



**OECD-ILO CONFERENCE
ON CORPORATE SOCIAL RESPONSIBILITY**

*Employment and Industrial Relations: Promoting
Responsible Business Conduct in a Globalising Economy*



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**CORPORATE RESPONSIBILITY PRACTICES IN THE AREA
OF EMPLOYMENT AND INDUSTRIAL RELATIONS**

This report serves as a background document to the OECD-ILO Conference on Corporate Social Responsibility. It has been prepared by Ethical Investment Research Services (EIRIS) under the responsibility of the OECD Secretariat.

EIRIS is an internationally respected leading institute providing research and advisory services on listed companies to investors on issues of business ethics. Since 2001, it has been acting as a partner of the Investment Committee in preparing background material on companies' published policies, management systems and reporting practices in environment, supply chain, finance, corporate responsibility practices of emerging market MNEs and other areas covered by the OECD Guidelines for Multinational Enterprises.

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Executive summary

This paper seeks to identify, based primarily on companies' published information, how they manage labour issues in light of the principles and standards for responsible business conduct as promoted by the OECD Guidelines for Multinational Enterprises, in particular its Chapter IV 'Employment and Industrial Relations'. For this purpose, a range of indicators, explained in Annex 3, have been selected for the assessment of companies. The analysis has been based on a universe comprising almost 2000 companies publicly listed on the FTSE All World Developed index (and a sample of listed companies in emerging markets, chosen to give a representative sample of countries and sectors). This encompasses a broad geographical and sectoral spectrum (see Annex 2).

The current analysis covers a range of labour issues: equal opportunities, health and safety, job security and training, trade unions and other internationally recognised labour standards such as child labour, forced labour and freedom of association within owned operations and the supply chain. This paper also includes allegations by civil society stakeholders of breaches of internationally recognised core labour standards, both in the company and the supply chain, and international standards on working hours and health and safety to assess how companies are managing labour issues globally.

Analysing companies on their management of labour issues shows variability in performance depending on the different labour issues across regions and sectors. Certain labour standards and systems tend to emerge as those most widely adopted.

Overall, equal opportunity is the issue with the highest proportion of companies having developed policies and systems – with almost 80% of all companies having an equal opportunities policy. Similarly, companies with a high risk exposure to health and safety issues tend to have developed systems within a well regulated environment - with more than 77% of all companies having health and safety systems.

Often, national legislation, trade union pressure and public awareness around equal opportunities and health and safety can explain the level of interest shown by employers to these issues. It is therefore worth noting the positive role of strong governmental involvement through legislation and law enforcement.

This also explains overall good assessments in OECD-Europe on trade union membership, where labour laws are more regulated than in non-OECD/Emerging Markets. Indeed, in OECD-Europe, 76% of companies show at least some evidence of trade union recognition yet in non-OECD/Emerging Markets, only 15% of companies reach this level.

On the other hand, across all regions, no sector has more than 20% of companies showing clear evidence of job security or training systems¹ and, overall, less than 10% of all companies analysed have clear evidence of having job security systems. This may also be due to the absence or weaknesses of government regulations in these areas, even though both the OECD Guidelines and ILO instruments encourage these activities on the part of companies.

Companies are more likely to commit publicly to an equal opportunity policy (80% of companies) than to other internationally recognised labour standards. Only 22% of all companies across regions publicly commit to all core internationally recognised labour standards. While strong legislation around equal opportunities and health and safety issues can explain company performances in these areas, the lack of national regulations relating to the internationally recognised core labour standards, and the fact that supply

1 See annex 3 for details on methodologies used to assess companies' stated policies, management systems and reporting in these areas.

chain issues for example came on the public agenda at a later stage than other issues such as discrimination, can also help explain these differences. Overall, awareness of supply chain labour standards and human rights issues is highest in OECD-Europe and OECD-North America; however it remains low in OECD-Asia Pacific and especially in non-OECD/Emerging Markets.

Some industry sector differences also can be observed, for example in the traditionally unionised sectors as opposed to newer industries. Sectors which have been more often targeted by civil society actors for supply chain issues also perform better than other sectors. An example of the latter is the performance of mobile telecommunications and technology and hardware equipment in the supply chain with respectively none and 18.5% of companies achieving at least an intermediate grade for policies in the supply chain compared with 38.6% and 52.5% for the general retailers and the personal goods sectors. Companies in the real estate sector seem to have taken less action in response to all the issues (except for training) to improve the working conditions of their employees than in other sectors.

Apart from regional or sectoral reasons, the size of a company by market capitalisation can also explain the differences observed. With 46.7% of all companies with market capitalisation above USD 3 billion having developed human rights policies assessed as intermediate, good or advanced, against only 15% of companies with market capitalisation under USD 3 billion, it is clear that large companies by market capitalisation are more likely to develop human rights policies, systems and reporting and to a higher standard than smaller companies. This is partly due to the fact that larger and more visible companies often face greater exposure to investor, trade union, NGO and consumer pressure. The commitments on corruption, environment or labour standards for quotations required by a number of stock exchanges as listing requirements also have an impact.

The analysis of companies worldwide and across sectors also points to increasing convergence of commitments. The Universal Declaration on Human Rights as well as the ILO core labour standards are increasingly becoming central to human rights policies for companies, particularly in relation to operations in developing countries. Other initiatives such as the Voluntary Principles on Security and Human Rights are also starting to be more widely referred to in the extractive sector. The development of new accreditation standards such as OHSAS 18001, developed by the British Standards Institution (BSI) jointly with a number of national standards bodies, certification bodies and specialist consultancies, for health and safety or the SA 8000, developed by Social Accountability International (SAI), for human rights and the increasing auditing of companies on their labour practices also strengthen the standardisation of certain labour issues. These trends would indicate that a set of basic labour standards is emerging and is being developed.

Overall, companies in OECD-Europe are most advanced in their development of labour practices. They are followed by companies in the OECD-North America and OECD Asia-Pacific. The lower performance of companies in OECD-Asia Pacific and, especially, in non-OECD/Emerging Markets relates to managing labour issues in their supply chains and human rights and may be explained by the fact that companies based in this region are under less pressure from civil society stakeholders and the responsible investment community and may often be less regulated. Yet, as managers of responsible investment funds are increasingly calling for corporate codes of conduct to make direct reference to the ILO core labour standards, it is reasonable to expect the performance of companies in OECD-Asia Pacific and non-Emerging Markets to improve over time as these companies come under increasing pressure to meet such expectations.

1. Approach

Analysis for this paper is based on EIRIS data from February 2008. The data covers almost 2000 companies publicly listed on the FTSE All World Developed index (and a sample of listed companies in emerging markets chosen to give a representative sample of countries and sectors).

Regional analysis is based on the following distribution:

OECD-Europe - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the UK (480 companies)

OECD-Asia Pacific - Australia, Japan, New Zealand and South Korea (601 companies)

OECD-North America - Canada, Mexico and United States of America (715 companies)

Non-OECD/Emerging Markets - Brazil, China, Chinese Taipei, Hong Kong, India, Israel, Malaysia, Russia, Singapore, South Africa and Thailand (192 companies)

The full distribution on companies by country is included in Annex 2.

This paper focuses on the following issues:

- Equal opportunities
- Trade union membership
- Job security and training
- Health and safety
- Human rights
- Supply chain labour standards

The company's performance on these issues is assessed with regard to the quality of management systems in place (including public policy commitments and quality of disclosure) and their effectiveness, as measured by an analysis of allegations of serious breaches of recognised labour standards.

The internationally recognised core labour standards referred to in this paper are the conventions in the ILO Declaration on Fundamental Principles and Rights at Work (1998): child labour, forced labour, discrimination, freedom of association and collective bargaining. These ILO core labour standards are extensively covered in the OECD Guidelines on Multinational Enterprises.

A wide range of sources are used, mainly public company documents (annual reports, social reports and websites) together with third party sources (government and regulatory data, industry and specialist journals, trade unions, NGO websites and other independent sources). In addition, EIRIS gathers its own data on companies via surveys and through direct dialogue with companies.

The areas that EIRIS researches are determined through consultation with clients and significant issues are identified using the researchers' expertise and access to responsible investment networks. For each of these issues, the methodology provides an assessment of "evidence" (e.g. good, moderate and no evidence) that the company's stated policy, management systems and reporting meet EIRIS indicators as defined in Annex 3. The methodology also assesses performance by analysing allegations of breaches of relevant

international labour or human rights standards and responses reported by the companies involved (see Annex 3 for the source of information used on the alleged breaches and companies' responses).

Establishing a globally applicable public policy, while no guarantee of performance, is commonly the first step for a company wishing to address their impact in any particular area and a valid measure of the level of a company's commitment. The level of implementation of any given policy is also dependent on an appropriate management system and its effectiveness can be assessed through reporting on the issue, including relevant data and disclosing performance against targets, as well as performance on the ground. The approach outlined in this paper, focussing on the quality of policy, systems, reporting and evidence of breaches, therefore presents an important measure of company commitment and transparency on labour issues.

2. Key findings

Each section includes a brief introduction to the topic, details of the assessment methodology and regional and sectoral analysis and trends.

2.1 Equal opportunities

The issue

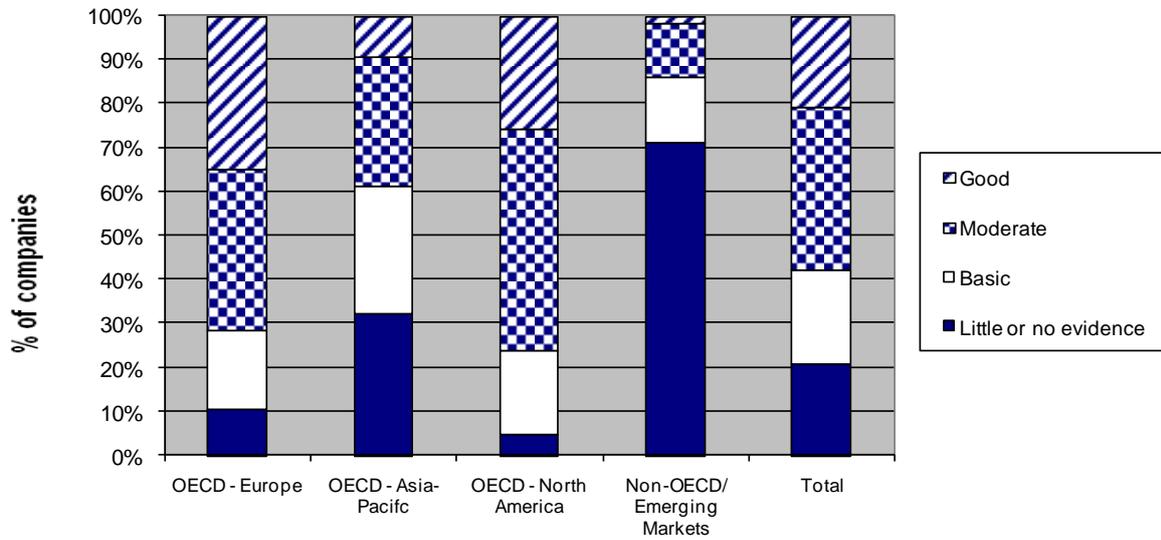
Employers are increasingly recognising equal opportunities as a high profile issue. This is driven by the increasing regulations on discrimination and the reputational issues which companies risk in cases of alleged discriminatory practices, in the media and as a result of lawsuits. Improving diversity is increasingly seen as a means to protect company or brand reputation and of gaining competitive advantage. Greater diversity in the workforce widens the talent pool and improves staff morale and retention rates.

Methodology

The quality of companies' equal opportunities policy and systems is assessed. For policy, this includes whether the policy goes beyond race and gender to cover disability, religion, ethnic origin, age and sexual orientation; global applicability of the policy, and whether there are mentoring and support networks. Companies are regarded as having a basic policy if they have made public a general non-discrimination statement, moderate if they go beyond this requirement and good if they are also members of support networks for minority groups. Equal opportunities management systems are assessed on a combination of work-life balance indicators including flexible working hours, job sharing and child care arrangements.

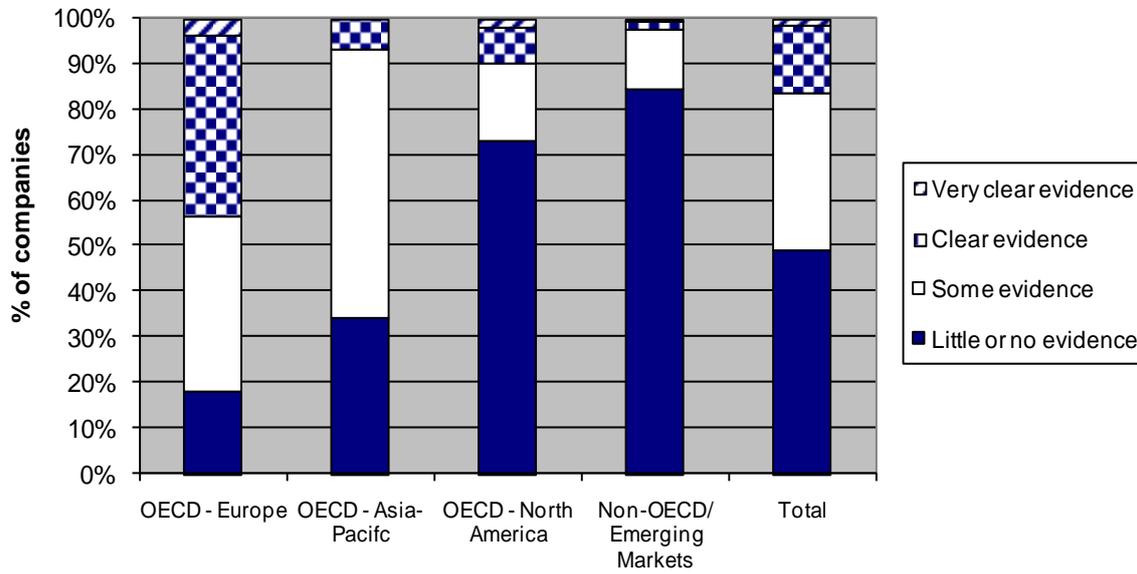
Companies are also assessed on whether they provide statistics from diversity monitoring showing employee demographics and the proportion of ethnic minorities and women at management level. An additional performance indicator is whether the proportion of women or ethnic minority managers matches at least three-fifths of the representation of these groups in the workforce.

Figure 1. Equal Opportunities Policies (Region)



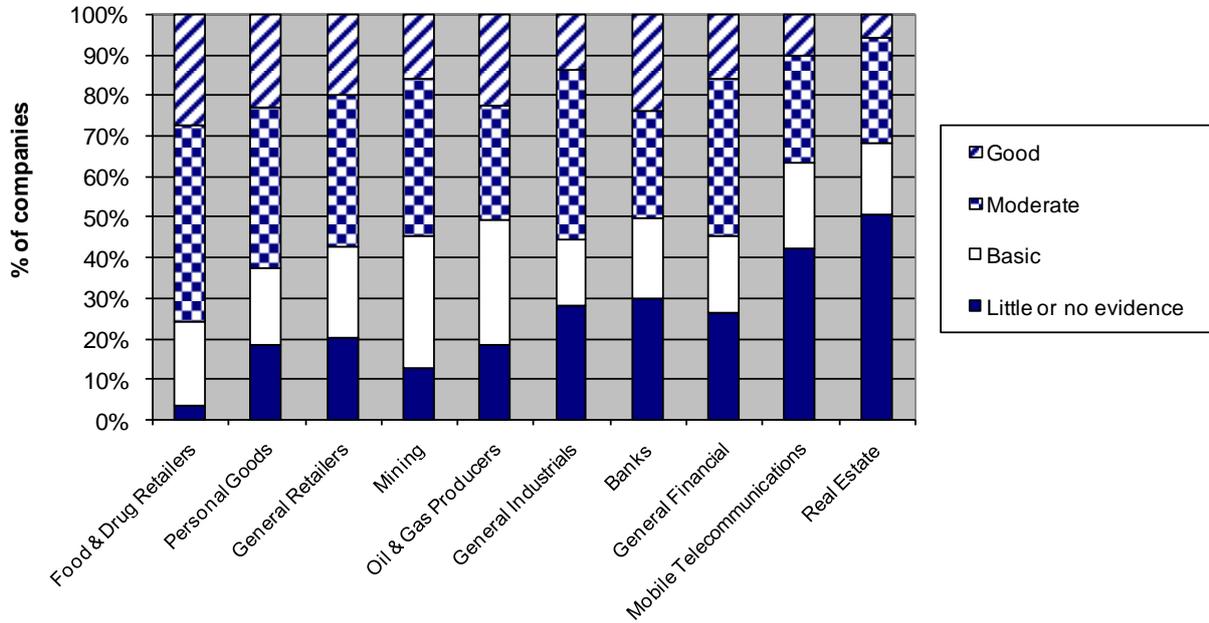
Source: EIRIS

Figure 2. Equal Opportunities Systems (Region)



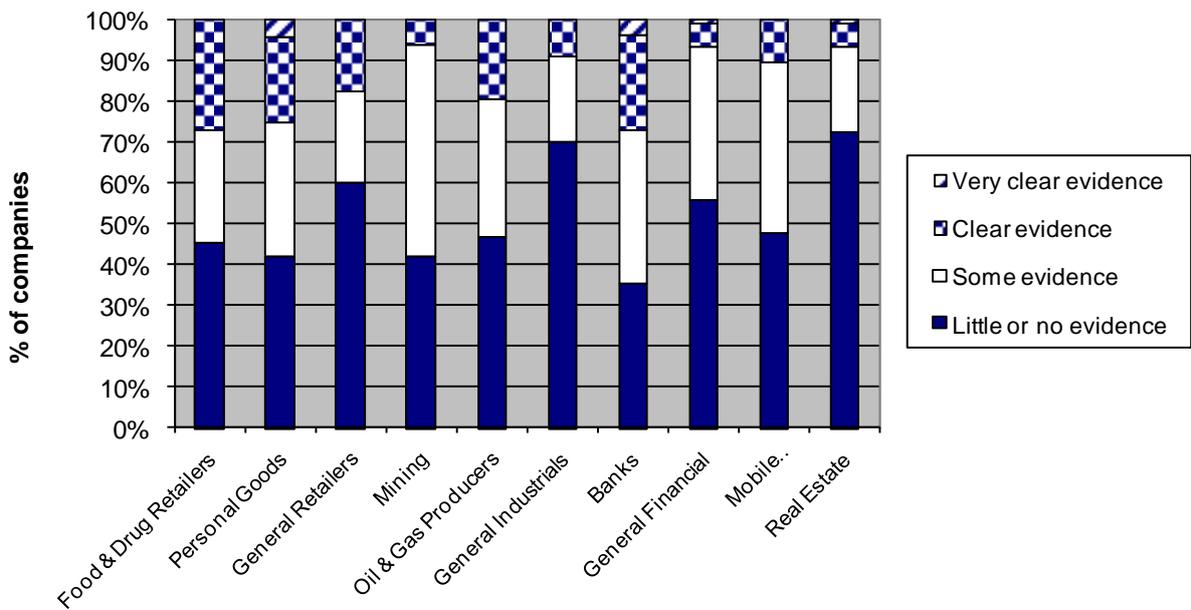
Source: EIRIS

Figure 3. Equal Opportunities Policies (Sector)



Source: EIRIS

Figure 4. Equal Opportunities Systems (Sector)



Source: EIRIS

Figures 1 to 4 illustrate the following trends:

- OECD-North America region has the highest proportion of companies with policies for equal opportunities (95%). However, OECD-Europe has the highest proportion of companies with policies assessed as good (35%).
- OECD-Europe companies also have the highest proportion of equal opportunities systems (82%). These are companies with either work-life balance indicators such as flexible working hours, job sharing and child care arrangements or statistics from diversity monitoring showing employee demographics.
- OECD-North America has a higher proportion of companies with equal opportunities policy than the OECD-Asia Pacific, yet the trend reverses for equal opportunities systems (respectively 27% and 66% of companies analysed giving at least some evidence of equal opportunities systems compared with 95% and 68% having at least a basic equal opportunity policy).
- Non-OECD/Emerging Markets region has the lowest proportion of policies and systems for equal opportunities; only 29% of companies have a basic equal opportunities policy or above and only 16% have systems to manage equal opportunities.
- The food and drug retailer sector has the highest proportion of good equal opportunities policy with 28% of companies analysed. However, the banking sector is the group with the highest proportion of equal opportunities systems, with 66% of companies having at least some evidence of these systems.
- Approximately 50% of all companies have at least some evidence of having equal opportunities systems compared with almost 80% of companies having an equal opportunities policy.

A higher proportion of US companies (which represent 92% of companies analysed in the OECD-North America region) achieve at least a basic assessment due to historically well established national regulations (Civil Rights Act of 1964 and the Age Discrimination in Employment Act of 1967). Over 90% of US companies disclose an equal opportunities policy, and many have mentoring networks supporting minority groups.

The performance of companies in OECD-Asia Pacific and non-OECD/Emerging Markets may be explained by a looser legislative framework towards equal opportunities and a traditionally lower proportion of women in the home country workforce compared to North American and European companies (especially outside Japan). A higher than average proportion of companies in these countries refer only to gender and not other forms of discrimination in their policy. In Japan for example discrimination is largely perceived as a gender issue and generally acknowledged in large companies. Other cultural differences in the interpretation of equal opportunities include the classification of all non-English speakers as ethnic minorities in Australia.

Although OECD-North America has a higher proportion of companies with an equal opportunities policy than the OECD-Asia Pacific region, the trend reverses for equal opportunities systems. This is also linked to disclosure trends. There is an 80% response rate for Japanese companies, while US companies are less likely to respond to surveys on these issues. The data US companies publish tends to be standard employee benefits relating to medical insurance and paid time off rather than to employee composition by gender or ethnic minorities. In addition, public disclosure is not required by US legislation and it is possible that US companies tend not to publish these figures due to potential legal implications.

In the OECD-Europe region, a high proportion of companies report the gender composition of their workforce and their flexible working arrangements. This is due to a strong legislative framework. Under

the French NRE law² passed in 2001, for example, publicly-listed companies are required to disclose information on social and environmental issues in their annual reports. Disclosure includes indicators related to equal opportunities such as the integration of women into different posts. While no key performance indicators (KPIs) are clearly defined or compulsory, EIRIS data clearly shows a high proportion of French companies with systems for implementing equal opportunities. Similarly, in the Netherlands, where companies are legally required to publish annual social reports, all companies have at least ‘some evidence’ of systems.

Traditionally male-dominated industries such as oil and gas and mining have had problems recruiting women but are implementing changes to attract more women. Similarly, the banking sector has the highest proportion of companies with equal opportunities systems, this is driven by high profile allegations of discrimination against women in promotion opportunities and remuneration.

The proportion of equal opportunities policies and systems developed across all regions and sectors indicate that the issue has been seriously considered by employers. This reflects national regulatory requirements for standards and additional national regulations influencing the type and level of disclosure made by companies³. These findings seem to emphasise the positive role of government involvement through legislation.

In total 18 allegations of serious breaches of equal opportunities, as defined by the ILO core labour standards (ILO Conventions 100 and 111 – prohibiting discrimination at work) were found. Five (28%) allegations related to companies incorporated in the OECD-Europe and 13 (72%) from OECD-North America region, specifically the US. In OECD-Europe region one (20%) of the allegations was assessed by EIRIS as ‘not addressed’. This compares with seven (54%) of the allegations in OECD-North America. The fact that the majority of the cases were raised in the US may be due partly to a greater scrutiny on the part of NGOs on this topic and partly due to the litigation system in the US.

According to EIRIS methodology, ‘not addressed’ means that a company has not implemented the changes necessary to prevent the re-occurrence of the breach in the future. For example, a company must have a policy on all ILO core labour standards in question and respond specifically and in detail to the allegation to be assessed as ‘addressed’. It should also provide details of audits related to the breach.

Most of the allegations were made against well-known companies which have been targeted by NGO campaigns. Allegations of discrimination in the supply chain often relate to recruitment methods aimed at screening out pregnant women, either by asking intrusive questions or forcing women to undergo mandatory pregnancy testing. Within the company itself, allegations refer to gender or racial discrimination.

2 Reporting requirements are set forth in regulations implementing the NRE (Nouvelles Regulations Economiques) law, promulgated in a Decree dated 20 February 2002 (Le Décret d’Application, n. 2002-221).

3 For example within Northern Ireland, equal opportunities legislation requires significant disclosure of the religious and racial compositions of their workforce, whilst in other countries such as France and Belgium, the reporting of such statistics based on ethnicity is illegal.

2.2 Trade union membership

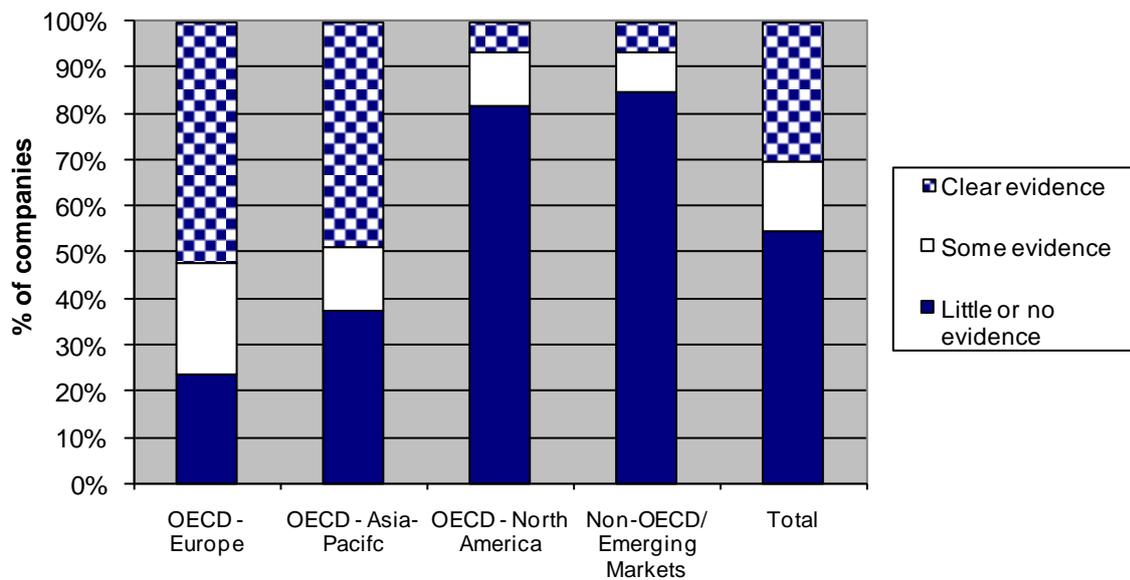
The issue

Recognising and implementing the rights of workers to organise in trade unions and negotiate collectively represents an effective way to improve both employee relations and working conditions. Unions typically negotiate on key areas such as wages, hours of work and working conditions. Trade unions can provide workers with a valuable safeguard against exploitation and victimisation.

Methodology

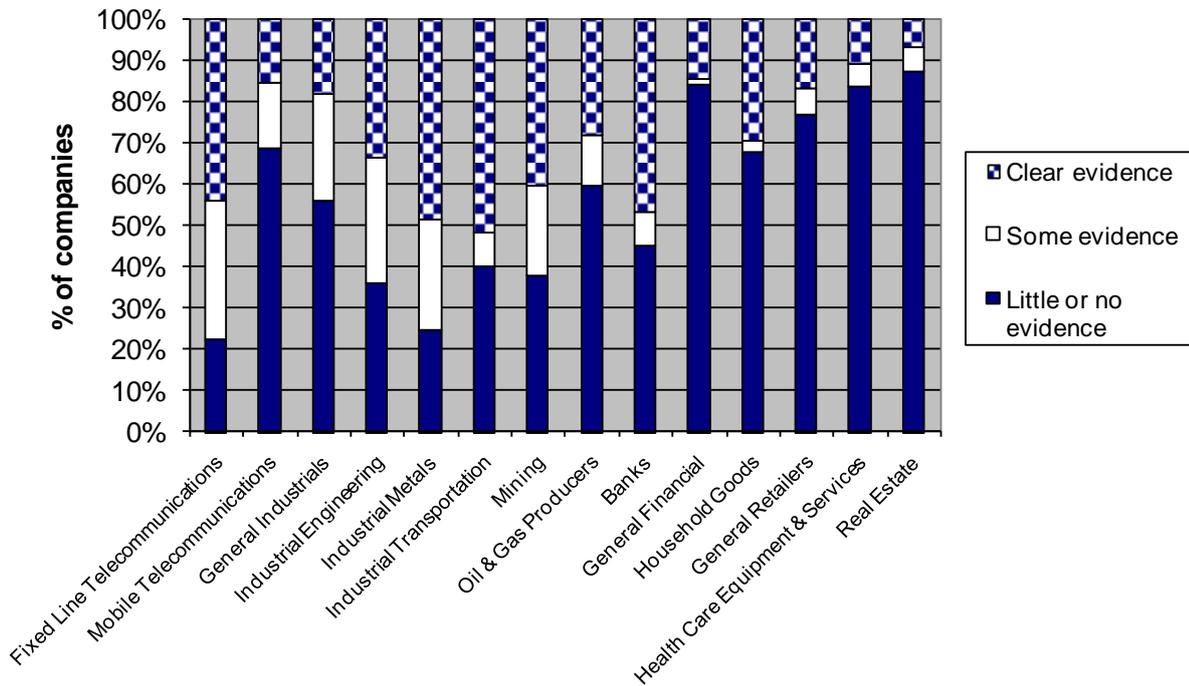
The trade union and employee participation criterion analyses whether the company has collective bargaining and union recognition arrangements. The level of evidence provided is assessed according to the percentage of employees covered by the agreement/union recognition.

Figure 5. Trade Unions (Region)



Source: EIRIS

Figure 6. Trade Unions (Sector)



Source: EIRIS

Figures 5 and 6 illustrate the following trends:

- OECD-North America and non-OECD/Emerging Markets are the regions whose home companies have disclosed the least evidence of employees covered by agreement/union recognition, with respectively 81% and 85% assessed as ‘little or no evidence’
- OECD-Europe and OECD-Asia Pacific regions show similar results with around 50% of companies having a ‘clear evidence’ grade. OECD-Europe shows a larger proportion of companies having ‘some evidence’.
- 55% of all companies have at least some evidence (30% have good evidence).

The high percentage of employees represented by trade unions in OECD–Asia Pacific is explained by the Japanese trade union model. Japanese companies analysed represent 75.5% of companies assessed as having some evidence and 95.5% of companies assessed as having clear evidence in the OECD-Asia Pacific. In Japan, where federations of unions are formed by institutions engaged in the same industry, the union model differs from that of other OECD countries.

The differences between OECD-Europe and OECD-North America are probably linked to different social models. The high profile role of unions in Europe historically helps explain the high percentage of union recognition agreements in the OECD-Europe region.

Within OECD-Europe countries the regulatory background explains the number of companies with trade union representation. In Germany and Sweden for example, there are strong government laws in place that

also ensure union representation at board level⁴. Similar legislation exists in France, Denmark, Finland, Greece, Hungary, Ireland, the Netherlands, Poland and Spain.

The lower proportion of employees that are members or represented by a union in OECD-North America might be explained by its different legislation and social model. The National Labour Relations Act (NLRA) in the US guarantees the right of freedom of association, the right to bargain collectively, and the right to join trade unions to private sector employees. However, the statute excludes many categories of employees from its scope and the law does not prevent employers from anti-unionism practices⁵.

Out of eleven allegations of breaches of unions' rights analysed, four occurred in a company incorporated in the US and none of these four have been assessed by EIRIS as 'addressed'. Most of these cases refer to anti-unionism tactics ranging from rewarding those who oppose unions to threatening, arresting or firing union organisers.

Differences are also pronounced between industry sectors. For example the fixed line telecommunications sector has traditionally had strong unions and therefore it is not surprising to find that 77.7% of companies have union representation covering over 25% of their employees. This contrasts with the mobile telecommunications sector, which has a score of just over 31%. This is explained by the fact that the latter is a new industry and has more than half of its companies being incorporated either in the US or in non-OECD/Emerging Markets.

Overall, companies' management of labour rights issues do not seem to go beyond national (or regional) legal requirements. This explains overall good assessments in OECD-Europe where government laws related to trade unions are more regulated than in non-OECD/Emerging Markets⁶.

2.3 Job security and training

The issue

In order to make globalisation work for all, it is widely acknowledged that issues such as job insecurity must be tackled by governments and companies. It has also been increasingly recognised that employees' training and skills can contribute to improve both company performance and employee satisfaction.

Methodology

The assessment on job security systems depends on whether the company has a public policy on avoidance or minimisation of compulsory redundancies and procedures for consultation with the workforce on

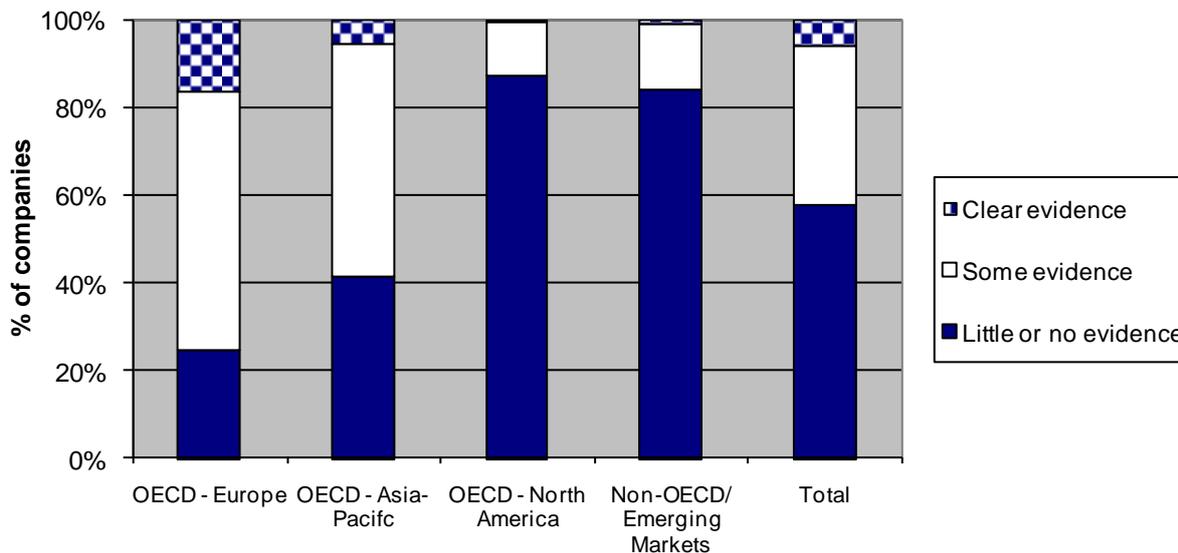
4 In Sweden, the 1987 Board Representation Act entitles workers (where a collective agreement is in force) to two representatives on the board of directors of Swedish companies that employ 25 or more workers (or three representatives for larger companies). Only trade unions may appoint such representatives. Visit <http://www.legislationline.org/?tid=221&jid=48&less=false> and <http://www.seeurope-network.org/homepages/seeurope/presens.html> for more details.

5 ICFTU, Annual Survey of violations of Trade Unions rights, 2006, from p 159. The document indicates that in the US private sector, 'employers have a legal right to engage in a wide range of anti-union tactics that discourage the exercise of freedom of association. For example, employers have the right to hold 'captive audience' meetings, which they use to make anti-union presentations'. Under the law, it is perfectly legal for employers to discipline or even fire workers for failing to attend these meetings. The law also allows employers to 'predict' that a workplace will shut down if workers vote for the union.

6 UNI Finance Survey on the UN Global Compact; Company Commitments on Freedom of Association and Right to Collective Bargaining, January 2008, see www.uniglobalunion.org

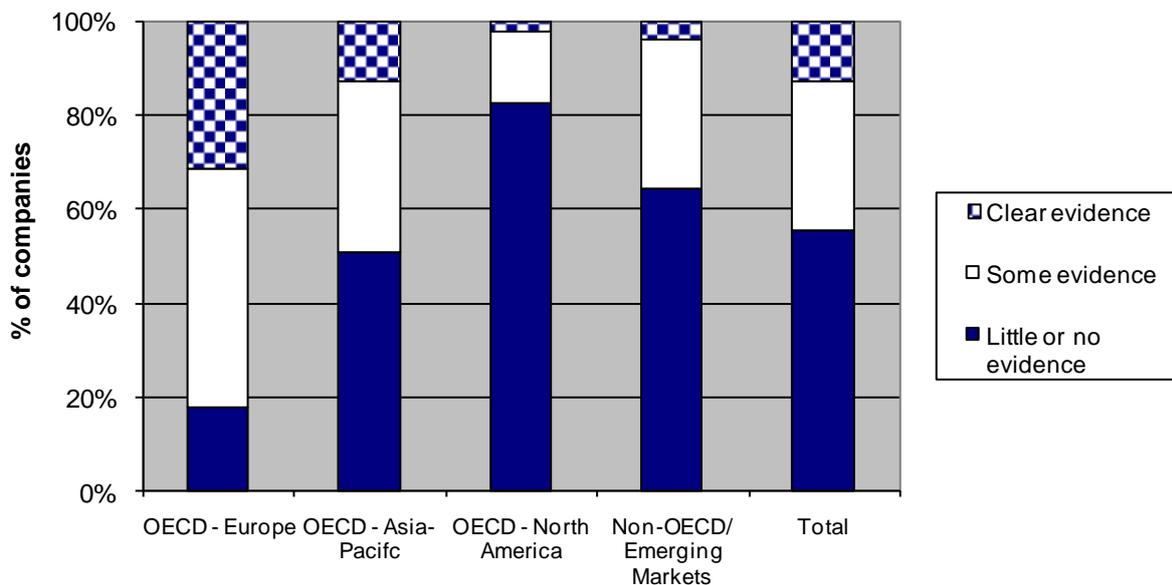
planned restructuring. The positive organic job growth, allocation of senior responsibility for this area and the disclosure of the proportion of staff on temporary contracts are also taken into account. The training systems criteria are assessed according to the percentage of employees having an annual review of training and development and quantitative details (budget, time) on training.

Figure 7. Job Security System (Region)



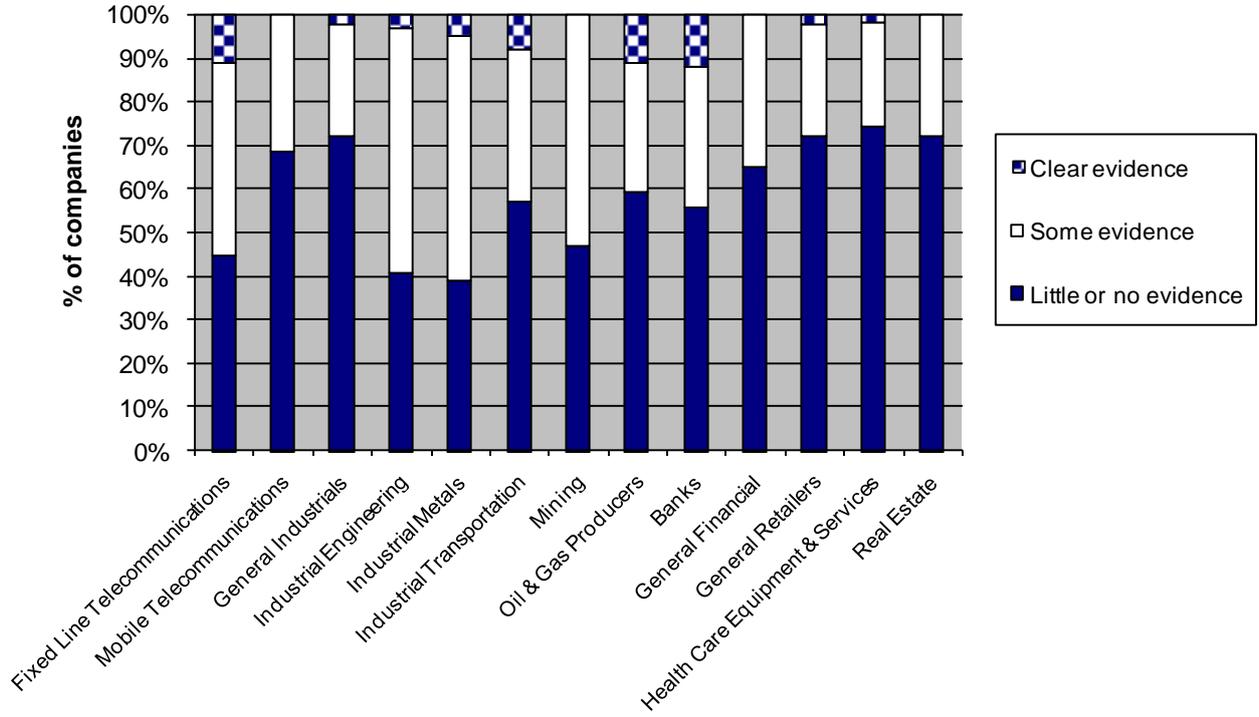
Source: EIRIS

Figure 8. Training Systems (Region)



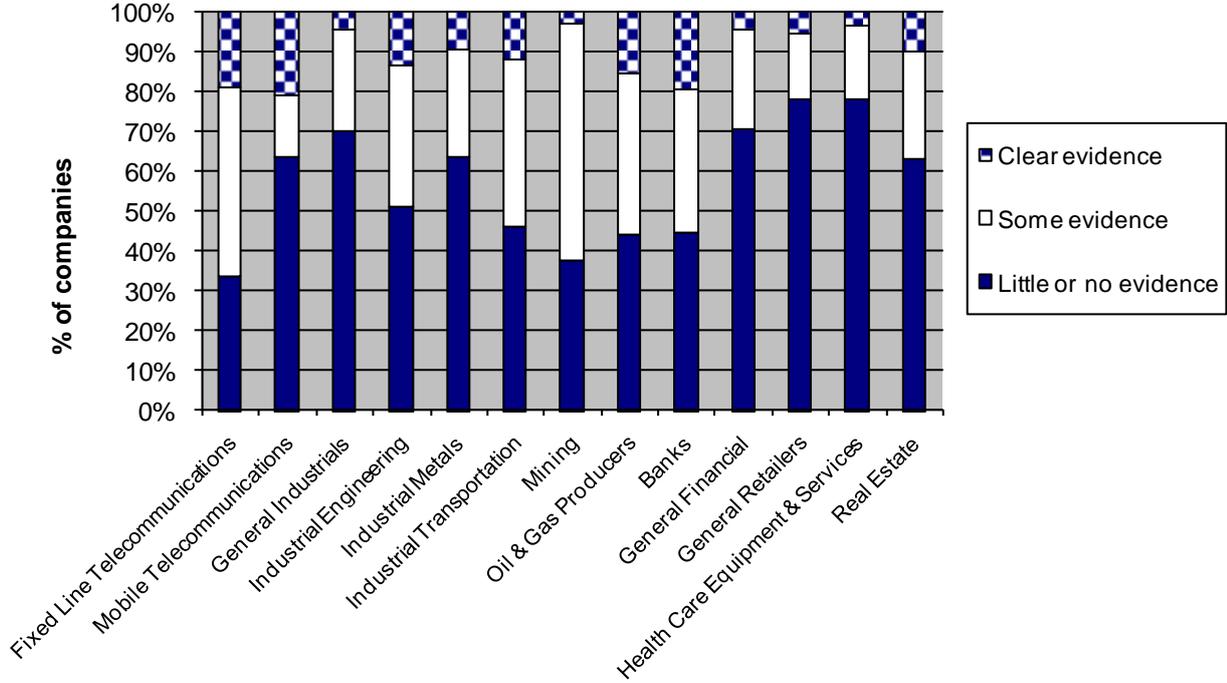
Source: EIRIS

Figure 9. Job Security Systems (Sector)



Source: EIRIS

Figure 10. Training Systems (Sector)



Source: EIRIS

Figures 7 to 10 illustrate the following trends:

- OECD-Europe has the highest proportion of companies with at least some evidence of job security and training systems, with 77% and 82% of companies respectively.
- OECD-North America region has the highest proportion of companies with ‘little or no evidence’ of systems to address job security or training, with 87% and 82% of the companies analysed respectively. It is also the region with the lowest proportion of companies with clear evidence of job security or training systems.
- No sector has more than 20% of companies showing clear evidence of job security systems.
- Overall, less than 10% of all companies analysed have clear evidence of having job security systems.
- A minority of companies show evidence of job security and training systems (respectively 42% and 45% of all companies). OECD-Europe and OECD-Asia Pacific both have a much higher proportion of companies with evidence of job security (75.5% and 58.5%) and training systems (82% and 49%).

As with trade unions, the difference of approach to redundancy policies and training between OECD-Europe and OECD-North America is linked to cultural and social differences. The flexibility and mobility of labour markets - which is higher in North America than in Europe - may also be an explanatory factor.

Similarly, the difference between industry sectors can be linked to the level of unionisation. There appears to be a correlation between the level of union representation and the systems companies have put in place for job security and training. Moreover, the good performance of companies in the OECD-Asia Pacific may be explained, in part, by the high response rate received from Japanese companies (80% survey response rate).

None of the sectors profiled score highly on job security. Industrial metals, mining, industrial engineering and fixed line telecoms do best overall, all of them being traditionally highly unionised sectors. The financial services sector and oil and gas producers score highest on ‘clear evidence’ of job security.

Of all the most severe allegations of working hours’ breaches, only one company had clear union representation, some evidence of employee training and little or no evidence of employee training. The rest of the companies facing allegations had little or no evidence for trade union representation, job security or training.

Overall, for trade union recognition and job security across sectors and regions, national legislation seems to be the main driver for companies to improve their working conditions. Although a company does not need to recognise unions to provide employee training, a correlation is often observed between increased unionisation and overall improvements in the working conditions of the workforce as a whole. These findings also emphasise the positive impact trade unions can have in advocating for and negotiating better working conditions.

2.4 Health and safety

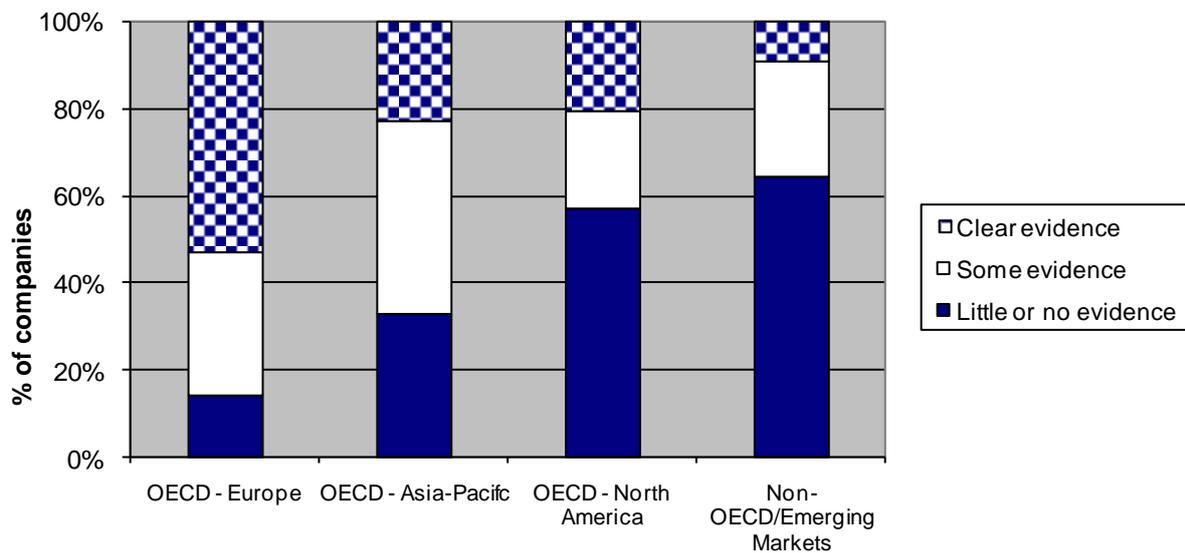
The issue

With the occurrence of various health and safety incidents, employers increasingly acknowledge that the health and safety of employees and neighbouring communities requires constant monitoring and management, especially in high risk sectors. Failure to adequately manage the risks can lead to fatalities, regulatory fines and reputational impact.

Methodology

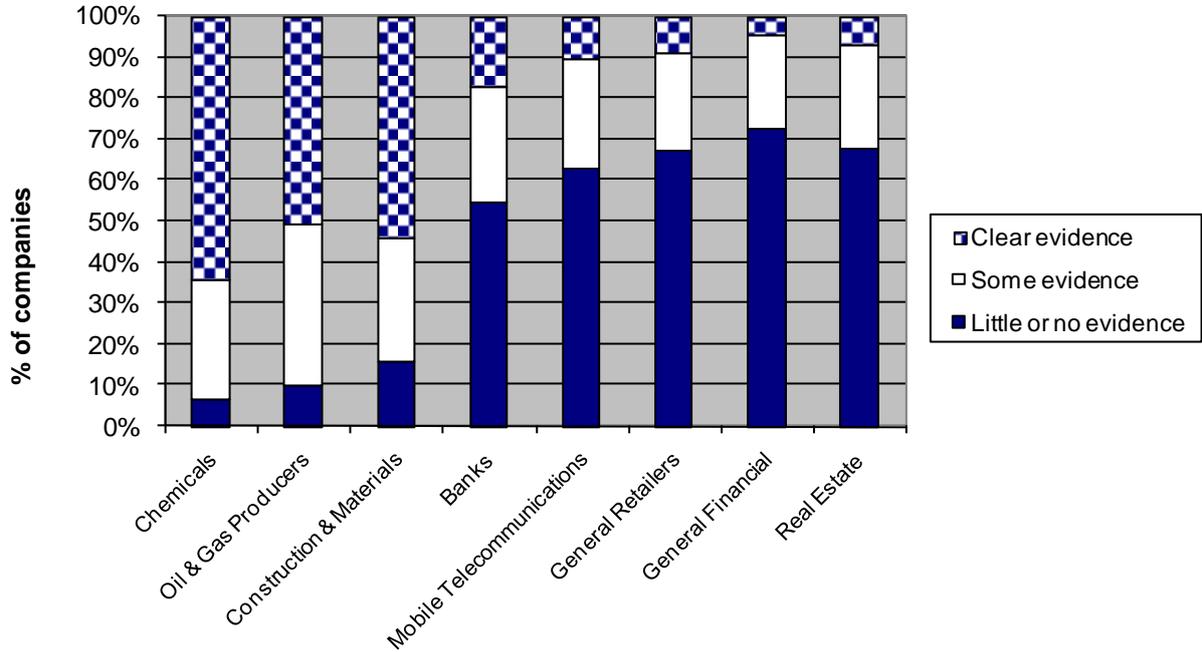
The health and safety criteria include senior responsibility, training, awards and quantitative data for health and safety issues. The company needs to combine three elements to be assessed as having 'clear evidence' of health and safety systems.

Figure 11. Health and Safety (Region)



Source: EIRIS

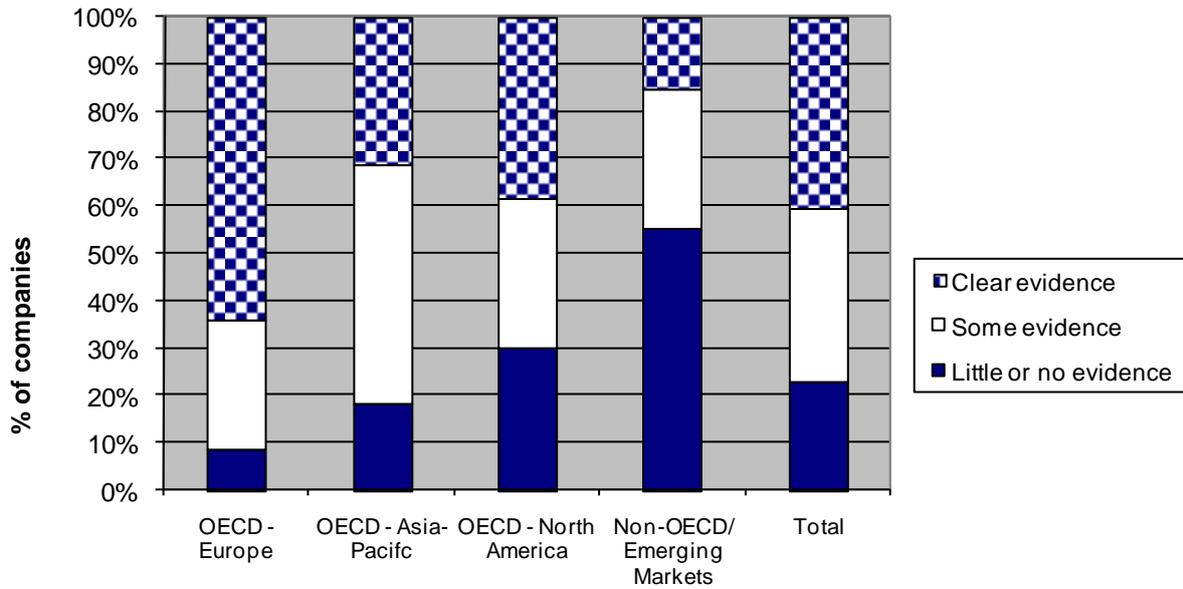
Figure 12. Health and Safety (Sector)



Source: EIRIS

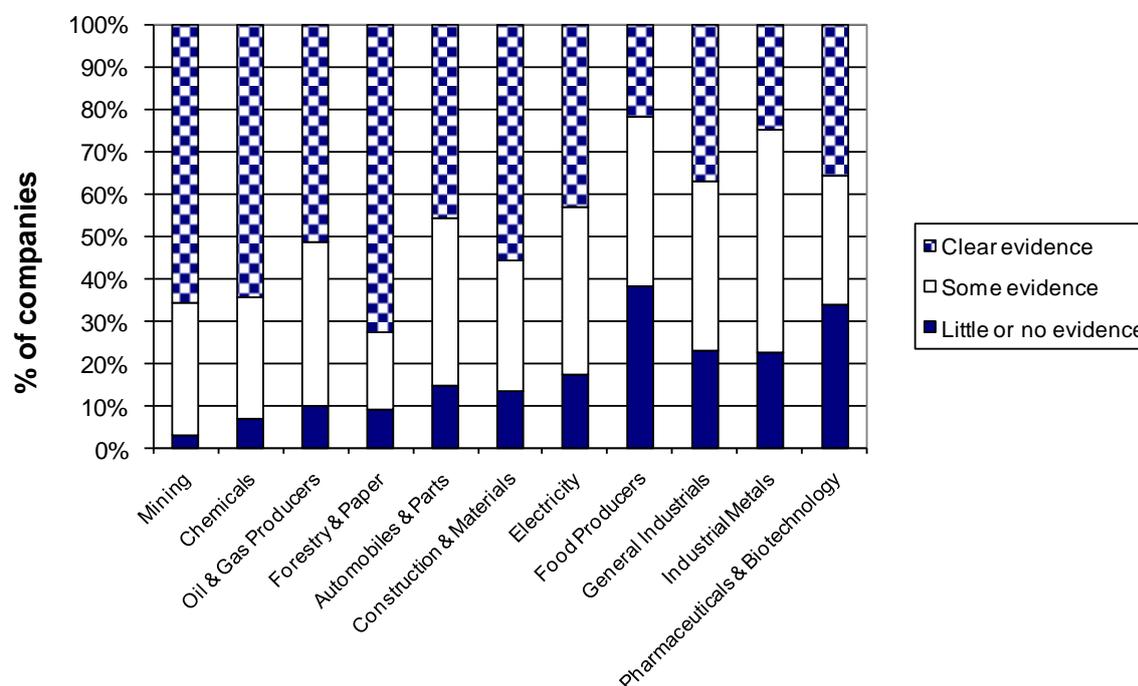
For this study only companies that have high exposure to health and safety risks have been analysed. These are defined as companies which derive at least 15% of their turnover from a high risk activity. This represents 951 companies in total.

Figure 13. Health and Safety High risk exposure companies (Region)



Source: EIRIS

**Figure 14. Health and Safety
High risk exposure companies (Sector)**



Source: EIRIS

Figures 11 to 14 illustrate the following trends:

- OECD-Europe region has the highest proportion of companies with at least ‘some evidence’ of health and safety systems (91%). Over 64% of its companies have ‘clear evidence’ of health and safety systems.
- OECD-Asia Pacific and OECD-North America both have around a third (31% and 38% respectively) of companies with ‘clear evidence’ of health and safety systems. OECD-Asia Pacific has also more than 81% of companies with ‘some evidence’ of health and safety systems compared with 70% for companies in OECD-North America.
- Non-OECD/Emerging Markets companies have the highest proportion of companies with ‘little or no evidence’ of health and safety systems. These represent 55% of companies.
- The sectors with the highest proportion of health and safety systems are the mining (97%), chemicals (93%) and oil and gas (90%) sectors.

The mining and oil and gas sectors have the highest proportion of health and safety systems. However, the rate of accidents is high in these sectors. For example, out of eleven cases of high profile breaches of the ILO health and safety standards studied by EIRIS, ten occurred in either mining or oil and gas companies (EIRIS only focuses on allegations relating to five deaths or more). Because of their high risk exposure to health and safety issues and as a historic target for trade unions due to their poor record, these sectors have high incentives to develop health and safety systems. As a consequence, they have often developed the best health and safety systems across industry sectors.

Similarly, companies in the chemicals sector also tend to have well developed health and safety systems. This is due partly to the highly regulated nature of the industry⁷ and in part to the number of companies that are signatories to the Responsible Care (RC) charter and that therefore have committed to, amongst other things, improve and report performance on health and safety. The Responsible Care programme is a global voluntary initiative that seeks continual improvement in all aspects of health, safety (and environmental) performance. For example, out of the fifteen US companies in the chemical sector, twelve companies have clear evidence of health and safety systems. Ten of these are signatories to the RC charter. The remaining three companies have some evidence of health and safety systems. Although the correlation is not that clear in all countries, companies that have signed up to the RC charter tend to have clear evidence of health and safety systems.

In the OECD-Europe, OECD-North America and OECD-Asia Pacific (Japan in particular), health and safety issues for companies are very often addressed due to well developed legal and regulatory requirements on health and safety at work. In the US and in European countries, national regulations emerged in the 1970s following a number of industrial accidents in the workplace.

However, while occupational health and safety (OHS) regulations and law enforcement cover most companies in OECD-Europe, OECD-North America, and OECD-Asia Pacific, well developed OHS legislation is either less common in many developing countries⁸ or it has poor compliance implementation when regulations are in place, leaving major high risk sectors and occupations unregulated. Only 20% of food producers in non-OECD/Emerging Markets had some evidence of health and safety systems.

Eleven serious allegations of health and safety breaches affecting the workforce, resulting in five or more deaths, were found. All eleven were within the extractive sector. Half of the allegations occurred in companies incorporated in the OECD-Europe region and the other half in non-OECD/Emerging Markets. Out of the cases addressed by companies, South Africa is the only country in non-OECD/Emerging Markets where companies have addressed health and safety allegations.

Overall, companies in high risk sectors for health and safety tend to have developed health and safety systems within a well regulated environment. Moreover, with new accreditation standards such as OHSAS 18001⁹, the auditing of companies on their health and safety systems is likely to increase.

7 For example, in 1999, a new set of the Control of Substances Hazardous to Health (COSHH) Regulations and two sets of the Chemicals (Hazardous Information and Packaging for Supply) (CHIP) Regulations came into force along with new legislation on asbestos and major accidents. On 1 June 2007, REACH entered into force. REACH is a new European Community Regulation on chemicals and their safe use ([EC 1907/2006](#)). It deals with the Registration, Evaluation, Authorisation and Restriction of Chemical substances. The new law entered into force on 1 June 2007. All this legislation offers a measure of protection to workers and the public.

8 See http://www.ilo.org/public/english/protection/safework/managmnt/jisha_en.pdf for more information.

9 OHSAS 18000 is an international occupational health and safety management system specification. It comprises two parts, 18001 and 18002 and embraces BS8800 and a number of other publications.

2.5 Human rights

The issue

There is growing acceptance that companies should respect human rights, including labour standards, as defined by the Universal Declaration of Human Rights (UDHR) (See Annex 1), even in weak governance zones where governments are unwilling or unable to protect human rights effectively.

Methodology

This study analyses companies with operations in countries which are particularly high risk for human rights.¹⁰ Operations are defined as 20% or more equity or voting rights stake in a company incorporated in the country. For oil and gas and mining companies the threshold is lower at 5% or more stake in a venture based in one or more of the countries. Companies are considered to have a large presence if their operations generate EUR 150 million in annual turnover from those operations or assets based in those countries, or if at least one thousand employees are employed there.

The human rights policy, systems and reporting are assessed separately. The policy grade depends on the extent of a company's commitment to the ILO core labour standards (equal opportunities, child labour, forced labour, freedom of association and collective bargaining) and the Universal Declaration of Human Rights (UDHR). Companies that do not have a published policy relating to all the ILO core labour standards cannot achieve an intermediate level grade. Explicit support for the OECD Guidelines for Multinational Enterprises and being a signatory to the UN Global Compact are considered to be proxies for the ILO core areas policy. For companies in the extractive sectors, having an armed guards' policy based on standards such as the Voluntary Principles on Security and Human Rights and an indigenous rights policy are taken into account. No company in these sectors can achieve an 'intermediate' grade without an armed guards' policy.

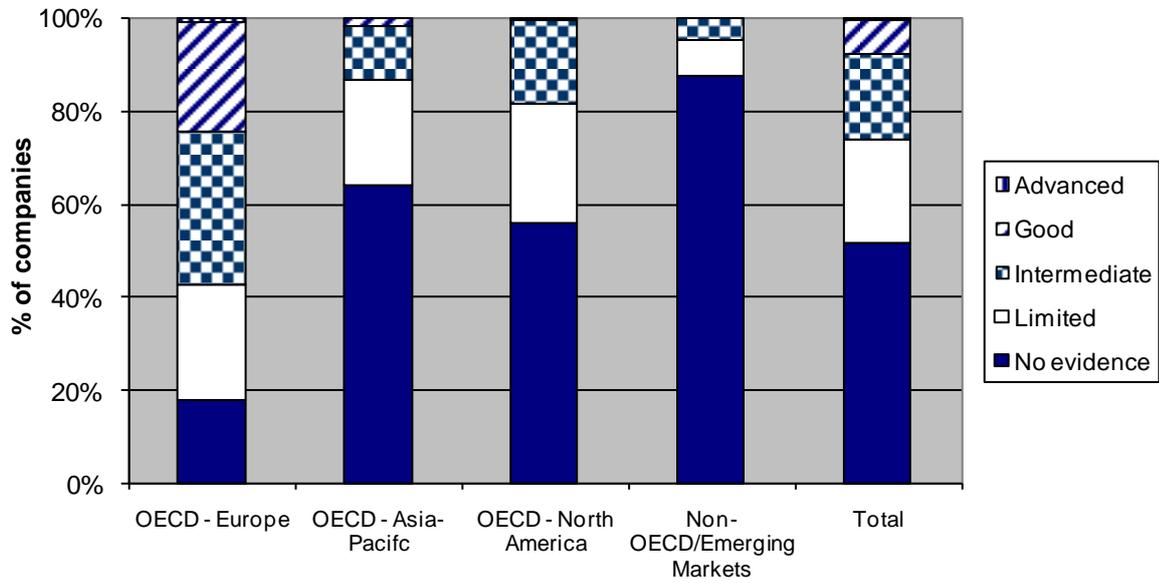
The system criterion is based on disclosure of procedures and practices to implement the policies. Several data points combine to make the systems criteria, including training, monitoring, procedures to remedy non-compliance, consulting with independent local stakeholders, undertaking regular reviews, target setting, supporting human rights capacity-building projects in countries of concern and integrating human rights risk assessment into formal risk assessment procedures.

The reporting criteria assess public reporting of the elements contained in the policy and systems criteria plus additional requirements including the adoption of external auditing, impact assessments, engagement with NGOs, and reporting on performance against the policy, such as an example of human rights performance or number of breaches of the human rights policy.

The region with the highest percentage of companies with operations in high risk countries is the OECD-Asia Pacific; this is 331 of the 1066 companies (31%) analysed and can be explained by the regional ties with China (which is listed as a high risk country). However, the region with the highest proportion of large operations in high risk countries is OECD-Europe. This reflects the fact that a substantial number of European companies have manufacturing operations in developing countries, particularly China, to supply European and international markets (90% of all companies with large operations in high risk countries have operations in China).

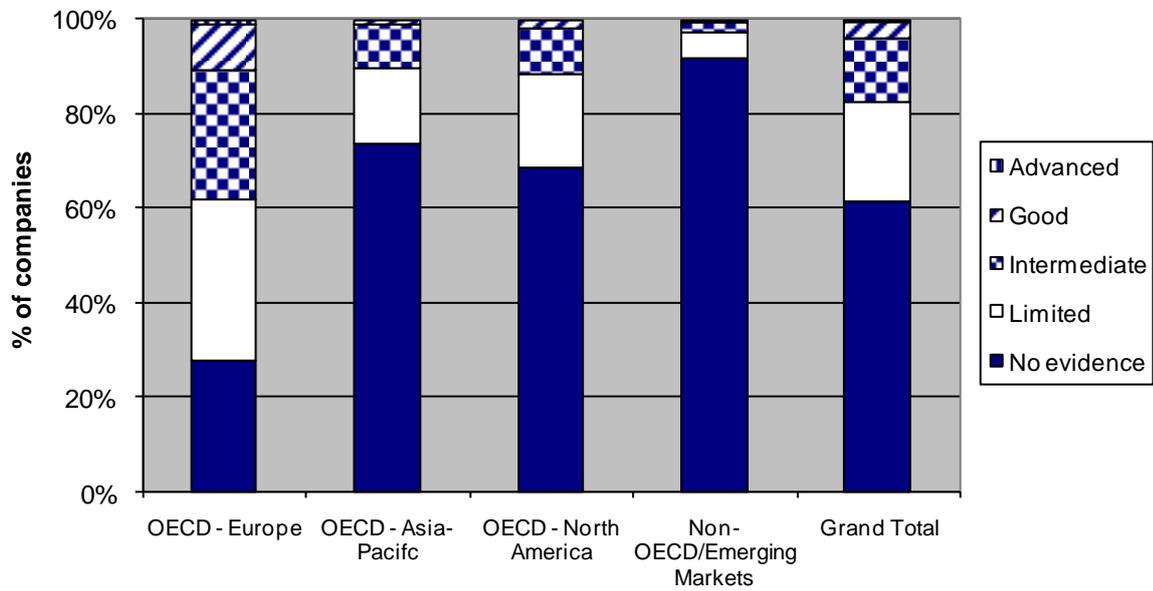
10 EIRIS divides countries of concern into different categories of intensity of human rights abuses. High risk highlights the countries of most concern for human rights issues. See Annex 3 on methodology.

Figure 15. Human Rights Policy (Region)



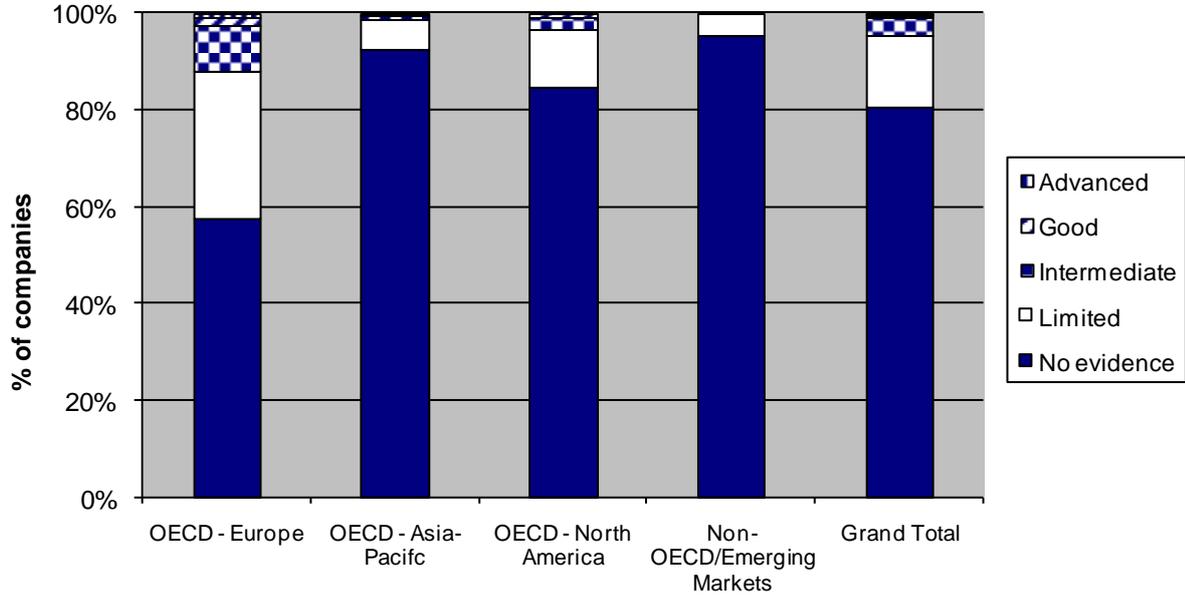
Source: EIRIS

Figure 16. Human Rights Systems (Region)



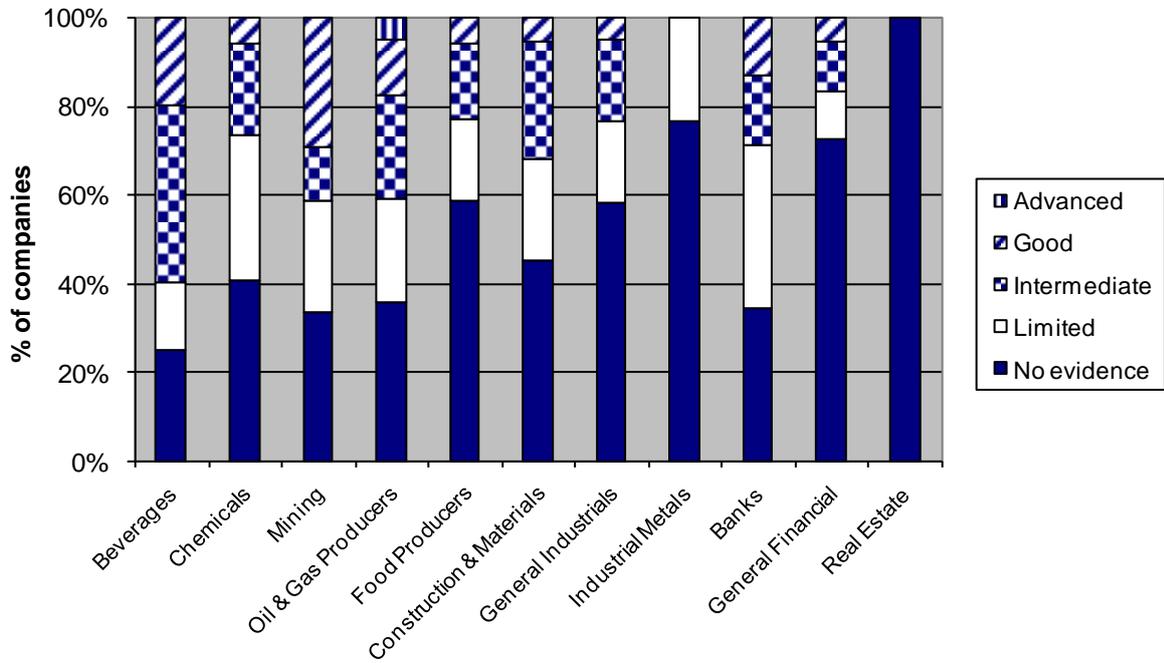
Source: EIRIS

Figure 17. Human Rights Reporting (Region)



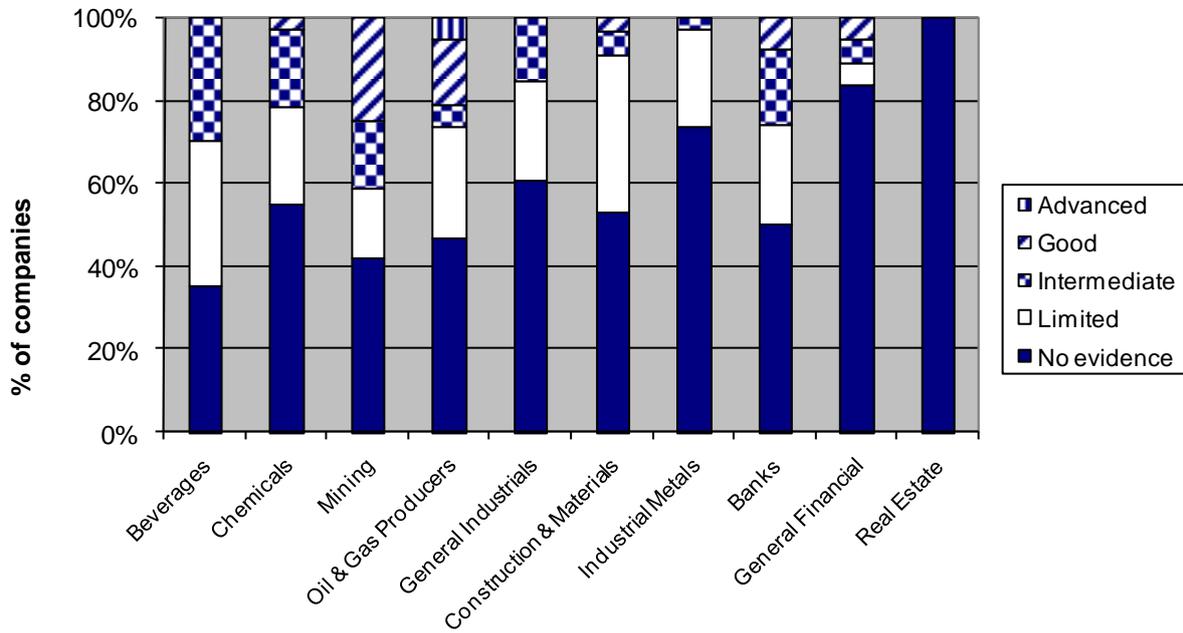
Source: EIRIS

Figure 18. Human Rights Policy (Sector)



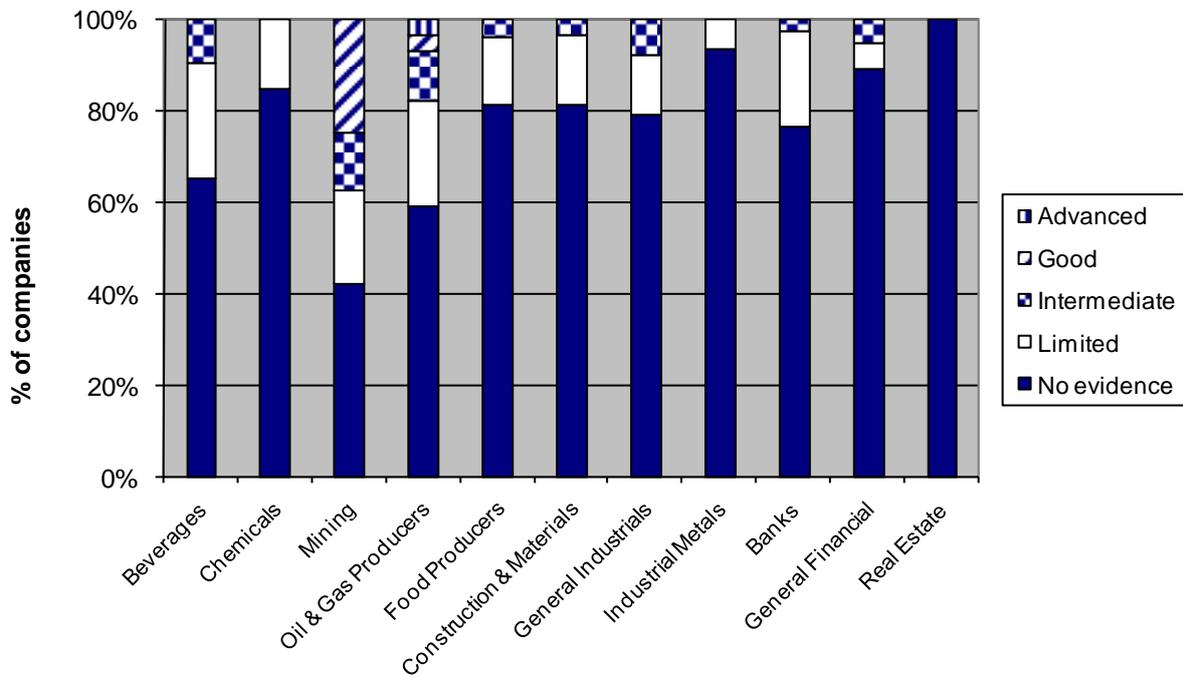
Source: EIRIS

Figure 19. Human Rights Systems (Sector)



Source: EIRIS

Figure 20. Human Rights Reporting (Sector)



Source: EIRIS

Figures 15 to 20 illustrate the following trends:

- OECD-Europe is the region with the highest proportion of policies (82%), systems (70%) and reporting (42%) to address human right issues.
- Only companies from OECD-Europe and OECD-Asia Pacific have human rights policies which are assessed as 'good'.
- Companies from OECD-North America and OECD-Asia Pacific have similar proportions of companies with 'intermediate' evidence of human rights systems (respectively 33% and 18%).
- More than 50% of all companies have shown at least limited evidence of having a human rights policy and 40% have shown at least limited evidence of having human rights systems.
- The only 3 companies with 'advanced' human rights policies and systems are all oil and gas producers based in OECD-Europe. This represents 4% of all oil and gas producers analysed.
- Several sectors such as aerospace and defence, industrial transportation, mobile telecommunications and real estate do not report on their human rights policies, systems or activities. Overall, more than 80% of companies analysed do not report enough on human rights to meet the requirements for a limited assessment.
- In the real estate sector, no companies (out of 32 analysed) have published a human rights policy defined as commitment to either two ILO core labour standards or a general statement to respect human rights.

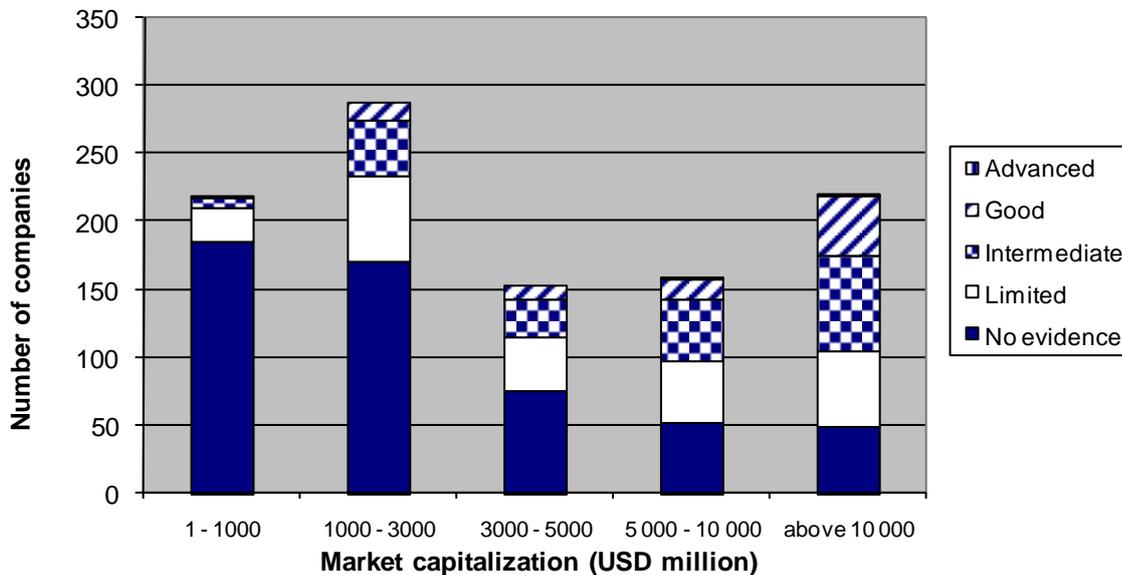
In response to alleged human rights abuses, trade unions, NGOs and responsible investors have put increasing pressure on companies to develop and adopt human rights policies, particularly so in OECD-Europe and OECD-North America. For example, the highest levels of trade union and NGO allegations of breaches of ILO core labour standards (especially health and safety and forced labour) as well as human rights relate to the extractive sector. Indeed, all the allegations of breaches of the ILO core labour standard on forced labour (in the companies rather than their supply chains) have been made against companies in the oil and gas sector.

As companies in the oil and gas and mining sectors have been targeted and have had a reputational incentive to remedy the situation, they also represent the highest proportion of intermediate, good and advanced policies across sectors. Companies in this sector must also meet a more demanding policy (to be assessed as 'good' they must also have a guards and indigenous rights policy). The highest scoring companies in this sector have based their armed guards' policy on the Voluntary Principles on Security and Human Rights (VPs).

Between 92% and 95% of companies from the OECD-Asia Pacific and non-OECD/Emerging Markets with operations in high risk countries do not meet the limited reporting requirement. This is partly explained by the different attitude to human rights in Asia. In Hong Kong, this may be largely influenced by companies not perceiving any need for special policies relating to investment in mainland China despite that China is considered a country of concern for human rights. Finally, in the US, Germany and Japan less than 10% of companies meet at least the limited reporting assessment. The low level of reporting amongst US companies may be due in part to a fear of litigation and NGO pressure if they start to disclose policy commitments and details of performance.

Another relevant classification based on market capitalisation adds to the information gained from focusing on sectoral or regional differences. Figure 21 below represents human rights policies according to five market capitalisation bands.

Figure 21. Human Rights Policies according to Market Capitalization (Sector)



Source: EIRIS

In total, 46.7% of all companies with market capitalisation above USD 3 billion have developed human rights policies assessed as intermediate, good or advanced. For companies with market capitalisation under USD 3 billion, this represents only 15% of companies. It clearly shows that large companies by market capitalisation are more likely to develop intermediate, good or advanced human rights policies than small companies. Again, this is due to their greater exposure to investor, trade union, NGO and consumer pressure.

Overall, the most developed human rights policies and systems are in the OECD-European region. The reasons for the comparatively low level of policies and systems amongst OECD-Asia Pacific companies may be due to lower levels of pressure from NGOs, trade unions, responsible investors and other stakeholders. The performance of OECD-North American companies compared with that in OECD-Europe is explained by the fact that US companies are less likely to include freedom of association and collective bargaining in their policies. Finally, large companies are more likely to have developed human rights policies and systems.

2.6 Supply chain labour standards

The issue

Over the last decade awareness of working conditions in supply chains has increased amongst the general public and investors. The increasingly international nature of production and trade, and consequently, the growing number of products assembled or processed in many different countries have started to focus attention to the working conditions in developing countries. Companies sourcing many of their products from developing countries are coming under increasing pressure to demonstrate that their supply chains operate without infringing core labour rights. Starting in the 1990s, a number of high profile campaigns have been run against large multinational companies and, partly in response, these companies have developed and disclosed policies and systems in relation to labour standards in their supply chain. The

potential for brand damage and reputational risks and therefore to financial performance has made this a key labour issue for many responsible investors.

Methodology

Companies are assessed as high or medium impact based on the size of their operations and both classifications are assessed on their supply chain policy, management systems and public reporting (299 companies in total).

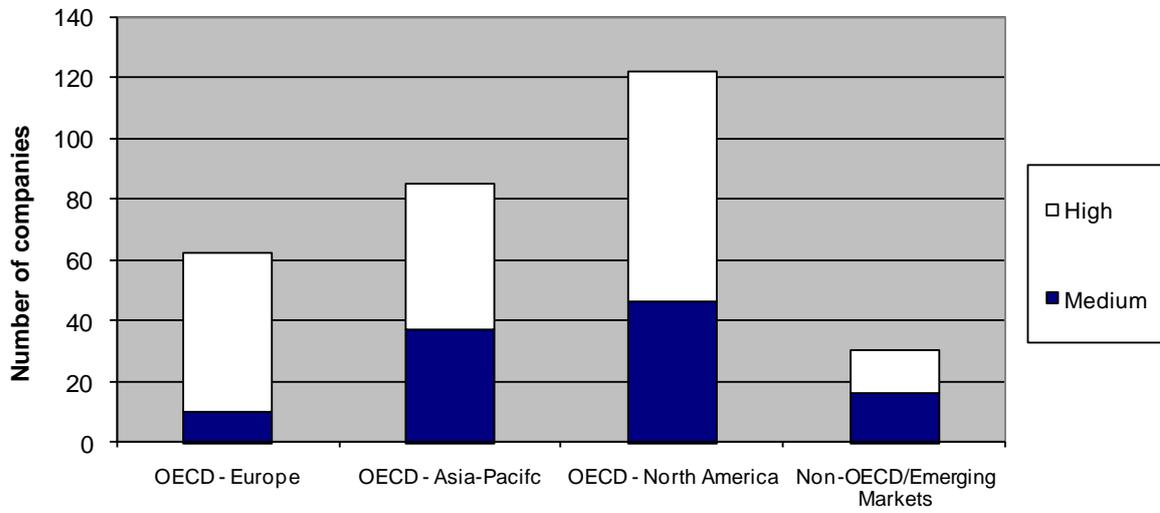
Supply chain policy, systems and reporting are assessed separately. The chain policy criteria assess whether a company's policy covers the ILO core labour standards (freedom of association, collective bargaining, equal opportunities, forced labour and child labour) as well as related conventions and norms on working hours, health and safety, wages and disciplinary practices. To be assessed as 'limited', a company must at least be able to demonstrate commitment to one of the ILO core labour standards, and make its policy publicly available. To achieve advanced, a company must demonstrate commitment to all the ILO core labour standards and all the other key labour standards. It must also demonstrate integration of its policy with the company's procurement process and membership of a relevant initiative dealing with labour standards. Such initiatives considered include the Ethical Trading Initiative, Fair Labour Association and Social Accountability International and also initiatives outside Europe and North America.

The supply chain systems criteria assess how comprehensive a company's management systems are for implementing its supply chain labour standards policy. To score an intermediate grade, a company must at least provide details on communicating its policy to its suppliers; indicate some form of relevant monitoring or auditing system; and have developed procedures for addressing non-compliance. The advanced level is only attained if a company can go further than this by demonstrating training of relevant employees (either its own or those of its suppliers) and demonstrating responsibility for supply chain labour standards at a senior level.

The reporting criteria measure public disclosure on supply chain management. To meet the intermediate level, companies must meet four of the following five indicators: make the policy publicly available; communicate the policy to suppliers; publish details of procedures to remedy non-compliance; publish details of auditing suppliers; and disclose details of training provided to relevant employees and suppliers' employees. In addition, companies must provide an indication of the extent of the supply chain monitored.

The following sectors are high risk for supply chain labour standards: food producers, food and drug retailers, general retailers and textiles, household goods, personal goods, leisure goods, mobile telecommunications, electronic and electrical equipment, technology hardware & equipment and tobacco. These sectors have been identified because they have the greatest concentration of activities involving global supply chains. This study therefore focuses on companies that are sourcing products from non-high income OECD countries.

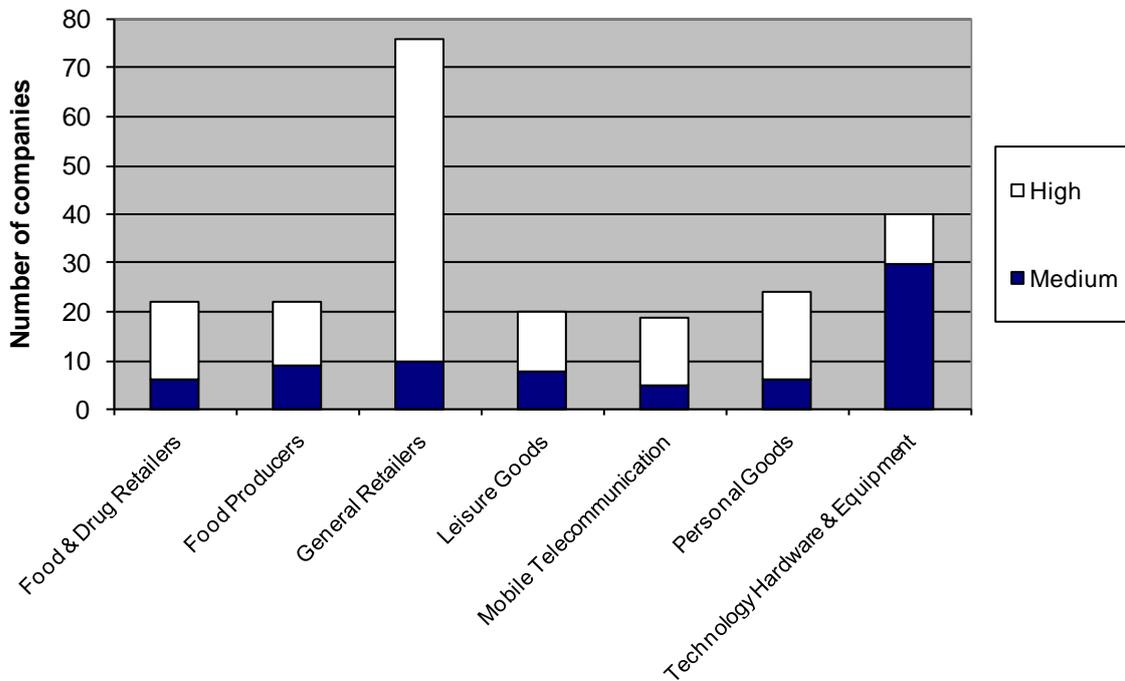
Figure 22. Supply Chain – Medium and High Exposure (Region)



Source: EIRIS

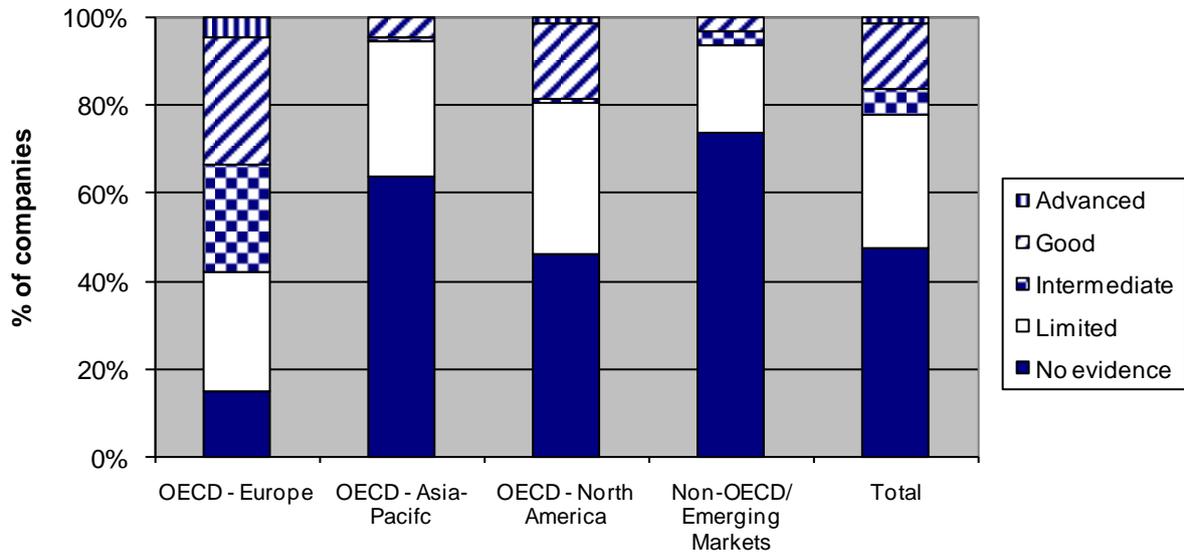
Most of the sectors analysed fall within the seven sectors analysed below in figures 23 to 29 (223 companies out of the 299 with a medium or high risk exposure).

Figure 23. Supply Chain – Medium and High Exposure (Sector)



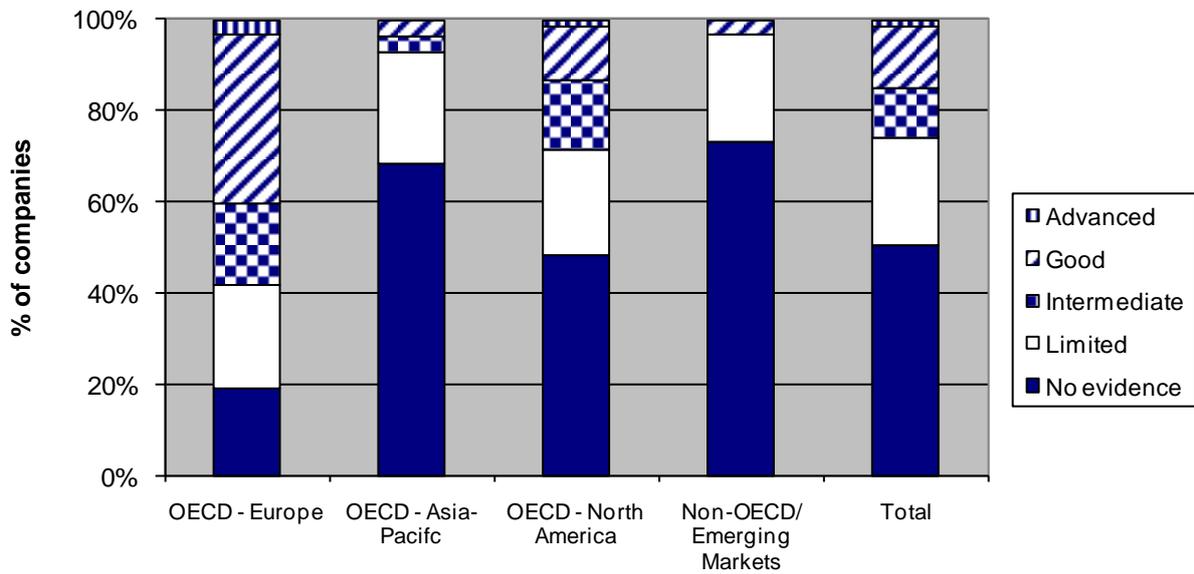
Source: EIRIS

Figure 24. Supply Chain Policy (Region)



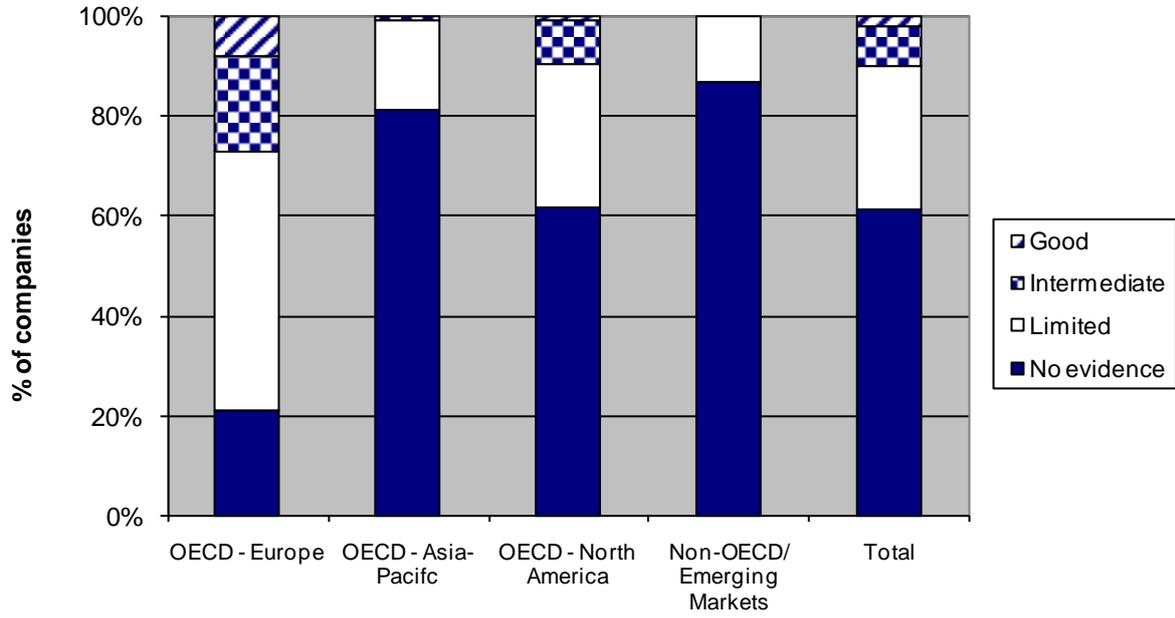
Source: E IRIS

Figure 25. Supply Chain Systems (Region)



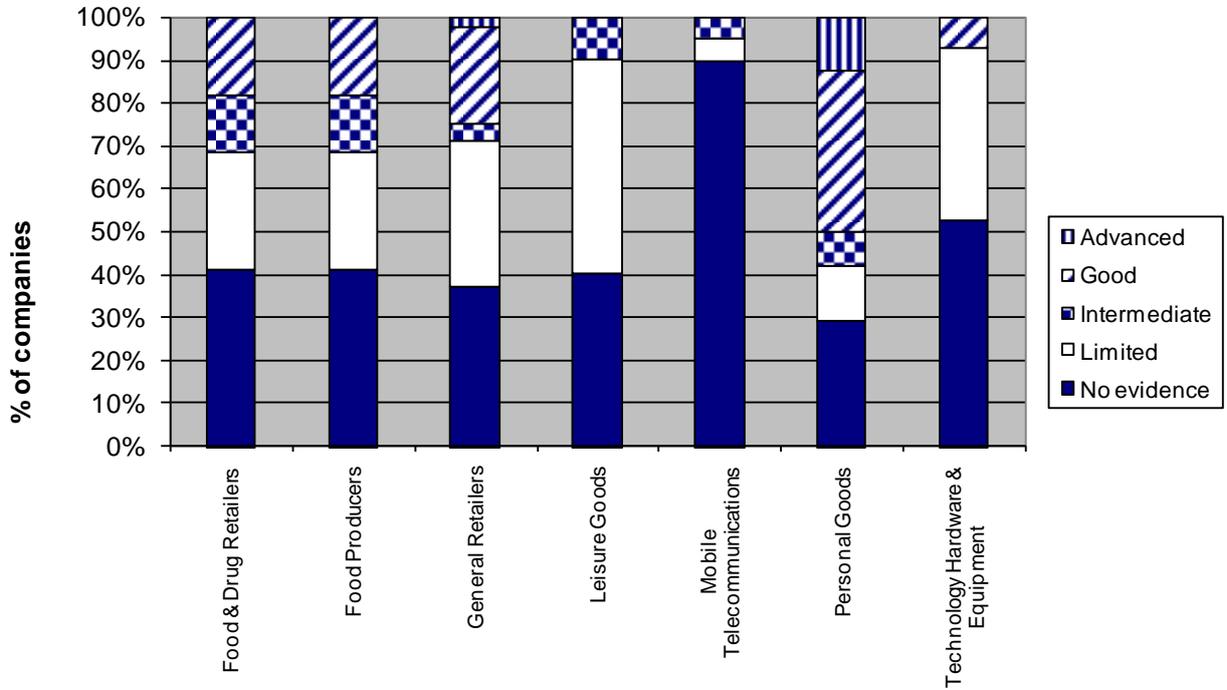
Source: EIRIS

Figure 26. Supply Chain Reporting (Region)



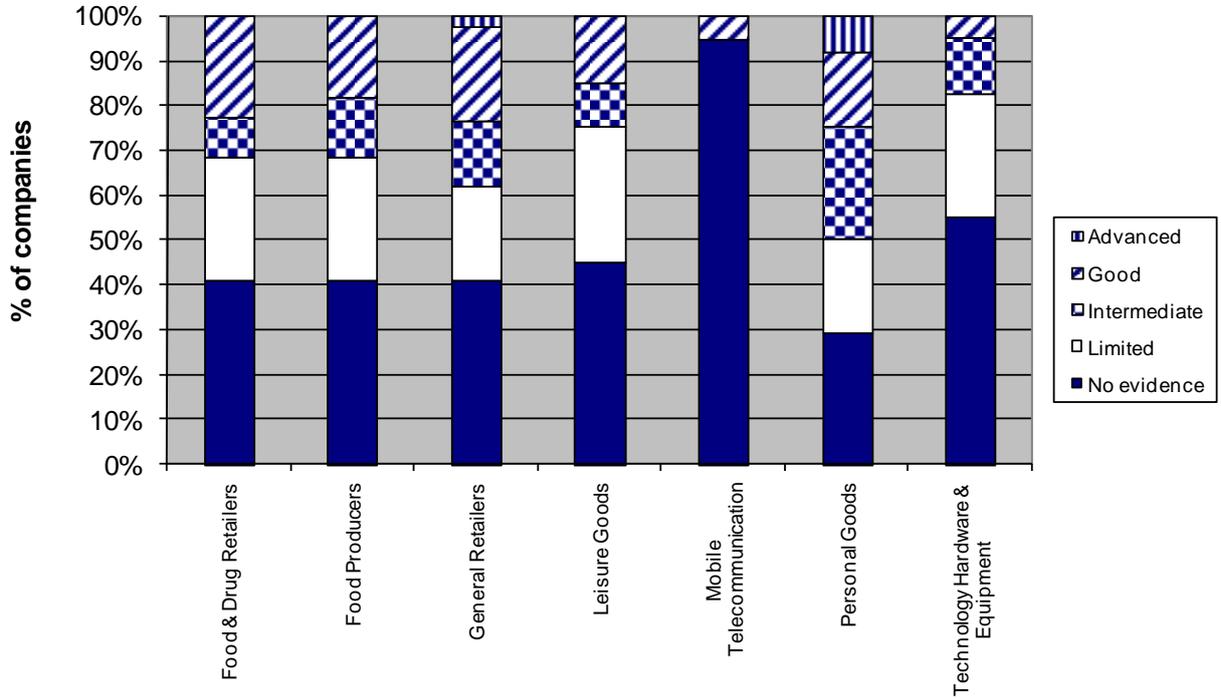
Source: EIRIS

Figure 27. Supply Chain Policy (Sector)



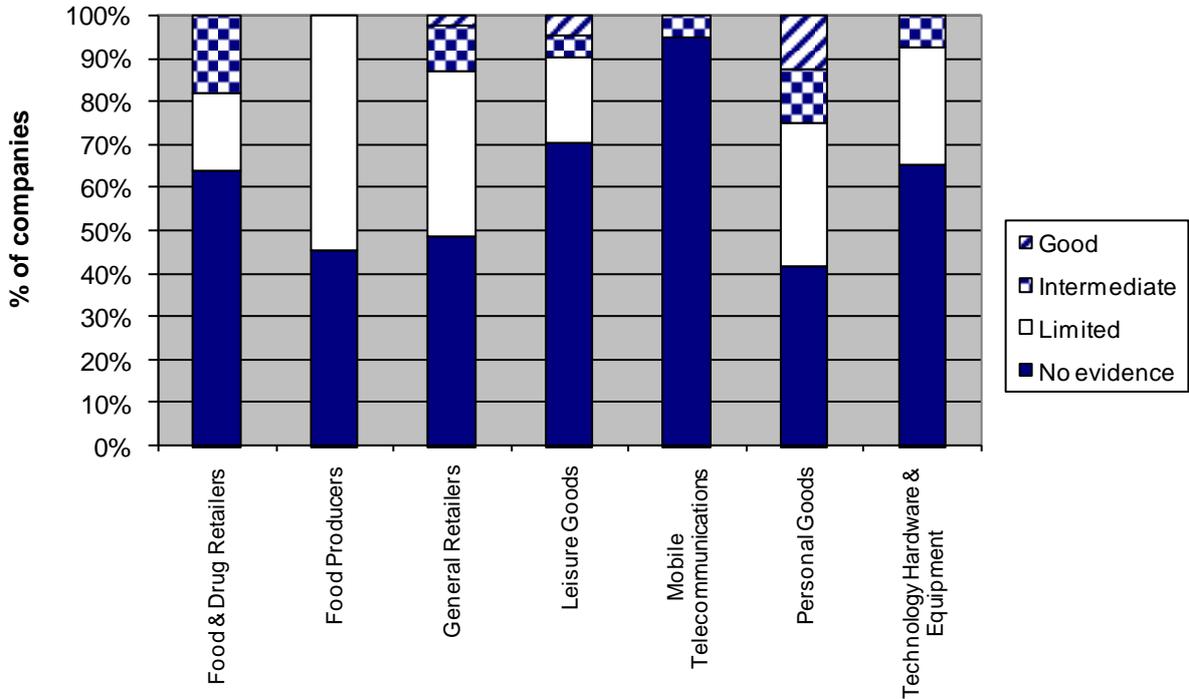
Source: EIRIS

Figure 28. Supply Chain Systems (Sector)



Source: EIRIS

Figure 29. Supply Chain Reporting (Sector)



Source: EIRIS

Figures 22 to 29 illustrate the following trends:

- OECD-Europe is the region with the highest proportion of companies with policies, systems and reporting on supply chain labour issues; this is respectively 85%, 80% and 79% of companies analysed. It also has the highest proportion of good and advanced policies and systems.
- In the three other regions combined (OECD-Asia Pacific, OECD- North America and non-OECD/Emerging Markets), only 44% of the companies have at least limited policies and 41% have at least limited systems.
- General retailers and personal goods have the highest proportion of supply chain labour policies and systems. They also have the highest proportion of good policies and they are the only ones with policies and systems of advanced quality. These sectors also report more than others on their supply chain labour standards with respectively 58% and 51% of companies having provided at least limited evidence of reporting.
- Only 10% of companies in the mobile telecommunications sector have a supply chain policy covering at least one ILO core labour standard and only 5% of its relevant companies have evidence of supply chain systems.
- Over 61% of all companies show insufficient evidence of reporting to meet EIRIS' minimum requirements. Only in the OECD-Europe region do more than a quarter of companies meet at least the limited threshold.

It is clear that proportionally more companies in OECD-Europe and OECD-North America are responding to supply chain issues. This is linked to increased public pressure on the issue. In the OECD-Europe and in OECD-North America, companies are targeted by a number of large NGOs such as the Fair Labour Association (FLA), Clean Clothes Campaign (CCC), Campaign for Labour Rights, China Labour Watch, Global March Against Child Labour, International Labour Rights Fund, Labour Research Association and Worker Rights Consortium. Indeed, the companies which are assessed as intermediate and good for reporting mostly include those which have come under NGO and public scrutiny in the past over their supply chain labour standards and whose reputations are vulnerable to allegations of poor labour practices and to NGO campaigns on this issue.

The difference in performance between companies in OECD-Europe and OECD-North America might be explained by the fact that, in the US, it is less common than in the EU to publish statements including freedom of association or collective bargaining.

In OECD-Asia Pacific and non-OECD/Emerging Markets where companies have been less targeted by investors and NGOs, and therefore less exposed to pressure on this issue, over two thirds of relevant companies do not have even limited supply chain policies or systems. Moreover, many companies in the OECD-Asia Pacific region often serve primarily their domestic market or have a domestic shareholder base. In the future, as trade union, responsible investment and NGO activity increases, increasing pressure on OECD-Asia Pacific companies to improve their response to this issue is likely to give companies in the region an incentive to develop supply chain policies.

The lower performance of mobile telecommunications and technology and hardware equipment seems to be linked to the focus of trade unions and NGO campaigns which have targeted other sectors before addressing supply chain problems in these two sectors. Similarly, the performance of companies in the personal goods and general retailers sectors may be due to their having been more exposed to trade union, NGO scrutiny and investor pressure.

Although policies and systems are being developed by companies in various regions, reporting on supply chain labour standards remains limited. However, as companies' policies and systems become more established, reporting is likely to increase over time. Also, as NGO reports and campaigns by groups such as the Interfaith Council on Corporate Responsibility are filing more shareholder resolutions in the United States on supply chain issues, more companies are prompted to disclose greater levels of information on these issues. The development of national requirements, including mandating companies to report on their supply chain, can have an impact on disclosure. For example in France, a 2001 NRE law encourages publicly-listed companies to describe how their sub-contractors respect the ILO core labour standards in relation to international activities¹¹.

Only detailed and specific allegations of breaches of recognised labour standards by suppliers clearly linked to companies have been taken into account so as to focus on the most serious allegations.

Companies are given an 'addressed' or 'not addressed' status depending on the extent to which they have taken action to remedy the alleged breach and demonstrated that they have improved their management systems to prevent the breach from re-occurring. The following is an overview of the allegations found:

Union rights - out of 15 allegations of breaches of union rights within companies' supply chain, 11 refer to companies incorporated in the US, 3 in the OECD-European region and one in the OECD-Asia Pacific. Only 2 of these allegations did not refer to companies in the personal goods or general retailers sectors. Allegations relate to the blacklisting, firing or arrest of union members and sometimes physical assault upon them. Out of these 11 cases studied, 2 have been addressed.

Child Labour - out of 18 allegations of breaches within companies' supply chains, 3 have been addressed while 3 US companies are currently engaging to try to address the allegations.

Forced labour - out of 12 allegations of breaches within companies' supply chains, the 3 allegations made against European companies have been addressed while US companies have addressed 4 of 9 allegations made against them.

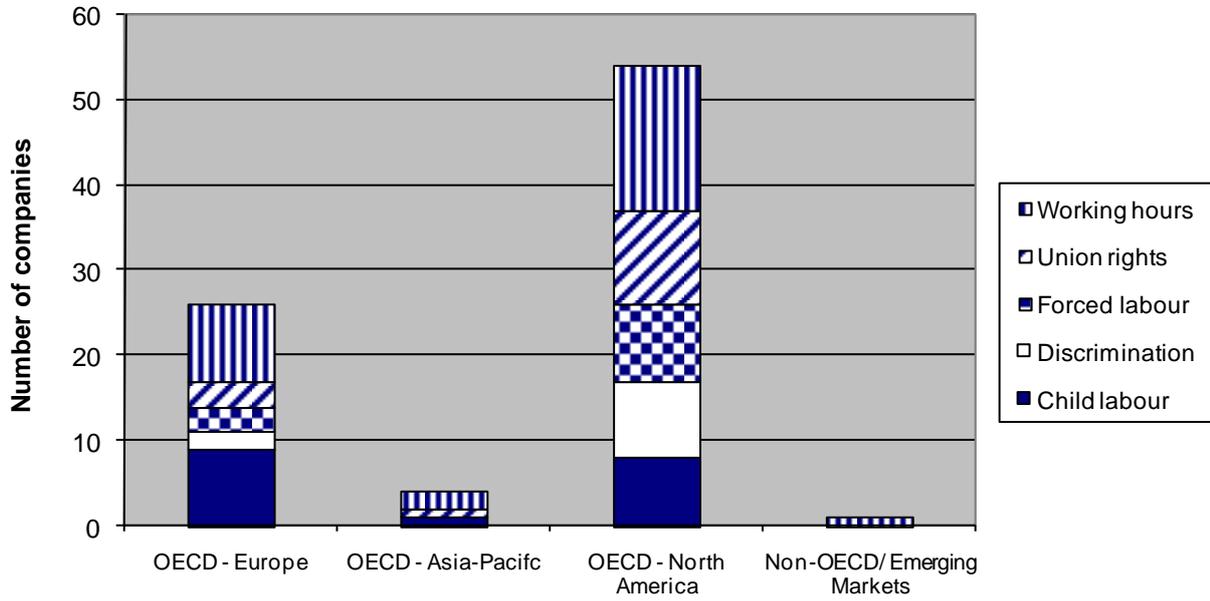
Discrimination - out of 11 allegations, the 2 allegations of discrimination in the supply chain related to companies in the OECD-Europe region have both been addressed. In the US, 3 of the 9 allegations have been addressed.

Working hours - allegations related to violations of working hours conventions are the most numerous. Out of 29 allegations, 17 were made against companies incorporated in the US – only one has been addressed. All 9 allegations made against European companies have been addressed.

The graphs below (figures 30 to 33), which refer to allegations of breaches in the supply chain, and not in the company, refer to the regions in which the companies that allegedly breached ILO core labour standards are incorporated and not where the breach occurred. Typically, allegations of breaches concern operations in developing countries. The graphs do not provide a measure of propensity to breach labour standards but indicate propensities to be subjected to and address allegations of breach of labour standards.

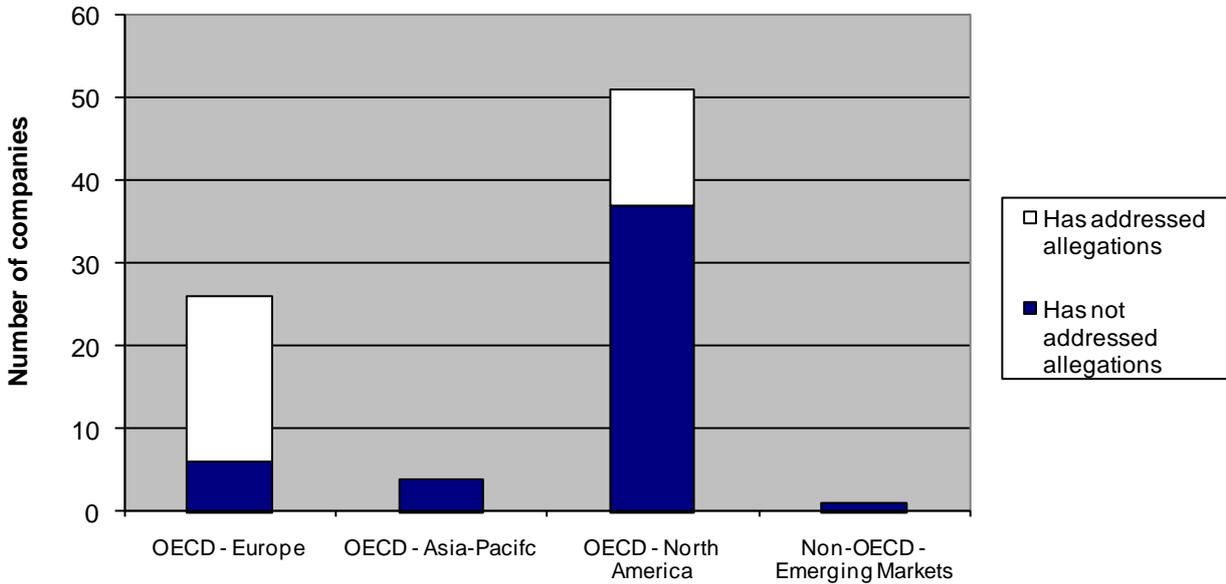
11 Strauss, Robert, report submitted by the EC summarises overall sustainability reporting developments and trends in Europe, www.sustainabilityreporting.eu/documents/ec_esra.pdf.

Figure 30. Allegations of Breaches of ILO Labour Standards in the Supply Chain (Region)



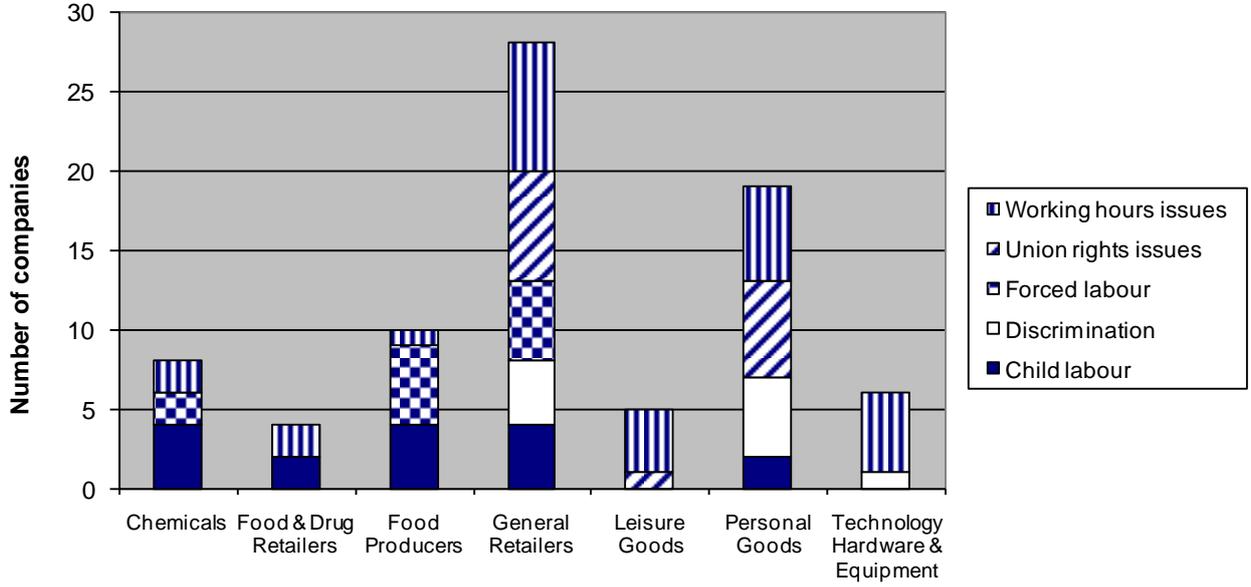
Source: EIRIS

Figure 31. Companies addressing Allegations of Breaches of ILO Labour Standards in the Supply Chain (Region)



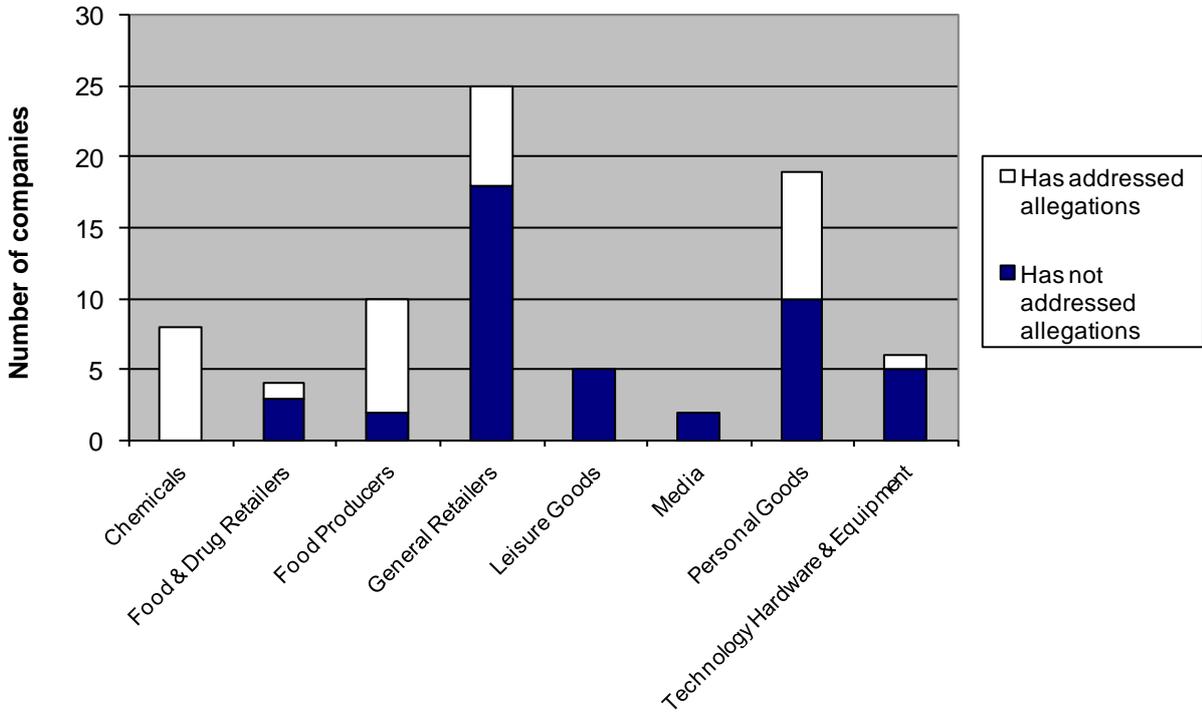
Source: EIRIS

Figure 32. Allegations of Breaches of ILO Labour Standards in the Supply Chain (Sector)



Source: EIRIS

Figure 33. Companies Addressing Allegations of Breaches of ILO Labour Standards in the Supply Chain (Sector)



Source: EIRIS

Figures 30 to 33 illustrate the following trends:

- Even though the OECD-Europe region has had fewer allegations made against its companies' supply chains than OECD-North America, it has more often addressed these allegations.
- Companies in the general retailers and personal goods sectors face more allegations than companies in other sectors.
- All the companies in the chemical sector have addressed the allegations (8) made against them.
- Most of the allegations related to child and forced labour involve companies in the food production and general retailers.

The increased pressure on companies to improve working conditions within their supply chains by developing policies and systems has resulted, especially in OECD-Europe and OECD-North America, in companies being more willing to address the allegations that have been made against them.

Overall, awareness of supply chain labour standards issues is highest in OECD-Europe and OECD-North America; however it remains low in OECD-Asia Pacific and in non-OECD/Emerging Markets. In the future, the focus on supply chain labour standards is likely to become greater as more investors integrate questions about supply chain standards within their investment decisions and it is reasonable to expect progress from countries outside OECD-Europe and OECD-North America as NGO and investor pressure develops and awareness of the issues increases.

Annex 1: Frameworks and initiatives

There are a growing number of frameworks and initiatives that relate to labour issues. A selection of these frameworks and initiatives are listed below:

International frameworks

1948 United Nations Universal Declaration of Human Rights (UDHR)

It consists of 30 articles which outline the view of the United Nations General Assembly on the human rights guaranteed to all people. International labour standards and values are enshrined in Article 23 of the Universal Declaration of Human Rights:

- (1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.
- (2) Everyone, without any discrimination, has the right to equal pay for equal work.
- (3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
- (4) Everyone has the right to form and to join trade unions for the protection of his interests.

Website: www.unhcr.ch/udhr

1976 OECD Guidelines for Multinational Enterprises (revised in 2000)

The OECD Guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. In particular, chapter IV deals with employment and industrial relations.

Website: www.oecd.org

1977 ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (revised in 2000)

The MNE Declaration encourages the positive contribution that multinationals can make to economic and social progress and to minimize and resolve the difficulties arising from their operations. The principles in the MNE Declaration are voluntary in nature and encourage social dialogue. They intend to guide multinationals, governments, employers' and workers' organizations in adopting social policies and to inspire good practices to both multinationals and national enterprises. The declaration was negotiated between Workers' and Employers' Organizations and Governments in 1977, revised in 2000 to include the Fundamental Principles and Rights at Work, and more recently in 2006 to update references to other ILO instruments. As such it is the only truly international tripartite consensus on what would be a desirable behaviour of enterprises with regard to labour and social policy areas. Website: www.ilo.org

Global initiatives covering labour issues

Global Reporting Initiative (GRI)

The Global Reporting Initiative's Guidelines provide a common framework for sustainability reporting globally. The GRI vision is that reporting on economic, environmental, and social performance by all

organizations becomes as routine and comparable as financial reporting. An international network of thousands from business, civil society, labour, and professional institutions create the content of the Reporting Framework in a consensus-seeking process. Website: www.globalreporting.org

United Nations Global Compact (UNGC)

The Global Compact is an international voluntary initiative to bring companies together with UN agencies, labour and civil society to support universal environmental and social principles. These companies are working to advance ten universal principles in the areas of human rights, labour, the environment and anticorruption.

Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. The Global Compact is not a regulatory instrument, rather the Global Compact relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.

Website: www.globalcompact.org

Initiatives focused on Labour issues

Ethical Trading Initiative (ETI)

The Ethical Trading Initiative (ETI) is a UK alliance of companies, NGOs and trade union organisations. They exist to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. The ultimate goal is to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards. Website: www.ethicaltrade.org

Social Accountability International (SA8000)

Social Accountability International (SAI)'s mission is to promote human rights for workers around the world. It is best known for SA8000 - its comprehensive and flexible system for managing ethical workplace conditions throughout global supply chains.

SAI works with companies, consumer groups, non-governmental organizations (NGOs), workers and trade unions, local governments - as well as a network of agencies accredited for SA8000 auditing, to help ensure that workers of the world are treated according to basic human rights principles.

Website: www.sa-intl.org/

Fair Labour Association (FLA)

A non-profit organization seeks to end sweatshop conditions in factories worldwide and building innovative and sustainable solutions to abusive labour conditions. Website: www.fairlabour.org

Workers Rights Consortium (WRC)

The Worker Rights Consortium (WRC) is an independent labour rights monitoring organization, conducting investigations of working conditions in factories around the globe. Our purpose is to combat sweatshops and protect the rights of workers who sew apparel and make other products sold in the United States. Website: www.workersrights.org

Clean Clothes Campaign (CCC)

The CCC is an international campaign, focused on improving working conditions in the global garment and sportswear industries, and empowering the workers in it. There is a Clean Clothes Campaign in 11

European countries. These are Austria, Belgium, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom. Website: www.cleanclothes.org

AccountAbility (AA1000)

AccountAbility's standards, the AA1000 series, are principles-based standards that provide the basis for improving the sustainability performance of organisations. They are applicable to organisations in any sector. The standards are developed through wide consultation with members, practitioners and other interested individuals. A technical committee of members oversees the development of the AA1000 Series. Website: www.accountnability21.net

Worldwide Responsible Apparel Production (WRAP)

WRAP is an independent, non-profit organization dedicated to the certification of lawful, humane and ethical manufacturing throughout the world. The objective of the Apparel Certification Program is to independently monitor and certify compliance with the standards (many of which are akin to the ILO core labour standards), ensuring that a given factory produces sewn goods under lawful, humane, and ethical conditions. Website: www.wrapapparel.org/

World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development (WBCSD) brings together some 180 international companies in a shared commitment to sustainable development through economic growth, ecological balance and social progress. Their members are drawn from more than 30 countries and 20 major industrial sectors. They also benefit from a global network of 50+ national and regional business councils and partner organizations. Website: www.wbcسد.ch

Initiatives focused on human rights

Voluntary principles on Security and Human Rights

Created in the year 2000, the Voluntary Principles on Security & Human Rights is an international, tripartite initiative designed to assist energy and extractive companies in maintaining the security of their operations globally while ensuring respect for human rights. The Voluntary Principles address three main areas: risk assessments, engagement with public security forces and engagement with private security.

Website: www.voluntaryprinciples.org

Sectoral initiatives

Responsible Care

Responsible Care is the chemical industry's global voluntary initiative under which companies, through their national associations, work together to improve their health, safety and environmental performance, and to communicate with stakeholders about their products and processes.

Website: www.responsiblecare.org

Annex 2: Regional distribution of companies

| Coverage (1988 companies) | | | |
|----------------------------------|-----|----------------------|-----|
| OECD - North America | 715 | OECD - Europe | 480 |
| Canada | 55 | Austria | 9 |
| Mexico | 3 | Belgium | 13 |
| USA | 657 | Denmark | 12 |
| OECD - Asia-Pacific | 601 | Finland | 14 |
| Australia | 109 | France | 72 |
| Japan | 472 | Germany | 49 |
| New Zealand | 13 | Greece | 10 |
| South Korea | 7 | Hungary | 2 |
| Non-OECD/Emerging Markets | 192 | Ireland | 8 |
| Brazil | 5 | Italy | 38 |
| China | 2 | Luxembourg | 1 |
| Chinese Taipei | 8 | Netherlands | 17 |
| Hong Kong | 110 | Norway | 11 |
| India | 3 | Poland | 2 |
| Israel | 1 | Portugal | 9 |
| Malaysia | 2 | Spain | 30 |
| Russia | 2 | Sweden | 23 |
| Singapore | 46 | Switzerland | 32 |
| South Africa | 11 | Turkey | 1 |
| Thailand | 2 | UK | 127 |

OECD-Europe - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the UK.

OECD-Asia Pacific - Australia, Japan, New Zealand and South Korea

OECD- North America - Canada, Mexico and United States of America.

Non-OECD/Emerging Markets - Brazil, China, Chinese Taipei, Hong Kong, India, Israel, Malaysia, Russia, Singapore, South Africa and Thailand

Annex 3: Methodology

3.1. Equal opportunities

Policy

Different gradings are based on whether a company has a policy which expressly or implicitly refers to avoiding discrimination on the grounds of gender, ethnic origin, disability, age, religion and sexual orientation. The number of elements referred to and whether the company is a member or supporter of business focused groups supporting equal opportunities development initiatives are also taken into account. Another indicator is based on whether the company makes clear its policy is applied worldwide.

Systems

Indicators such as allocating senior responsibility for equal opportunities, monitoring of the equal opportunities policy, being able to provide supporting data related to the workforce composition and providing a combination amongst various flexible working arrangements are taken into account.

3.2. Trade unions and employee participation

The grading includes the following elements: the recognition of trade unions for collective bargaining purposes (or significant alternative consultative arrangements) and the allocation of responsibility for systems and practices to maintain good employee relations to a named senior person. The percentage of employees covered by collective bargaining agreements is also reflected in the grading.

3.3. Health and Safety

The grading includes the following elements: senior responsibility, details of certification or of awards, employee training and quantitative data relating to health and safety.

3.4. Training

There are various indicators for this area: the percentage of staff having an annual review of training and development needs, significant quantitative supporting data, (such as the proportion of employee costs spent on training, amounts of time and money spent on training per employee) to illustrate its systems for employee training and development, and allocating responsibility for training and development to a named senior person. The percentage of employees having an annual review of training and development needs is also reflected in the grading.

3.5. Job Security

The assessment of this area includes the following indicators: assignment of responsibility for job security, including creation of employment opportunities to a named senior person, a public commitment to and a procedure for consultation on restructuring or redundancies, the provision of figures for the proportion of staff on temporary contracts (which must be less than 10%) and on employment trends over the last three years.

3.6. Supply chain

Scope

All companies in the following sectors will be checked for their involvement in high or medium risk products and will be given a high, medium or low risk record accordingly: general retailers, leisure goods, personal goods, household goods, food producers, food and drug retailers, tobacco, electronic and electrical equipment, mobile telecommunications and technology hardware and equipment. The companies are then researched on what products they are sourcing and from what countries in order to classify them as high, medium or low potential risk.

Companies in other sectors will also need to be given supply chain records if they are involved in high or medium risk products.

Risk assessment

Companies are assessed as having high potential risk of supply chain labour standard problems if they retail high risk products sourced from high risk countries on a large scale. High risk products and high risk countries lists have been determined by EIRIS.

Supply chain policy

The grading includes the following elements: a policy in relation to suppliers based upon or containing all or some of the ILO core labour standards, the policy being publicly available, the integration within the company's procurement process (whether the policy is clearly an integral part of procurement process) and company membership of relevant initiative dealing with labour standards Ethical Trading Initiative (ETI), Fair Labor Association (FLA), Social Accountability International (SAI), Fair Wear Foundation (FWF), Eliminating Child Labour in Tobacco Growing Foundation (ECLT), International Cocoa Initiative.

Supply chain systems

The grading is based on the extent to which the supplier policy is: communicated, monitored and audited. It also includes the following elements: procedure to address non-compliance by suppliers, the training of relevant employees on the policy, the allocation of senior responsibility for supply chain labour standards and whether systems targeted to areas of highest risk are in place.

Supply chain reporting

The grading is based on the extent to which the supplier policy is: publicly available and that it clear that it is communicated to suppliers. It also includes the following elements: the provision of details of visiting/auditing of suppliers, details of procedures to remedy non-compliance, details of training disclosed, reports on proportion of supply chain monitored/audited or the number of supplier facilities, disclosure of risk assessment and results and details of stakeholder dialogue/engagement. Reporting on performance includes the following elements: the provision of examples of the non-compliances found with its policy, reports on amount of non-compliances found with its policy, report quality, response to non-compliances found, independent verification of report, stakeholder verification of report or evidence that stakeholder engagement has informed report writing and evidence of innovation/leadership in reporting.

3.7. Human Rights

EIRIS human rights research covers companies with operations in EIRIS category A (high human rights risks) countries, drawn up annually by EIRIS using a variety of sources, including the Freedom House 'Freedom in the World' Annual Survey, Human Rights Watch Annual Reports, and Amnesty International Annual Reports. The list of Category A countries includes 28 countries.

The EIRIS definition of country presence is based on ownership of at least a 20% stake in a company incorporated in the country.

Human rights policy

The grading includes the following elements: a public policy based on the ILO core labour standards (being a UNGC signatory, explicitly supporting OECD Guidelines or being an SA8000 signatory are regarded as 'proxies' for such a policy), a Public policy statement supporting fundamental human rights principles/explicit support UDHR, the allocation of senior responsibility for human rights and communicating the policy to all employees globally.

A public commitment to incorporate its human rights policy in contracts with major partners and/or suppliers and public commitment to advocate for human rights in a case where they were at risk around its operations are also included in the grading.

Human rights systems

The grading is based on the following elements (to be graded on this criteria, a company must have a human rights policy that relate at least to two ILO core labour standards): training of relevant employees on the human rights policy, consulting independent local stakeholders, monitoring and procedures to remedy non-compliance, identification of major human rights challenges and their integration into risk assessment procedures, the regular review of the human rights policy and targets set for human rights policy. Whether the company supports human rights capacity building projects in countries of concern is also taken into account.

Human rights reporting

The grading is based on the human rights policy: being publicly available and communicated to employees. It also includes elements such as detailing how the policy is monitored or audited, detailing procedures to remedy non-compliance, training, risk/impact assessments and giving details on engagement with human rights/labour rights NGOs or through involvement in initiatives between companies and NGOs or with local/national governments or local community groups in the countries of concern.

The grading of performance reporting is based on whether the company provides at least one detailed example of human rights performance in the developing world or a statement on compliance with human rights policies and whether any breaches have occurred.

3.8. Convention Watch

Scope

Convention Watch incorporates allegations and assessments of breaches of international norms drawn from a range of principles, including: the UN Global Compact; OECD Guidelines for Multinational Enterprises; Universal Declaration on Human Rights; UN Human Rights Norms for Business; the ILO core labour

standards; Kyoto & Montreal Protocols; Convention on Biological Diversity; Ottawa Convention on Anti-Personnel Landmines and the UN Convention against Corruption.

For the purpose of the paper, we have chosen to focus on allegations of breaches of key UN human rights principles and international labour standards.

This service is based on a rigorous monitoring system to record allegations made by others that EIRIS considers relevant to labour and human rights issues. EIRIS then makes an assessment as to whether or not the allegations (according to EIRIS criteria) have been addressed by the company concerned.

Company responses incorporated and companies contacted

EIRIS contacts each company and sends the report to the company contact for their comments. This is an important engagement process incorporated in the research. In addition, company websites, CSR reports and news databases are checked for details of how the company has responded to the allegation.

International Labour standards

The Convention Watch criteria are specifically based on looking for cases where companies are alleged to have breached the standards found in ILO conventions either in a company itself, or in its supply chain.

There are eight conventions affecting four major areas which are regarded and promoted by the ILO as 'core' Conventions. These conventions form the basis of the ILO's Declaration on Fundamental Principles and Rights at Work which applies to all ILO member states (175 countries as well as workers' and employers' associations). In summary these are:

- *Child labour* – prohibiting the employment of children below 15 years, and below 18 years in most hazardous work (ILO conventions 138 and 182)
- *Discrimination / equal opportunities* (ILO Conventions 100 and 111 – prohibiting discrimination at work).
- *Forced labour* – prohibiting the use of forced labour, indentured labour, slave labour and prison labour (ILO Conventions 29 and 105)
- Freedom of association / Collective bargaining (ILO Conventions 87 and 98).

In addition, EIRIS is tracking the following conventions which are highlighted by many leading corporate and NGO codes of conduct:

- *Working Hours* (ILO Conventions 1, 14 and 106 - Hours of Work (Industry), Weekly Rest (Industry) and Weekly Rest (Commerce and Offices)
- *Health & safety* - According to figures from the International Labour Organization (ILO) and the World Health Organization (WHO) two million people die annually in accidents at work. Job-related accidents are also rising in developing countries, where there is often little training in health & safety systems. There are many ILO Conventions relating to this issue including: Occupational Safety and Health Convention 155, Prevention of Major Industrial Accidents Convention 174 and the Safety and Health in Mines Convention 176. Other relevant international instruments include the International Covenant on Economic Social and Cultural Rights, Article 7 of which includes the need for 'safe and healthy working conditions'.

Note that these conventions are narrowly interpreted in order to focus on the most serious allegations. For all the convention areas outlined above, EIRIS focuses on allegations with substantial supporting detail. EIRIS covers reports or detailed allegations on company websites which focus on particular companies and which provide detail on the conditions within their supply chains. Allegations need to be specific by including information such as dates, names of supplier factories and locations. (If an NGO has decided not to name supplier factories in order to protect the workers' identities and simply labels them as Factory A, Factory B etc then this is acceptable and the allegation can be included.) In general EIRIS focuses on reports where the research process is clear and the allegations are the result of an in-depth investigation.

Assessments

In assessing whether or not EIRIS considers a company to have addressed allegations of breaches relating to child labour, forced labour, discrimination, freedom of association, collective bargaining, and working hours, EIRIS looks at statements and press releases made by the company and any written responses made to EIRIS.

A company will only be assessed as having addressed an allegation if it has taken action to prevent the reoccurrence of the breach. For each type of breach, EIRIS has determined a set of actions a company needs to take in order to be assessed as 'addressed'.

A company is deemed to have responded specifically and in detail to the allegations if it has responded in detail to each individual allegation described in the report. It must also confirm that each allegation is a breach of its policy and describe the steps taken to remedy each alleged breach if proven to be founded. Where a company is not able to provide a specific and detailed response to particular cases, for example because supplier factories have not been named in the allegations, a specific and detailed response to the issues raised in the allegations will be sufficient.

Please note that companies which have allegations relating to freedom of association and collective bargaining in a Chinese supplier are assessed differently (taking national regulations into account).

If an allegation has not been addressed according to this definition, it will be assessed as 'not addressed' unless further information is shortly expected from the company in which case a pending assessment will be made.