by the need to pay back debts to labour agencies who charge a recruitment fee for placing workers in jobs. Often factories retain wages so that workers receive them some weeks after they are due, and not at all if they resign.[27]

- **Working hours –** Some factories compel workers to put in long hours by setting low wages. By law in most countries, overtime should be paid at a premium but this is often disregarded in practice.

- **Job security –** Many workers do not have a written contract and so fall outside the protection of labour law. This prevents them from holding management to account for payment of proper overtime rates and hours and from receiving benefits such as enrolment on a health scheme.

- **Regular employment –** Short-term hiring can be used by employers to cut their costs through the avoidance employment benefits, and to meet short term surges in demand. But lack of regular employment discourages workers from joining unions

- **Discrimination –** Discrimination is a particular issue for migrant and ethnic minority workers and very difficult to uncover.

- **Psychological pressure –** The need to deliver quality products on time can mean workers are under pressure not to make mistakes and to achieve production quotas. Factories have been known to use penalty systems to push workers to meet targets.

- **Freedom of association.**

- **Health and safety.**

- **Freedom of movement,** for example, is violated by the practice of some large Asian and South American suppliers with factories around the world who have been known to fly in cheap migrant labour to take advantage of trade agreements.

A number of issues that relate particularly to women, such as maternity leave, childcare, sexual harassment.

Harmful trends in modern supply chain management

Many factors can contribute to the undermining of labour standards, including the company's own purchasing practices. Three trends in modern supply chain management are particularly harmful.[28] First, demands for "just in time" delivery and pressure to produce quickly. Short lead times force local managers to set extreme targets which can only be met through excessive overtime. Second, small, unpredictable or seasonal orders which make it

27 CAFOD (2004) Clean Up Your Computer – working conditions in the electronics sector. [http://www.cafod.org.uk/var/storage/original/application/phpYyhizc.pdf].

28 Buying your way into trouble? The challenge of responsible supply chain management, Insight Investment in association with UK consultancy Acona.

necessary for suppliers to maintain flexibility in the workforce. This can be achieved through overtime but can also lead to decreased job security and less regular employment which in turn weakens the voice formed by the collective body of more permanent workers. It may encourage suppliers to use particularly vulnerable groups, such as migrant workers and women, who are less likely to be able to call their employers to account for labour rights violations. In general, a lack of buyer commitment to its supplier, be it though unpredictable demands with no promise of future orders or threat of withdrawal should labour rights violations or other problems emerge, weakens the business case for suppliers to invest in improvements of their labour standards. The third trend in supply chain management with the greatest negative impact on labour standards is downward pressure on price. This translates most directly into reduced wages, particularly for overtime. Cost pressures may also lead to cutting corners in health and safety and the use of vulnerable worker groups. "The two parts of the company aren't speaking with one voice – those demanding price cuts and those demanding labour standards. Suppliers are getting clever at figuring out where the balance of power lies".

Historical background of Levi's engagement with human rights issues

Founded in 1853 by a wealthy family deeply committed to social responsibility, Levi's distinguished itself on numerous occasions on human rights related issues. In the 1950s, for example, Levi's desegregated an all white plant in Virginia, over the strong objections of local civic leaders. In 1968, the company pioneered an employee volunteer effort called "Community Involvement Teams" (CITs) which partnered with local charitable organizations to identify needs, plan activities, and create volunteer and donation opportunities for company employees and retirees – an initiative which continues to this day. The company refused to invest in South Africa during the apartheid regime and in 1993 stopped manufacturing in China over human rights concerns at a time when demand for jeans there was soaring and China turned out one third of global denim output.[29]

In the early 1970s, Levi's CEO Walter Haas Jr. hired religious ethicist Charles McCoy to codify the company's ethical principles, to ensure they would remain central to the company's culture even as it expanded rapidly. In 1975 the company adopted its "International Business Principles", followed in 1991 by its "Global Sourcing Guidelines" which made Levi's the first multinational to establish a comprehensive ethical code of conduct for manufacturing and finishing contractors working with the company.

Particularly in its home town of San Francisco, Levi's has maintained its image as a good corporate citizen. The company hands out $20 million per year in charitable donations to community organisations. And it treats its employees well - white collar workers wear casual dress to work and take Friday afternoons off. Levi's is known for promoting diversity in its local workforce; it was the first Fortune 500 company to offer benefits to the domestic partners of gay and lesbian employees and this year got a perfect score on the Human Rights Campaign's annual Corporate Equality Index.

Since the late 1990s, however, Levi's has come under criticism for softening its ethical stance in the face of an increasingly hostile market place of low cost competitors.[30] The company has been gradually relocating to low-waged countries, closing its last US plant in January 2004. Of particular concern was Levi's decision in 1998 to resume production in China, reversing a 1993 decision to shut down operations there because of human rights concerns. The company's decision to withdraw from the Fair Labour Association in 2002 has also been criticized although the company maintains that the membership fee is better invested elsewhere.

Management Structure

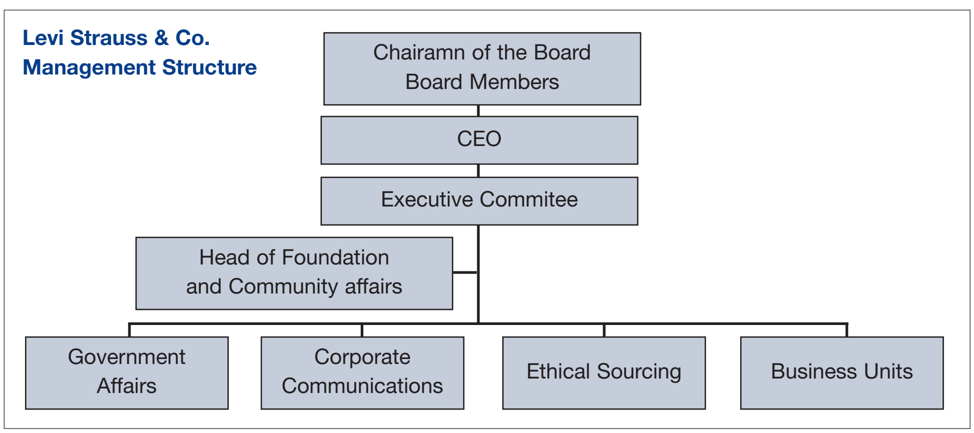
Levi's is a global company organized into three geographic divisions:

Levi Strauss, The Americas (LSA)
This is the company's largest region and employs approximately 6,700 people throughout the United States, Canada, Mexico, and Latin America. The region is based in the company's San Francisco headquarters.

Levi Strauss, Europe, Middle East and Africa (LSEMA)
Levi's has a network of 9 sales offices, 10 distribution centers and 6 production facilities, employing a total of 3,600 people. The division's headquarters are located in Brussels, Belgium. LSEMA posted revenues of $1.1 billion in 2002.

Asia Pacific Division, based in Singapore
The Asia Pacific Division was established in 1995. Prior to that, Levi's had been operating in the region under several separate business units, each reporting to LS&CO. headquarters in San Francisco. Today, the Asia Pacific Division, with head offices in Singapore, is comprised of subsidiary businesses, licensees and distributors throughout Asia and the Pacific region. The division employs approximately 1200 people.

The diagram below outlines Levi's management structure. The company is



29 Levi's Children: Coming to Terms with Human Rights in the Global Marketplace, Karl Schoenberger. New York: Atlantic Monthly Press, 2000.

30 See Insight Investment report, above.

Pros & Cons of Developing Own Code	
Pros	Cons
Ownership Tailor importance of different elements to your own objectives Opportunity to add unrelated but key requirements, such as quality issues Good communication tool	Time & effort to develop & validate Lacks credibility if sights set too low Can add to audit burden of suppliers Less opportunity to share findings & improvement plans with other organisations

privately held by descendants of the family of Levi Strauss. Shares of company stock are not publicly traded. The Chairman of the Board, Bob Haas, is the great-great-grand-nephew of the company's founder, Levi Strauss.

Levi's supply chain is managed by a Steering Group comprised of representatives from across the organization. This includes a manager from Government Affairs to provide links with ILO and other international organisations, from Community Affairs to provide links with NGOs, from Human Resources to bring expertise on industrial relations, from Ethical Sourcing, from the Business Units and a representative from each region. Formal meetings are held three times per year with virtual interactions on an on-going basis. Levi's conducts its own audits through a team of 21 full time and 43 part time staff trained in the company's internal Code of Conduct.

Focus – Towards a participatory approach to supply chain management

Developing the Global Sourcing and Operating Guidelines

The need for more suppliers in developing countries to meet increased demand in Europe and the US prompted Levi's decision in 1991 to consider producing an ethical code of conduct for company suppliers. A cross-departmental team was put together, comprised of a manager from Operations, Human Resources, Legal Affairs, Corporate Communications, Community Affairs and a representative from each region. Over a two-year period, the team consulted with 25 internal and external stakeholder groups, largely from the US and Europe, and conducted research into working conditions in 600-700 sub-contracting units based in 50-60 countries. On the basis of this research, Levi's became the first multinational company to establish a comprehensive ethical code of conduct for manufacturing and finishing contractors working with the company. This code is called the Global Sourcing and Operating Guidelines.

The Levi Strauss & Co. Global Sourcing and Operating Guidelines include two parts:

- The Country Assessment Guidelines, which address large, external issues beyond the control of Levi Strauss & Co.'s individual business partners. These help the company assess the opportunities and risks of doing business in a particular country.

- The Business Partner Terms of Engagement deal with issues that are substantially controllable by individual business partners.

Implementing the Guidelines

Implementing the Country Assessment Guidelines

The internal process is as follows: any business unit, be it sourcing, licensing or sales, that wants to operate in a certain country must produce a short report setting out the business case. This report is assessed first by the Head of Ethical Sourcing and then by the Head of Government Affairs who is the owner of the process. The report is then reviewed by an external consultancy which provides expertise on the country, and returned to Levi's to be verified and finalised internally. The final report includes an assessment of each individual risk and a ranking:

1 – no significant risk
2 – no significant risk but special approval needed
3 – significant risk and special approval is needed by regional President and a member of the Executive Committee
4 – risk is too high / illegal (in the USA, the Senate issues an annual list of countries where it is illegal for American countries to do business, such as Iraq and North Korea at present)

In countries where Levi's decides to operate despite significant risks, there is a management system in place, starting with a country visit.

Implementing Levi's Terms of Engagement for suppliers

Following the adoption of the Terms of Engagement in 1991, Levi's began to roll out implementation across some of its supply base the following year. Over the next decade, the company developed tools for use worldwide in factory social auditing. Today, Levi's approach to implementing its supplier Terms of Engagement is as follows:

Implementing Levis Terms of Engagement for Suppliers

Establish clear standards	Levis established its Terms of Engagement (TOE) standards in 1991. Brochures of the TOE standards have been translated into 45 languages and distributed to all suppliers. The company created a Supplier Guidebook in 2002 which explained detailed factory-level TOE requirements, including the company's four levels of TOE non compliance. This guidebook was distributed to suppliers and also made available to suppliers of US products through a supplier website
Create an informed workplace	Large posters of the TOE guidelines, including photographs of workers, are prominently displayed in both English and the local language in several locations of all supplier factories Employee education sessions on the TOE standards Half-day orientation sessions on the TOE standards for suppliers
Develop an information database	Levis has had a global TOE audit form since 1992. Data from these forms have been retained in a global electronic TOE database since 1996 In 2002, Levis enhanced its TOE database to enable compliance staff around the world to upload findings from TOE monitoring visits via an off-line interface. In addition, the database was enhanced with the capacity to generate advanced reports on TOE performance across suppliers and by region. In 2002, Levis developed a TOE "pre-assessment questionnaire" for new suppliers and began implementation
Establish Programmes to train company monitors	Established global "TOE assessor competencies" and developed new training programmes Up-dated its formal internal monitor programme which is now 3 days of classroom training, supplemented by field training Developed and pilot-tested a formal 4-day training programme for internal monitors on gathering information from workers.
Conduct periodic visits and audits	Since 1992, Levis has conducted annual internal monitoring visits for all cut, sew and finish suppliers, and for all Levis product licensee supplier factories since 2001. All these audits were undertaken by trained company TOE Assessors. From 2003, Assessors were trained to gather information from workers through both on-site and off-site discussions although in practise, discussions are largely held on-site. In 2001-02, Levis commissioned 30 Fair Labour Association (FLA) independent external monitoring visits
Provide employees with opportunities to report non-compliance	Levis factors in audits as a cost of business rather than passing them on to the supplier. Levis internal monitors share their contact information with workers they come into contact with during factory visits. Workers and labour organizations are also encouraged to inform the company of potential TOE non-compliance via its corporate website.
Establish relationships with labour, human rights, religious or other local groups	Levis says it has maintained long-standing relationships with human rights, labour and other international and local institutions since establishing the TOE in 1991. Levis has integrated some specific recommendations for the enhancement of the TOE process from these groups. The Levi Strauss Foundation has established a sourcing grants programme that promotes worker's rights in communities where Levis products are made. The focus of the grants is on access to health care and education, information about worker's legal rights, preventing the spread of HIV/AIDS and increasing economic development opportunities.
Establish means of remediation	Levis consults with suppliers to develop corrective action plans for instances of non-compliance. Suppliers are then responsible for the remediation of problems by implementing the corrective action plans. Levis' policy is to end the business relationship when suppliers were unwilling or unable to complete these improvements. In 2002, LS&Co. developed detailed global guidance for its internal monitors on remediation for specific TOE non-compliance, including supplier action steps and suggested timeframes.

Pros & Cons of Conducting Own Internal Audits

Pros	Cons
Company benefits from learning	Lack of independence – open to internal influence & external criticism
Ownership within management structure	Train auditors
Control of costs	Create & manage own data-base
Direct route to decision-makers	Hard to match resources to sourcing map as auditors not local
Can help build relationship with suppliers	Response time can be slow
Consistency of audits, procedures & findings	
Total responsibility for whole process makes it easier to see whole picture	

"Inherent flaws" in the traditional auditing approach

By the late 1990s, Levi's began to realise that its original model of checking factory compliance with the company's code of conduct had "inherent flaws", according to the Head of Ethical Sourcing Patrick Neyts. "You come into a location for a limited period of time and as you do more visits, you notice that you didn't catch a number of things, that the supplier isn't making the progress it should or allegations about the supplier have surfaced that you weren't aware of", he explains. Further, auditing is a very costly and labour intensive process – Levi's current spend is US$3.5 million a year. Some Levi's managers believe these resources could be invested in a more effective approach. But as with any division of a business, managers within the traditional non-financial factory audit systems feel pressured to deliver tangible results. The realisation that the previous Levi Strauss factory auditing system was unsustainable did lead to some concern. "Being honest with management you worry about your job, but the choice is progress or stalemate," says Neyts. As a result, Levi's is currently working on a combined approach, including both traditional assessment methods and a more participatory, worker dialogue based approach.

Towards a participatory approach

Levi's is currently trying what it calls a "participatory approach", with pilot projects and initial trials of a new worker dialogue-based system to improve factory conditions. This calls for partnerships with all major stakeholder groups and changes in management approaches to worker and unions consultations. There are three main aspects of the participatory approach:

First, in a participatory approach, assessors are asked to "speak with" as opposed to "interview" workers. This is because interviews are based on a power imbalance between the brand and the worker which hinders honest and open dialogue.

Levi's worked with social scientists at the Edinburgh Resource Center to develop a set of tools designed to spark more open discussion between itself and the workers, and amongst the workers themselves. It is hoped that using these tools will allow assessors to uncover more of the real situation in supplier factories.

In the traditional audit approach, suppliers are often effectively presented with a long list of requirements to fulfil. The second aspect of a participatory approach is a move towards helping suppliers to establish their own procedures to ensure requirements are met. In 2003, Levi's developed a diagnostic tool to identify weaknesses in suppliers' management systems. The tool is used primarily for existing suppliers. It is basically a list of increasingly specific questions carrying different scores, grouped into topics such as recruitment, health and safety and so on. The shift is from "Do you hire underage workers?" in the traditional approach, to "Do you have a hiring process which ensures you don't hire underage workers?" in the participatory approach. To take another example, from "Unblock emergency exit" to "Unblock the emergency exit and ensure an inspection programme is in place to monitor the exit on a weekly basis and training is carried out on emergency provisions". A local Levi's manager then works with the supplier as a consultant, or identifies local resources the supplier could use to develop missing procedures.

The third aspect of a participatory approach is to build partnerships with organisations with local knowledge and expertise and with other brands.

Pilot projects

Levi's says it is now, "moving away from global standards to global frameworks", as the same solution does not work in every country. A number of different pilot projects are underway which provide a forum for the company to learn but ultimately are aimed at supplier self-sufficiency.

Morocco

Levi's has been conducting non-financial audits of Bogart SA, a Moroccan supplier, using the "tick-box" approach since 1993. Supplying to Levi's and other major companies, the number of audits at the factory increased to up to three per day, requiring the appointment of an internal audit organiser. In 2002 the factory became a pilot in a Levi's project to improve workplace conditions using better worker engagement techniques to feed problems from the workforce back to management.

Tools for Dialogue

One of the tools developed by Levis and the Edinburgh Resource Centre involves asking a group of workers to imagine what they would do if they wanted an afternoon off. A piece of string is then tied to a worker who must attach it to the person he would have to ask, say the line manager, who would in turn attach it to the supervisor who would go back to the employee and so on. The piece of string reveals the management network in place in the factory. From this exercise, Levis might discern that the network is very complicated or that workers are unclear about who they should talk to, indicating that asking for time off is something of a rare occurrence. The exercise would then be repeated amongst line managers and supervisors to see where the differences are. A second tool involves presenting groups of workers with a map of the facility and asking one person to imagine walking through the facility and identify "good places" and "bad places". By encouraging the workers to relax and speak more freely, the assessors are able to gain a better understanding of the working conditions.

To drive more lasting change and cut out audit inefficiencies, Levi's and the Moroccan supplier decided that meetings with workers were needed to hear their concerns and to give them more representation with factory management. Due to the low literacy level of the workers, this had to be done through meetings. With 500 workers needing to be consulted in the pilot factory, it was decided that 500 individual meetings would be an unreasonable target for both the companies. As a compromise the factory supplying Levi's began to have monthly meetings between management, the workers elected representatives and some 50 workers selected at random. By the end of the year, each of the factories' 500 workers attended a meeting at least once, and each had the chance to make their voice heard by the factory management on any issues they wished to raise in public.

The VP of Bogart SA, Mr Tamer, recalls that in the initial meetings employees were rather shy, but notes that confidence among the workforce in management's ability to listen without issuing repercussions slowly built up. "In the last meeting there was a real challenges presented by workers to managers in the feedback process," he says. After this first trial of the new approach to discovering and dealing with factory problems, the next step is now to make shop floor workers feel this is brand-related and 'attached' to Levi's. Mr Tamer also points out that for his factory, having the annual assessment done voluntarily, rather than imposed by Levi's upon him, is vital to get genuine middle manager buy-in into the aims of the new system.

Bulgaria

Levi's is involved in a pilot project with Nike, Adidas and H&M and the Bulgarian Minister for Labour and the European Trade Union Confederate (ETUC) in Bulgaria. The project is to educate supervisors, managers and workers on worker rights and facilitate a dialogue on labour standards. The idea is for those participating in the training programme to go back and train in their own supplier factories.

Bangladesh

Levi's is working with a supplier in Bangladesh that performed poorly in the Code of Conduct audit. Monthly meetings are currently being held amongst a community-based organisation, managers and workers to discuss one topic of Levi's Code of Conduct and how the supplier is performing. A Levi's manager was present only at the first few meetings in the process in order to encourage the supplier to "own" the process itself.

China

Levi's recommences production in China

One region where Levi's supply chain management has attracted particular attention is China. In 1998 Levi's announced it would re-commence sourcing from China, reversing the decision it made five years earlier to shut down its operations there due to human rights concerns.

Levi's justified its decision to re-enter China on the grounds that China's human right's record had improved. Indeed in 1995, the Chinese government did produce comprehensive labour legislation, including a maximum 40-hour working week, paid overtime, at least one day off per week and minimum wages established locally.[31] In practice, however, poor labour and human rights conditions persist even as China's economy develops. One expert claims that "Labour rights violations are so widespread in China that violations can be presumed to exist in every factory until proven otherwise".[32] The status quo is perpetuated partly by the fact that China has a virtually inexhaustible supply of migrant workers, most of whom are unaware of their rights under Chinese law and willing to work under any conditions.

Violations of working hours and fair compensation are most common but there are many other forms of abuse. Some Chinese workers, for example, have to pay money to their employer for the privilege of being hired, in the form of a deposit or a recruitment fee. Of particular concern in China is the right to freedom of association as only government run trade unions are allowed to function. Independent trade unions are prohibited, and workers who have tried to form independent unions or lead protests have been imprisoned. According to the All-China Federation of Trade Unions, of the 2.4 million foreign invested enterprises in China, only 12 percent have unions. This perpetuates workers' ignorance of their rights and puts them in a very weak position to raise issues with management or negotiate better conditions.

Supporting human rights in China

By the time Levi's recommenced production in China in 1998, human rights and labour standards in the supply chain were squarely on the agenda of advocacy groups and others in the international community. Levi's decision was strongly criticized and the company was forced to take action to reaffirm its commitment to high ethical standards. In May 1999, Levi's endorsed principles specifically for business in China drafted by human rights organizations including the International Labor Rights Fund (ILRF), Global Exchange and Human Rights in China, together with two other multinationals, Mattel and Reebok. This was "the first time major US corporations have endorsed human rights principles for China," said Dr. Bama Athreya, ILRF's Director of Asia Programmes.

Levi's launched its major initiative in China that year. This was a grant awarded by the Levi Strauss Foundation to The Asia Foundation, a US NGO, to develop a programme of health education, legal services, education, and counseling to working women of the Pearl River Delta in southern Guangdong Province where most of Levi's suppliers are based. These services are delivered by local women's organizations and local trade unions in cooperation with The Asia Foundation as overall programme manager. Through collaboration with local government, women's organizations[33] and academic institutions such as the Tsinghua University in Beijing, capacity has been developed to provide participatory community-based services to migrant women workers, ensuring the

31 The Labour Law of the People's Republic of China is available on-line at www.usmra.com/china/Labour%20Law.htm.

32 Buying your way into trouble? The challenge of responsible supply chain management, Insight Investment in association with UK consultancy Acona.

33 Research Center for Women's Education of the Guangdong Women Cadre Training School, the Women's Department of Guangdong Labor Union, Guangdong Women's Federation.

programme's sustainability. The grant has been renewed annually since 1999 and to date more than 150,000 migrant women workers have participated in these programmes in over 200 factories in 22 cities and districts in the Pearl River Delta.

Implementing human rights standards in China

Despite Levi's principles for doing business in China, the company admits that it has not yet developed implementation measures specific to the human rights' situation in China. The same procedures are currently used in China as elsewhere based on an annual audit with follow up visits. The assessment includes a management review, records review, facility assessment, dialogue with workers and lastly a briefing with the factory at which corrective actions are agreed and a verification visit scheduled. Levi's has also just run pilot education projects in three factories on the Code of Conduct, covering issues such as overtime and wage calculation. The training is delivered by Levi's assessors in an informal, one-off workshop.

Bril Lacno is responsible for Levi's supply chain management in the Asia Pacific division. He explains that the main reason Levi's has not experimented with more innovative implementation strategies in China is that the company does not represent more than 50-60% of the business in any supplier factories there. This same factor has not, however, held back the implementation of initiatives in China by a handful of other big name brands which similarly own only a fraction of supplier factories. In 2001 and 2002, for example, Reebok facilitated the democratic election of union representatives using secret ballots in supplier factories in Hong Kong and Taiwan. It is now developing a Worker Communication System to enable workers with grievances to contact Reebok directly which includes producing posters in Chinese that summarize the main provisions of China's Labor Law and include telephone numbers of PRC officials responsible for law enforcement. Adidas, Nike, and Gap have agreed to participate in a project to engage Chinese small and medium-sized enterprises (SMEs) not currently manufacturing directly for Western companies. There is currently no sign that Levi's plans to participate in these kinds of initiative in China, choosing instead to respond to the challenges of supply chain management in China by maintaining the same supply base of roughly one hundred suppliers as when it reentered the country in 1998.

Analysis and Conclusions

Privately owned by a wealthy family deeply committed to social responsibility, insulated by virtue of that private ownership from intemperate shareholders demanding a quick return at the expense of good corporate behaviour, and holding a world-famous brand image valued at US$3.3 billion,[34] Levi Strauss has every incentive to take its social responsibilities seriously. Throughout its history, Levi's has assumed a role in protecting and promoting human rights in a number of ways. Notably, Levi's was the first multinational to establish a comprehensive ethical code of conduct for suppliers in 1991.

This case-study illustrates the difficulty in the real-world of behaving ethically even for companies motivated to do so. Driven by consumer demand for improved quality and design at discount prices, companies must survive under intensifying global competitive pressure. Following the footsteps of a large number of companies in the retail sector, Levi's has quickened the pace of factory relocations from the US to low-waged countries where weak governance and the desire for foreign direct investment allow human rights violations to be overlooked. Levi's closed its last US factory in January 2004.

Levi's currently spends in excess of $3.5 million annually on a "traditional" audit approach it has developed over the last decade. In recent months, Levi's has admitted the shortcomings of this approach which it says is ineffective for a number of reasons. At the broadest level, a lack of government will and NGO capacity to provide a framework in which labour standards are implemented. Second, the existence of many companies, each with their own code and framework, all making demands on the same supplier now demotivated by a sense of audit fatigue. Third, lack of understanding and communication across the supply chain prevents suppliers from taking ownership of the process which therefore fails to become embedded in the day-to-day activities.

In response, Levi's is in the early days of developing what it calls a "participatory approach". The approach focuses on the facilitation of dialogue, both between assessors and workers and amongst workers themselves. Levi's has worked with social scientists to develop more innovative ways of holding dialogue, using role-play and other techniques, in the hope that this will enable assessors better to understand working conditions in supplier factories, raise workers' awareness of their own rights and encourage suppliers to take ownership of the process. Several different pilot projects are underway which reflects a "move away from global standards to global frameworks" as the same solution does not work in each country. Notably, no particular initiative is at present underway in China.

Nevertheless, by seeking to move beyond the compliance model, Levi's places itself on the front of the curve in supply chain management. As in any case in which "next practices" are replacing best practices, the mechanisms are unclear and a period of uncertainty can be expected to prevail. This is particularly true among unions, civil society and others who are sceptical of the move away from monitoring. In the short term, it is prudent to direct additional resources to ensuring these stakeholders are supportive. In the long term, the value of the change must be demonstrable in reduced company resources devoted to compliance. Perhaps more importantly, the participatory model needs to demonstrate benefits to the suppliers themselves, or their buy-in will never be achieved. The programme should have the means to measure improvements in productivity, reduced employee turnover, error and absenteeism and reduced costs associated with perpetual monitoring by multiple brands.

Indeed it is precisely the multiplicity of brands sourcing from each factory that poses a principal challenge to both the compliance system and the participatory system Levi's seeks to implement.[35] Since the problem involves multiple brands, it is likely the solution must as well. By working

34 Oxfam (2004) Trading Away Our Rights, p49 [http://www.maketradefair.com/en/assets/english/taor.pdf]

35 According to a recent World Bank estimate there are c.1000 different codes in existence today.

in partnership with other companies, costs and benefits are shared, and suppliers are more likely to invest their own resources if they perceive that all their customers are supportive of the new direction. So far, however, Levi's is finding that the enthusiasm of many companies is not matched by a willingness to take action. One reason for this is that future partnerships require that firms temper their desire for a competitive edge. "Every company wants to be seen to be a leader, to do that you need to be first. If you are aiming to be first, then you don't partner with others, as you are trying to get ahead. Part of letting go might mean not wanting to be first", explains Pat Neyts.

Other challenges remain the same, such as the need to raise awareness and understanding internally amongst relevant employees about how the decisions they make at head offices in Brussels or San Francisco can impact on the human rights of workers further down the supply chain. The importance of keeping human rights alive internally cannot be underestimated. Finally, the challenge of widening the circle of companies engaged in improving labour standards in the supply chain to include not only other well-known multinationals but also non-branded multinationals which make up an overwhelming 85% of the global retail industry. ■

Premier Oil

Company background

Premier Oil is an oil and gas company devoted entirely to the 'upstream' sector of the industry - the exploitation of oil and gas - as opposed to the 'downstream' refining and retail sector. Premier has producing interests in the UK, Indonesia and Pakistan. Exploration and appraisal is on-going in the UK, Indonesia, West Africa and South Asia.

The completion of £406 million restructuring on 12 September 2003 transformed Premier into a fully independent company. The deal involved the $670 million sale of Premier's interests in Burma and part of its Indonesian business to two of the company's largest investors, Amerada Hess of the US and Malaysia's Petronas, in return for their combined 50% shareholdings in Premier plus cash.

Premier is a relatively small oil company with a turnover of £263.1 million and net profit after tax of £25 million in 2002 (against £20 million in 2001). Premier employs 244 people, principally in London, Islamabad and Jakarta. As a result of restructuring the so-called "New Premier" is even smaller and will produce an average of 30,000 to 35,000 of barrels of oil equivalent a day, compared to 50,000 previously.

About this case-study

Premier formally began to manage its human rights' impact after it took over the operatorship from another oil company in Burma in 1996/7. In 1999, Premier produced a set of six corporate responsibility policies, including a policy specifically on human rights. The following year, the company worked with external consultants to produce a base-line social performance report to gather information in order to develop a social performance management system (SPMS) based on a generic framework. Initially, Premier's SPMS was based on three sets of tools for internal, external and government stakeholders. This has since been revised and now takes the form of ten standards each attached to a company policy, steps for managers, relevant tools and a checklist of stakeholders.

The first part of this case-study examines how Premier Oil developed and is implementing its human rights' policy through its Social Performance Management System. The second part of the case-study examines Premier's human rights impact and activities in Burma from 1997 until its withdrawal in 2002.

Historical background of Premier's engagement with human rights

Premier signed an exploration agreement with the Burmese military government in 1990 and discovered the Yetagun Field in 1992. At that time, few corporations were expected to consider the political and human rights context. Premier had no policies on corporate responsibility or human rights. By the mid-1990s, however, the notion of corporate responsibility was beginning to emerge and when Premier took over the operatorship from Texaco and began development in 1996/97, it faced mounting criticism. At this point, the Chief Executive assigned to Richard Jones the task of developing and implementing a social strategy in Burma, starting with a community development programme. Details of Premier's human rights activities in Burma are covered in the focus section of this case-study.

Developing a human rights policy

In 1998, Premier initiated a dialogue with Amnesty International Business Group to assist with the development of written corporate responsibility policies. The following year the company was able to produce six policies, including a specific policy on human rights. Since then, the policy has been revised three times and will continue to be "tweaked" as the company's experience grows. At the moment, Premier is looking to re-write the policy using the framework of the UN Draft Norms. "By turning the UN norms into an action plan for ourselves, we'll have an excellent policy", says Dr Jones, praising the latest version of the UN Norms as they fold in provisions on bribery and corruption, which some earlier codes did not.

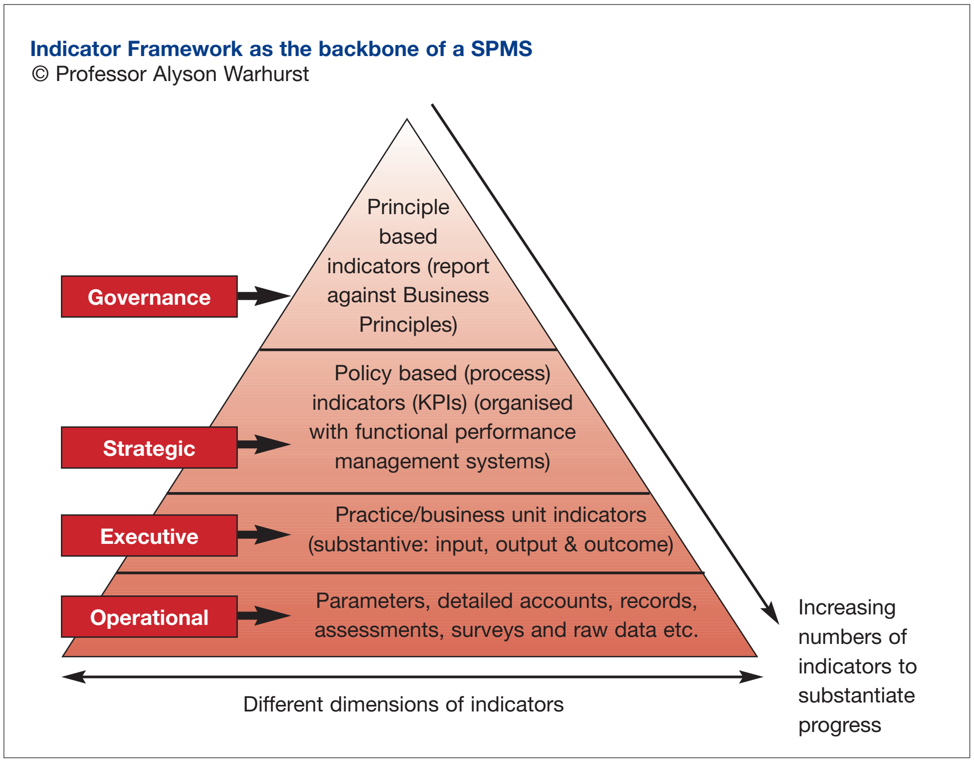
Developing Premier's Social Performance Management System (SPMS)

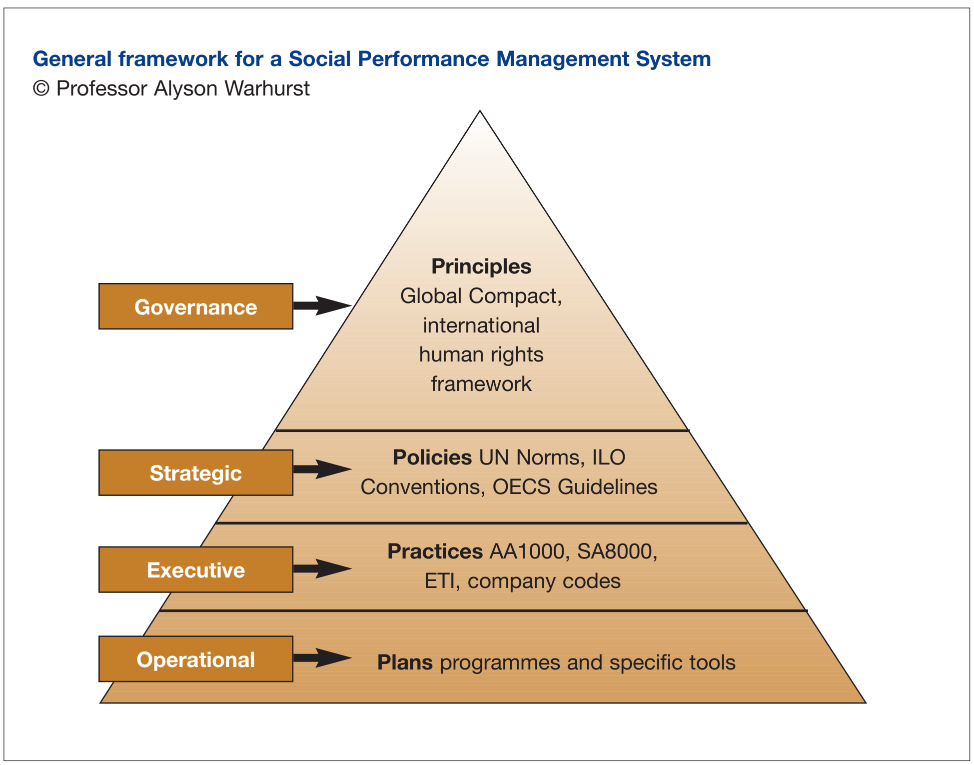
1. Base-Line Social Performance Report

In 2000-01 Premier worked with four consultants at EQ Management on a baseline performance report. The report benchmarked Premier's social performance and set targets for improvement in specific areas, in line with stakeholder expectations.

Embarking on the study, Premier faced a number of challenges. First, limited resources given Premier's small size relative to other oil companies. Second, the complexity of the practical, cultural and human-rights related issues of undertaking dialogue with stakeholder groups. More specifically, this relates to company culture differences, political and logistical challenges of carrying out consultation with certain stakeholder groups and language and communication issues including the avoidance of jargon. Third, the differing external perceptions of value of, and intent behind, Premier's implementation of responsible business practices, not least amongst Premier's own employees. Fourth, the danger of being too prescriptive or procedural about responsible business systems which might alienate staff from the process. And finally, the possibility of issues raised through consultation presenting decision-making trade-offs and conflicts. In Burma, Premier was able to reach an agreement with the other companies operating in the region to commit from the outset to be bound by the outcomes of the study. According to Richard Jones, this was quite a difficult agreement to achieve even for Premier as the smallest oil company in the group.

Scoping – Key managers in each business unit (BU) were interviewed by EQ Management about their responsibilities





and the nature of their interaction with stakeholders.

Process design – The decision was reached to conduct stakeholder consultation with employees, NGOs, shareholders, governments, community programme partners and local communities.

Stakeholder input into design – EQ Management carried out the first stage of dialogue with the relevant stakeholder groups. This included:

- Focus groups with employees in each business unit
- One-to-one interviews or focus groups with NGOs
- Visits to community development projects to meet community programme partners and local communities
- Focus groups with shareholders

Government was not included due to the lack of a consistent internal approach to government relations

The key objectives of the stakeholder dialogue were to raise awareness about the process taking place, establish training needs, identify concerns about the implementation of corporate responsibility policies and gather information about the management systems and training programmes already in place.

An interim report analysed the findings of the stakeholder input. A communications committee was then formed to decide on the timing, frequency and format of the next consultations.

Management tools at the operational level of a SMPS

	Internal CR	External CR for local communities, NGOs and shareholders	External CR for government
Level 1 **Governance** Social Sustainability Global Corporate Indicators	• The effective development & implementation of policy practice, which assures social justice in the workplace.	• The effective development & implementation of corporate governance structures, policies & reporting mechanisms which contribute to more socially responsible external stakeholder relations.	• The effective development & implementation of policy & practice which assures socially responsible engagement with government stakeholders pertaining to regulation, human rights & corporate citizenship.
Level 2 **Strategic / Executive** Business Unit derived Key Performance Indicators	• Socially responsible employment & working conditions • Socially responsible management policies & systems • Socially responsible approach to employee development • Socially responsible communication strategy & employee involvement	• Group policies with reference to internal & external CR benchmarks & human rights issues • Sustained commitment to social performance evaluation & reporting • Ongoing group social audit & verification processes conforming to AA1000 • Demonstrable use of Social Impact Analysis (SIA) tools throughout project life, including closure • Sustained commitment to corporate social investment (CSI) • Proven commitment to stakeholder engagement, dialogue & transparency	• Corporate compliance & accountability with respect to regulations, restrictions & laws • Commitment to strategy of corporate citizenship irrespective of laws in place & government approach to enforcement • Identification of human rights concerns & commitment to their protection • Proven commitment to government stakeholder dialogue as a systematic principle of corporate policy from the outset to end of project • Proven commitment to investigate more equitable rent-sharing agreements • Proven commitment to Corporate Social Investment (CSI) as mechanism for contributing to local & regional development plans in countries of operation
Level 3 **Operational** Ten management tools	• An employee survey • A social account survey for human resource managers • A social account survey at group level	• A survey for local community consultation • A shareholder consultation survey • A set of questions for focus group consultation with local community groups • A "brief" for contracting local consultants in each site of operation to undertake the community consultation exercises	• A set of questions to be sent to all equivalent CR managers in each business unit as a self-assessment tool with respect to progress regarding government relations

Overview of management tools within a SPMS

A-Tools Social Justice in the workplace	B-Tools Stakeholder relationships with NGOs, communities, shareholders, partners and suppliers	C-Tools Stakeholder relationships with governments
1. Employee survey	1. Management of social issues within Premier	1. Government relations survey at Group/ Business Unit level
2. Human Resources Managers Questionnaire	2. Guidelines for managing social risk during the exploration and production project life-cycle	2. Guidelines for monitoring bribery and corruption
3. CSR Survey at Group level	3. Guidelines for issue scooping, screening & base-line-profiting	3. OECD Guidelines for Multinational Enterprises
4. CSR Survey at Business Unit level	4. Stakeholder group mapping	4. Guidelines for consideration in respect of resource rent sharing
5. Audit and verification/Evaluation performance criteria	5. Guidelines for constructive engagement, consultation & dialogue with stakeholders	5. Training programme on Human Rights promotion
6. CSR training and professional development programme	6. Guidelines for NGO/INGO consultation outside areas of operation	6. Training programme evaluation forms for Trainees and Trainers
	7. Considerations for dialogue/consultation with local communities/local NGOs	7. Monitoring system for Human Rights
	8. Focus Group conduct guidelines	
	9. Worksheet for managing community issues with Business Units	
	10. Brief to local NGOs for the selection of local community consultation sub-contractors	
	11. Community compensation guidelines	
	12. Survey for NGOs/INGOs as external stakeholders	
	13. Shareholder consultation surveys	
	14. Base code and guidelines for ethical supply chain management	

Choice of KPIs – In developing indicators, Premier followed the indicator framework designed by Prof. Alyson Warhurst illustrated above. Indicators were selected to represent information on all four levels – governance, strategic, business and operational – and in three key areas – internal CR, external CR with respect to local community, NGO and shareholder relations, and finally external CR with respect to government relations.

The indicators themselves were defined on the basis of input from several other sources, including the GRI and World Business Council for Sustainable Development, Premier's stakeholder consultation earlier in the year and the experience of other companies.

At the operational level, the indicators are presented as a set of ten management tools, detailed in the table below. Premier conducted consultation with employee, community and shareholders to gather feedback on these management tools which was then analysed by EQ Management.

2. Generic Social Performance Management System (SPMS)

Premier Oil has developed a Social Performance Management System using a framework designed by Professor Alsyon Warhurst at Warwick Business School. This overarching framework is illustrated in the diagram below. The pyramid is divided into four sections which represent the different levels of management in a company – governance, strategic, executive and operational – which correspond in turn to different roles, indicators and means of verification in the development and implementation of the system.

At the governance level, the company makes a commitment to a set of principles on which its decisions and conduct should be based. The Global Compact is an extremely useful tool at this level, recommends Professor Warhurst, as it incorporates the range of key social and environmental rights in nine principles which can easily be presented in a single PowerPoint slide at a Board meeting.

The strategic level includes strategic directors, such as the Directors of Operations or the Director of Finance, responsible for strategic decisions such as where to invest. This level of management is responsible for developing policy. In terms of human rights policy, the UN Draft Norms are extremely useful in distilling those aspects of the international human rights framework that are applicable to business into a single, comprehensive and easily understood document. Premier Oil is currently looking to revise its human rights policy using the framework of the UN Draft Norms.

The executive level is comprised of functional heads such as the Head of Human Resources or the Head of Corporate Responsibility who would be responsible for executing policy, perhaps using standard practices such as AA1000 or the ETI base code. While company codes can be tailor-made to suit the needs of the business, the advantage of external standards is that they offer far greater credibility and facilitate comparison between companies.

The operational level is responsible for implementing policy on the ground and will use a number of specific plans, programmes and tools.

3. Premier's Social Performance Management System (SPMS)

In 2001, once the base-line social performance assessment was completed, Premier began to develop a Social Performance Management System (SPMS). The SPMS is still being developed but is available on Premier's Intranet.

Initially, the SPMS took the form of a workbook defining a set of practices and tools for social performance management. The workbook was divided in two volumes – the first was a description of the SPMS and the second contained a set of tools illustrated in the table below. The tools were grouped in accordance with the three workstreams at Premier – internal CR, external CR for communities, NGOs and shareholders and, finally, external CR for relations with governments.

In 2002, Premier's CR Committee decided to simplify the presentation of the SPMS. The ABC format corresponding to Premier's three work-streams was re-structured into ten standards as follows:

Premier s SPMS Standards

1. Leadership and commitment
2. Policies, objectives, social performance objectives
3. CR issues, scoping and risk screening
4. Stakeholder dialogue / interaction
5. External CSR – government relations
6. External CSR – community relations, investment & compensation
7. External CSR – NGO / INGO relations
8. Internal CSR – employee relations
9. Supply chain management
10. Auditing, verification and reporting

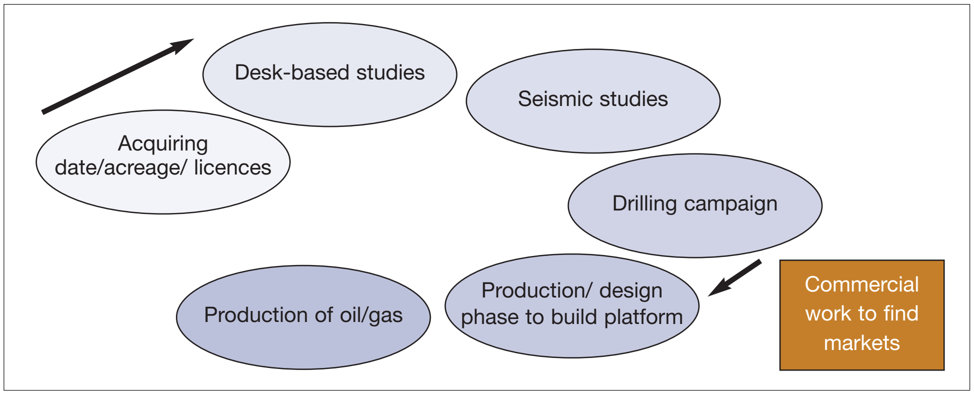
Each standard is presented on one A4 page covering the company policy on that particular area, steps for managers to take, the relevant tools taken from the ABC scheme and a check-list of relevant internal and external people to consult with and their respective roles and responsibilities. The ten standards allow for horizontal integration with the Health and Safety management system which is also presented with standards backed up by tools. Indeed the external consultants which Premier employed to transform the ABC scheme into standards were previously responsible for the design of the health and safety management system. The ten standards also allow vertical integration with high level Key Performance Indicators and targets illustrated earlier.

Implementing the Social Performance Management System

The way the SPMS is used depends on the life-cycle of the project and the manager's function. The typical life-cycle of a project is illustrated in the diagram below. At the different stages of the project, the company's visibility and impact will vary, requiring the use of different standards. Of course, at the beginning of a project, the number of relevant standards will be more restricted but are nonetheless vitally important. In Guinea Bisau, for example, Premier has a sizeable investment (it owns 70% of the off-shore acreage) in a project that is still in its infancy and not yet producing revenue. Premier has no permanent presence in Guinea Bisau and manages the operation from Senegal. The country has emerged as the third largest oil producer in sub-Saharan Africa following Nigeria and Angola but is renowned for poor governance and grave human rights abuses, together with serious ethnic tension.[36] Premier is using the SPMS to engage in community development projects in order to build "relationship capital" that may help ensure an enabling environment for the business later on. Richard Jones says Premier has learned to be smart about the programmes in which it chooses to invest when the project is still at the exploration stage, selecting projects that will have maximum impact without committing the company to anything too long-term. "We won't promise education because we don't know whether we'll be there in a year…normally we look for an infrastructure project that will have the most impact for the amount of money we budget", he explains.

The manager's function also determines the way the SPMS is used. For new business projects, only the head of CR Richard Jones would be involved. He attends weekly meetings of the Exploration Committee to hear about all potential business ventures and ensure social and environmental issues are integrated into the discussion. As the

36 Bennett Freeman's speech at Conference on the Growing Importance of African Oil, March 2003.



project develops, several others would take on a role, including local management, a community development officer, local HSE managers and a development NGO - usually Save the Children with whom Premier has an on-going global contract to provide assistance where the project is sufficiently developed. It is important to note that the SPMS is intended to assist managers identify relevant CR processes and who to contact. It does not necessarily require that they implement the tools themselves. In many cases, the manager may decide to contact the CR department to implement the tools. The Participatory Rural Appraisal and Impact Assessment methodologies, for example, require specialist knowledge. "Not everyone in the organization needs to know how the SPMS works", explains Richard Jones.

Training

The overall framework was provided by Professor Warhurst but crucially, the content was developed by Premier's CR Committee. "The lesson for Premier was for each individual executive to own the process – my role is now negligible", explains Professor Warhurst, who conducted training for the whole Board as well as general managers and managers of the business units. This involved a 2 ? day intensive management retreat covering relevant social issues, SPM systems and drivers. Evening speakers were invited to lead discussion on topics such as social entrepreneurship.

Training will be extended in 2004 to managers in the Business Units. The training package is still being designed with the assistance of Professor Warhurst who will also play a key role in carrying it out. It will probably focus on two or three key managers in each Business Unit – typically the Health Safety and Environment Manager, the Social and Community Manager and the Human Resources Manager.

Individual and team performance contracts

Social performance targets are integrated into annual individual and team performance contracts. This means that corporate responsibility performance is will impact on manager's financial reward According to Professor Warhurst "Individual and team performance contracts are fundamental indicators of the degree to which corporate responsibility is mainstreamed".

Regular target review

Premier's CR Committee comprises senior managers from across the company, including representatives from every Business Unit and function. The Committee holds video-conference meetings every 3-4 months to review the targets set out in the CR Report. The relevant manager for each target is responsible for reporting back on progress and this is followed by group discussion. To date, many of the targets have been high-level, such as a recent target to raise awareness of the company's whistle-blowing policy. The CR Committee's role is to "provide space for the conversation", says Richard Jones but it is down to the internal function at local level to fill that space. Professor Warhurst is the only external consultant present at meetings and plays an advisory role.

Focus – Premier's human rights impact and activities in Burma

Burma background

Burma is governed by one of the world's most brutal military regimes, known as the State Peace and Development Council. Burma was once one of South East Asia's most prosperous countries, but has now been given the United Nations' Least Developed Country status. The regime has been charged by the UN International Labour Organisation with a 'crime against humanity' for its systematic abuses of human rights, including murder, torture, rape, detention without trial, massive forced relocations, and forced labour. It was condemned internationally for annulling the election in 1990 which was won by the opposition party National League for Democracy, putting its leader, Nobel Peace Prize Laureate Aung San Suu Kyi under house arrest and detaining many of the party members.[12]

Premier's human rights impact in Burma

CSR Manager Richard Jones describes Premier as "an oil company that will go where others will not, or do not wish to". This description certainly applies to Burma where Premier's operations from 1997 until its withdrawal in 2002 were highly controversial from a human rights perspective. Together with other extractive companies operating in the area, a pipeline corridor approximately 10-15 kilometers in width and 63 kilometers in length, Premier Oil is accused of three main human rights related impacts[38], two of which relate to its activities during the construction phase and the third to the post-construction phase:

Benefiting from forced labour

The issue of forced labor is the most controversial aspect of the pipeline operation in Burma. Forced labor is a practice allegedly carried out by the army whereby local communities, through the village head, are requested or required to provide a number of people for periods of several days to several months to work on infrastructure construction projects such as

37 Corporate Watch UK web site [www.corporatewatch.org]

38 Blyth, A. (2003) Premier oil and Burma – who are the real winners? Ethical Corporation magazine February 2003 issue

bridges and roads.[39] The Government of Burma has issued a public order (I-99) explicitly prohibiting the use of forced labor. However, reports by the US Embassy, the ILO and the NGO Earth Rights International, document how in the 1990s the Burmese government embarked on a programme of infrastructure using forced labour to make the country more attractive to FDI. Forced labour was allegedly used to build the pipeline that transports gas from Yetagun to the Thai border. There is conflicting evidence as to whether forced labour continues to be used in the Yedana and Yetagun pipeline region.[40] Critics argue that whether or not forced labour is used in the pipeline corridor now, oil companies should not be allowed to benefit from the forced labour and intensified military presence that were used in the construction of the pipeline. In any case, they say, the creation of a corridor in which the prohibition of forced labor is enforced may "squeeze the people outside the corridor", increasing the pressure for forced labor in other areas.[41]

Intensify military presence in the pipeline area

The Yetagun pipeline travels down the same route cleared for the Yadana pipeline, built in the mid-nineties by a joint venture between America's UNOCAL and Total of France. The building of the pipeline led to the heavy militarisation of the area. During the construction of the Yadana pipeline systematic relocation of villagers, forced labour and other human rights abuses took place in the area. Since completion, the gas pipeline has been protected by troops infamous for human rights violations and violence against local communities. Men and women interviewed by ERI in the late 1990s gave numerous reports of torture, rape, looting and the destruction of property in the area.

Providing a financial life-line for the generals

Through royalty, tax and other payments to the Burmese military government, extractive companies are accused of throwing a financial life-line to the generals, increasing funds and stakes for conflict. Although the Yetagun field is not due to produce revenue until 2004, it is estimated that by 2025 Burma's earning from the Yetagun field will total $823 million.[42]

Despite these arguments, Premier Oil and others maintain that through a process of constructive engagement with government, civil society and local communities, the company's presence has in sum been a force for good. As part of a community consultation process conducted by independent consultants EQ Management for Premier, villagers said they enjoyed better infrastructure, health and education facilities, new business and work opportunities and more local production of food as a result of Premier's presence. Premier acknowledges, however, some instances where these benefits accentuated rivalries and resentments between local communities - a problem common to many corporate community development programmes. This is further complicated by the difficulty of separating the impacts of oil or gas companies operating in the same area. An on-going positive impact of Premier's work in Burma, even since its withdrawal, is that the Burmese government is following on from a series of human rights workshops conducted by the company in 2000-1 for government officials. Premier's socio-economic development programme and human rights workshops are discussed in greater detail below.

On 16 September 2002 Premier announced its withdrawal from the Yetagun project in Burma, its most controversial investment. Premier now has only two production locations - in Pakistan and Indonesia. In Pakistan, production is not operated by Premier but by its partner BHP Billiton which has therefore assumed responsibility for community development and other human rights activities. Premier's main involvement in human-rights related issues in Pakistan is on-going internal CR, including an annual employee survey and a project which will assist suppliers meet the company's sourcing standards to be carried out this year. In Indonesia, Premier is operating off-shore in the Natuna Sea, two hours by helicopter to the nearest island. Again, this limits Premier's potential human rights impact although there is a supply base on the nearest island manned by six Premier staff who are responsible for coordinating development programmes with a local community of 1100 people, in partnership with other companies at the base.

Besides production, Premier has several exploration projects in the UK, West Africa, Pakistan, Indonesia and India. Working at the front- rather than the back-end of the project cycle obviously diminishes the human rights impact but as BP's proposed Tangguh project illustrates, there is still a lot a company can do well in advance of starting production. Premier is exploring oil in Guinea Bisau, for example, and, if it is successful, the revenues could have an enormous impact on a country which is third poorest in the world with a population of only one million.

Premier's human rights activities in Burma

The Burmese political context presents formidable challenges for companies wishing to have a positive social impact. Security is the key issue, not only in the immediate vicinity of the companies' operations, but also to the macro-level as payments to government can fund or create stakes for conflict and human rights abuses. While security and revenue management are extremely important issues, this section of the case study will focus on two programmes that seem to have been particularly successful within their scope – a socio-economic development programme with Save the Children and a series of human rights workshops.

Socio-economic development programme

In parallel with its business operations, Premier became involved in community development programmes from 1997,

39 Zandvliet, L. & Fraser D. Yadana (May 2003) Gas Transportation Project: Visit II. Report by the Collaborative for Development Action [www.cdainc.com]

40 An Earth Rights International report published in 2003 includes evidence of forced labour in the pipeline region, in contrast to a report by the Collaborative for Development Action published in November 2002.

41 Zandvliet, L. & Fraser D. Yadana (May 2003) Gas Transportation Project: Visit II. Report by the Collaborative for Development Action [www.cdainc.com].

42 Energy consultants Wood Mackenzie in Blyth, A. (2003) Premier oil and Burma – who are the real winners? Ethical Corporation magazine February 2003 issue

largely in partnership with Save the Children USA (STC USA). Premier's explanation for this decision is that it wants its work with villages to be "implemented by professionals". Total took over the operatorship since Premier's exit and is currently employing 29 people to run its own community programmes. Total states that it is employing people directly because these socio-economic aspects are "too important to be implemented without direct and personal involvement". Once the partnership was formed, Save the Children identified the communities which would receive intervention, mainly those along the 67km pipeline route. STC conducted a Participatory Rural Appraisal on the basis of which it recommended an education programme, focusing on life skills training, income generation and early childhood care. This avoided duplicating the work of Total which was involved in medical projects.

Each community selected a management committee, comprised of men and women, responsible for overseeing the programme in close collaboration with STC. Premier's community manager, a local doctor, was responsible for the logistics of ensuring STC people and equipment could be transported between Yangon and Kanbauk where the pipeline operating centre was based. He was also responsible for ensuring the community suggestions box was manned and that any complaints were going directly to Premier rather than STC. Villagers understood the community manager was a Premier person, although working alongside STC, and able to deal with any company-related questions or complaints.

Premier's involvement was mainly in the form of funding to projects run by Save the Children USA (SCF USA) amounting to approximately £425,000 per annum. As well as an early education programme, projects extended into new areas, such as reproductive health and micro-finance projects. From 1999 Premier was involved in smaller projects independently of STC through a Donations and Contribution Budget made available to country managers.

Human rights workshops

In response to concerns over security arrangements, Premier ran a series of nine human rights workshops over two years from 2001-02. The workshops reached a total of 250 people from groups including the army, police, energy ministry, labour department, immigration and customs. The courses were structured to provide these officials with knowledge about the concept of human rights, their origins and nature, and about "human rights as an international legal system". The workshops also covered practical issues, such as monitoring and accountability systems, human rights and armed conflict, the use of forced labour, and the state's duties and challenges for implementing human rights obligations in government. Workshops were held over 4 days, with 30 participants per workshop. Discussion was seminar-style, speaker-led and moderated by three UK and Australian human rights lawyers.

Of particular interest is a further human rights workshop convened by Premier in August 2002. This workshop was different from previous workshops for two reasons. First, it was more focussed on the UN's International Covenant on Economic, Social and Cultural Rights (ICESCR) and how these rights could be implemented in Burma. Nearly all the 24 participants had attended one or two human rights workshop previously (convened either by Premier Oil or the Australian Aid Agency) which allowed for more in-depth training. And second, the workshop targeted senior officials from a wide range of government and non-government agencies, all of which had some responsibility for rights contained in the ICESCR. Many of these officials were career bureaucrats who, as Mr Jones puts it, "were there before the current government and will be there afterwards." The idea was to build capacity in the professional civil service as well as with the current government.

The workshop's objectives were to deepen understanding among key officials of the meaning of the ICESCR and equip them with actions plans to tackle human rights problems in Burma. Ultimately, the workshop was intended to encourage a positive attitude within the Myanmar Government towards the possibility of acceding to the ICESCR.

A volume of reading and reference materials was compiled for each participant and distributed in advance of the workshop for participants to prepare. The workshop programme was separated into four parts, with one part considered on each of the four days as follows:

Day 1 – Introduction to Economic, Social and Cultural Rights
Day 2 – Becoming a Party to the ICESCR
Day 3 – Monitoring and Accountability Mechanisms of the ICESCR
Day 4 – Domestic Mechanisms for Implementation of the ICESCR

The general teaching format of the workshops was participatory and discursive, rather than lecturing.

For the first time at a workshop, the trainers were permitted to distribute reading materials which contained detailed criticism of the Burmese government. This included Amnesty International's report "Myanmar: Lack of Security in Counter-Insurgency Areas" and the Report on the Situation of Human Rights in Myanmar prepared by the Commission on Human Rights, both published in 2002. Premier cite this as a indicative of improvements in the political atmosphere in the country.

Premier argues that it was only able to conduct human rights workshops as result of the relationship it had built with the government. The company believes that this illustrates how multinationals can use their leverage with governments to promote respect for international law. In reality it is extremely difficult to judge whether Premier's human rights workshops indeed contributed towards this objective – human rights violations in Burma are on-going. There has been, however, some encouraging follow-up to Premier's work-shops. First, following a letter from Richard Jones, the Burmese Minister of Home Affairs agreed in January 2003 to conduct a Scoping Study to outline and prioritise areas for legislation in the sphere of human and development rights. This would be a first step towards establishing a Myanmar ICESCR Committee chaired by the Minister. Second, since Premier's exit, the government has taken over the human rights training of its officials and police. And third, in January this year Richard Jones was invited back to Burma by the government to speak at a conference at the newly established International Centre for Strategic Studies on the role companies can play in promoting human rights and democracy.

Analysis and Conclusions

This case study examined Premier Oil's comprehensive Social Performance Management System (SPMS). The SPMS was developed with the assistance of academic experts and consultants and indeed sets new standards of best practice. Multi-stakeholder participation went into the design of the system which establishes procedures and management tool-kits for ten areas of corporate responsibility. These ten standards are integrated horizontally (they are presented in the same format as the health and safety and environment management systems in order to assist managers use them), and vertically in that they are attached to Key Performance Indicators (KPIs) and targets at the different management levels. Most importantly, CR targets are incorporated into both individual and team performance contracts which is the best indicator that they are embedded into mainstream business operations.

The case-study focused on Premier's human rights activities during its operations in Burma from 1997 until its withdrawal in 2002. The question of investment in troubled countries is one of the most sensitive international investment issues of the early 21st century.[43] For countries that lack appropriate political and institutional frameworks and are in the grip of violent forces, the impact of foreign direct investment is highly controversial. While these countries are often desperately in need of revenue for development purposes, there is an enormous risk that the money will not be spent on social welfare but instead fuel corruption and conflict. The role of multinational enterprises in countries such as Burma is therefore a particularly challenging issue for corporate responsibility because most of the problems arise from a lack of "government responsibility" (poor public governance of budget systems, lack of transparency and accountability, abuse of civil and political rights). This challenge is particularly poignant with regards companies in the extractive sector, accounting for most of the stock of inward investment in Burma, as the country's natural resources can only be sold once.

It is perhaps not surprising therefore that opinion about Premier Oil's former presence in Burma is polarised. Premier maintains that through a policy of constructive engagement, it was able to have a positive impact at both the local and national levels. At the local level, there is evidence of the benefits of Premier's socio-economic development programmes implemented by Save the Children for those within the immediate project vicinity. Further, field interviews conducted by the Collaborative for Development Action in 2002 found forced labour to exist only outside the pipeline area. Further, at the national level, Premier has tried to use its influence to draw the government's attention to international law and human rights standards. The company seems to have gone further than most in pursuing this approach, holding regular meetings with the Burmese government until its exit in 2002 and conducting a series of human rights workshops for government officials. Whether these workshops made a positive difference is very difficult to say - grave human rights violations continue to take place in Burma. But the workshops have led to some interesting developments. Progress is being made towards a Burmese ICESCR Committee and in January this year, Dr Jones spoke by invitation of the Burmese government at a conference at the newly established International Centre for Strategic Studies in Burma on the role companies can play in promoting human rights and democracy.

These arguments are unlikely to persuade those who believe that the rule of an oppressive military regime precludes any possibility of constructive engagement. The presence of companies like Premier may provide a degree of legitimacy and a financial life-line to the government which cannot be redeemed. The difficulty is that ultimately, the company that has taken over since Premier's exit has no CR track record, has never produced an audited social report and, owned by the Malaysian state, is impervious to any form of stakeholder pressure. ■

43 Organisation for Economic Cooperation and Development (OECD) (2002) Multinational Enterprises in Situations of Violent Conflict and Widespread Human Rights Abuses

List of Interviews

ABB
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Phone interview with Mark Slater, supply chain manager
Phone interview with Luc Giraud-Guigues, Manager Corporate Partnerships WWF International

Anglo-American
Face-to-face and phone interviews with Edward Bickham, Executive Vice President, External Affairs
Face-to-face and phone interviews with Dr Brian Brink, Senior Vice President Medical
Phone interview with Dr David Harrisson, LoveLife (NGO)

The Body Shop
Phone interviews with Nicky Amos, Head of Business Ethics
Phone interview Jon Entine

BP
Face-to-face and phone interviews with John O'Reilly, former Tangguh Director of External Affairs and Security
Phone interview with David Rice, Director of Policy Unit for Government and Public Affairs
Written response from BP managers in Jakarta
Phone interview with Arvind Ganesan, Human Rights Watch

BT
Face-to-face and phone interview with Rowena Wright, Ethical and Environmental Trading Manager
Phone interview with Dunstan Hope, Social Policy Development Manager

Chiquita
Phone interview with Jeff Zalla, Vice President and Corporate Responsibility Officer
Phone interview with George Jacksch, Senior Director Corporate Responsibility and Public Affairs
Phone interview with David McLaughlin, Senior Director of Environmental Affairs, David McLaughlin
Phone interview with consultant at Smith O'Brien
Phone interview with Ron Oswald, IUF

Levi Strauss
Phone interview with Patrick Neyts, Head of Environment, H & S Code of Conduct.
Phone interview with Bril Lacno, supply chain manager China
Phone interview with Patrick Itchert, ETUC

Premier Oil
Face-to-face and phone interviews with Dr Richard Jones, Manager of Corporate Responsibilities and Communications
Phone interviews with Prof. Warhurst
Phone interview with Luc Zandvliet

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