

Social Responsibility

Protecting Human Rights Worldwide

While a sensitive issue, supply

managers are the eyes and ears

for human rights compliance

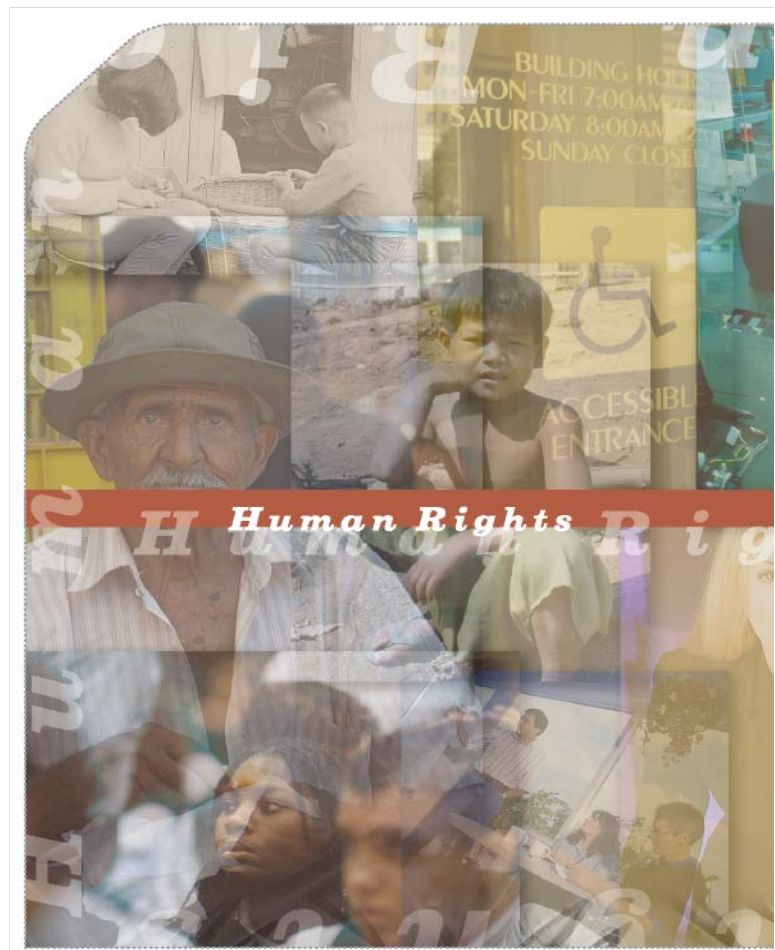
throughout the supply chain.

BY JOHN YUVA

Over the last several months, ISM has highlighted its *Principles of Social Responsibility* in a series of articles covering the *Principles* of diversity, community, financial responsibility, environment, ethics and safety. The series concludes with an examination of the seventh *Principle* — human rights. As organizations' sphere of influence extends globally, issues surrounding human rights at home and abroad continue to come to the forefront. Stories of children overseas working 16-hour days in deplorable conditions are all too familiar. And it's not just isolated in developing regions; incidents of labor abuse also occur in developed countries, including the United States. However, through social responsibility initiatives, education and consistent actions, supply management organizations can be a viable partner when protecting employees' human rights wherever they may work.

Bill McGrath, manager, solution development and tools for Alcoa Global Business Services Procurement in Pittsburgh and a member of ISM's Social Responsibility Committee, says the committee's catalyst for exploring human rights was to eliminate the potential for negative business impact. As the Social Responsibility Committee moved deeper into the process of mapping the *Principle* of human rights, it was clear that supply managers have a responsibility to ensure that suppliers with which they do business align with corporate values. McGrath says that Alcoa's corporate values include dignity and mutual respect, which are core to its business

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approach. "As a supply management organization, it becomes increasingly important for us to ensure that across our global markets we only do business with companies aligned with these values," says McGrath. "As we source in new markets, we have built a review of human rights performance into each step of our process, including onsite audits before we award any business."

The values behind ISM's human rights *Principle* encourage supply management professionals to:

1. Treat people with dignity and respect.
2. Support and respect the protection of international human rights within the organization's sphere of influence.

3. Encourage your organization and its supply chains to avoid complicity in human or employment rights abuses.

Ensuring compliance with human rights values in domestic and overseas operations can be extremely challenging. With domestic and international laws and policies covering such issues as working hours, child labor and minimum wages, organizations often struggle when determining how to monitor and enforce them. How does an organization maintain compliance for operations thousands of miles away? Who monitors compliance and past violations? How are cultural and legal differences around the world applied to a human rights policy? Are human rights as important for an organization with two suppliers versus an organization with a complex supply chain of multiple tiers? Are all suppliers responsible for implementing a human rights policy or following an industry code?

How many organizations have a human rights policy? In a baseline study conducted by ISM to gauge social responsibility efforts, 37 percent of respondent organizations have a written policy concerning human rights for their employees, and 16 percent have a written policy for their suppliers. While there is much sensitivity surrounding the *Principle* of human rights, more organizations are recognizing the obligation to keep stakeholders and customers informed about their progress in this area — hence the release of annual reports and regular updates on company Web sites detailing success stories as well as areas for improvement. One way organizations can show their commitment to the human rights *Principle* is by publicizing their policies.

Even more important to supply managers is how organizations are succeeding in their human rights endeavors.

- How do organizations maintain consistency with their human rights policies?
- How are organizations tracking human rights compliance?
- How are industry codes of conduct developed, and how and to whom are they being communicated?

Two companies that are pioneers in their industry for developing policies around human rights are Palo Alto, California-based Hewlett-Packard Company (HP) and Canton, Massachusetts-based Reebok International Ltd.

Bonnie Nixon-Gardiner, global program manager for supply chain and environmental responsibility for HP, says the company has always emphasized the importance of supplier partnerships, sustainable management systems and continuous improvement principles as they relate to social responsibility. "Our supply managers and commodity managers are skilled at supplier relationships and are able to espouse our principles and discuss them when they walk through a supplier door," she says.

Doug Cahn, vice president of human rights for Reebok, explains that Reebok's human rights initiative began when the company agreed to offer financial support for the Human Rights Now! concert tour, an unprecedented initiative to raise awareness of

In Brief: The Human Rights Principle

This is the seventh in a series of seven articles detailing ISM's *Principles of Social Responsibility*. The *Principles* are the result of an ISM initiative to promote excellence in social responsibility, assisting in the implementation and continuous improvement of supply management organizations and professionals.

Social responsibility is defined as a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization and the community.

This month's article details the *Principle* of **human rights**. ISM encourages professionals to:

1. Treat people with dignity and respect.
2. Support and respect the protection of international human rights within the organization's sphere of influence.
3. Encourage your organization and its supply chains to avoid complicity in human or employment rights abuses.

In addition to a broad set of audit questions pertaining to social responsibility behavior, the following questions related specifically to human rights can be used by an organization to determine if it is moving forward, aspiring to industry best practices and seeking information from others.

1. Does your organization assess human rights conditions internally, and those of your first-tier suppliers and suppliers beyond the first tier?
2. How are policies being enforced internally? With suppliers?
3. Are human rights laws understood and applied?
4. What does your organization do to promote an environment in which everyone is treated with dignity and respect?

human rights on the occasion of the 40th anniversary of the signing of the United Nation's Universal Declaration of Human Rights. Following the concert tour, Reebok decided that it would continue to support the cause of human rights by creating the Reebok Human Rights Award program. "For 17 years, our human rights program has been a source of pride among Reebok employees and a tangible benefit to the human rights community," says Cahn.

HP: A Leader in Global Citizenship

Since its inception in the 1930s, global citizenship has been a part of HP's DNA. As one of its five corporate objectives, HP has adapted its global citizenship framework to various sociological, political and cultural conditions. Nixon-Gardiner says HP is committed to being deeply involved in positive change around the globe. In addition to its internal human rights policy, the company also implemented a Supplier Code of Conduct and was a leader in developing the first Electronics Industry Code of Conduct. By examining the industry code, it's clear why HP is considered a pioneer in social responsibility.

Electronics Industry Code of Conduct

A group of socially responsible investment entities and non-governmental agencies (NGOs) approached HP in 2003 urging it to raise the industry bar. Being deeply committed to real and



Art by Jason Steed

positive change across the globe, HP put a premium on developing a cross-industry solution and taking a lead role in its development. "When we started benchmarking other industry codes, we found that many had released multiple codes, assessments and auditing schemes to a common supply base," says Nixon-Gardiner. "Essentially, this creates a sense of confusion and inefficiency that ultimately impedes the progress of the supply base."

In 2004, Dell and IBM released their own respective codes of conduct, leaving suppliers subjected to multiple, independent supplier audits based on different criteria. To avoid a similar outcome to other industries, HP facilitated a collaboration for the adoption of a single, global Electronics Industry Code of Conduct. The code reflects the participating companies' commitment to leadership in the area of corporate social responsibility and will potentially reduce inefficiency and duplication, as well as make performance easier to audit and verify. This is important for an industry with complex supply chains and thousands of suppliers around the world. It provides an effective means to monitor human rights, health, safety, environmental and ethical policies.

The code includes a variety of standards, most notably a labor standard that is committed to upholding the human rights of workers. To achieve consistency, international standards such as the Universal Declaration of Human Rights (www.un.org/Overview/rights.html), the Ethical Trading Initiative (www.ethicaltrade.org) and Social Accountability International (www.cepaa.org) were used as references when constructing the code. The labor standard is divided into the following seven provisions:

1. Freely chosen employment
2. Child labor
3. Discrimination
4. Harsh or inhumane treatment
5. Minimum wages
6. Working hours
7. Freedom of association

One of the goals of the code was to create sustainable long-term behavioral change. The code accomplishes this by emphasizing an acceptable management system highlighted in section D. "It's essential to communicate with our suppliers and access and audit their understanding of a full management system as it relates to all of the provisions," says Nixon-Gardiner. "This means taking any of the provisions, such as child labor, and ensuring that the company has a clear commitment or statement about that provision."

That commitment includes human rights performance objectives, plans and measures; for example, it includes processes for monitoring human rights compliance throughout the operation, communicating with employees about the provisions, and applying effective auditing procedures. Documenting the human rights provisions and expectations in organization handbooks, hiring procedures and internal postings ensures that every worker is exposed to the initiative. Nixon-Gardiner says that it's imperative to provide an avenue for worker feedback and an audit and verification system. "There should be a verification system for nearly every process, including how people are paid, how they're filling out their timecards and documenting their hours, etc.," she says. "And when a problem does exist, what are their corrective action processes? What's done in the case of deficiencies that are identified, and finally how do they document and record this information? I can't say enough about the importance of a good management system around every provision."

Fundamental to adopting the code is the understanding that a business, in all of its activities, should operate in full compliance with the laws, rules and regulations of the countries in which it operates. The code encourages participants to go beyond legal compliance, drawing upon internationally recognized standards to advance social responsibility. It may be voluntarily adopted by any business in the electronics sector and subsequently applied by that business to its suppliers. For more information about the code, visit www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf.

Reebok's Soccer Ball Guarantee

"Children should have the opportunity to play with our products, not make them," says Doug Cahn, vice president of human rights for Canton, Massachusetts-based Reebok International Ltd. The company's code of conduct, the Reebok Human Rights Production Standards, prohibits children from manufacturing its products. Because most of Reebok's products are produced in factories that are owned and operated by independent parties, this standard is written into its manufacturing agreements. It is strictly enforced by ongoing assessments of supplier facilities, education and training programs, and partnerships with local non-governmental organizations (NGOs) that share a common concern for children.

Cahn says that Reebok's child-labor-free soccer ball program in Pakistan is an example of the company's efforts to prohibit the use of child labor. "When Reebok began to investigate the possibility of purchasing soccer balls manufactured in Pakistan, we learned that up to 20 percent of all stitchers were children working in homes or stitching centers," he says. "We knew this practice had to change; we needed to find a way to buy soccer balls that were child labor free."

To begin, the company insisted that its Pakistani supplier build a manufacturing facility where the entire production process for Reebok soccer balls, including stitching, was centralized inside

a single factory. This way, the company could monitor the factory to ensure that children are not entering the workplace and that soccer ball panels are not leaving the factory where children might be used to perform the work. The factory opened in 1997 and was the first production plant of its kind. "As the incidence of child labor in the area has been reduced over time, we have been able to permit the use of selected stitching centers, provided that they submit to strict protocols to prevent the use of children," says Cahn. "Today, we rely on the expertise of representatives from two prominent local NGOs in Pakistan to regularly review our program. All Reebok soccer balls bear the label: Guaranteed Manufactured Without Child Labor."

In addition to insisting that children be prevented from stitching Reebok balls, the company wanted to provide social protections to displaced child workers. Reebok donated a portion of its profits to support educational and vocational initiatives in Pakistan in order to move children from factories into the classroom. Cahn says that The Chanaan Institute in Sialkot, created by Reebok's partnership with the Sialkot chapter of the Society for the Advancement of Higher Education, is an example of a program that offers former child workers the education needed to prepare for a better future. "Today, Reebok has a partnership with UNICEF that is identifying and supporting innovative ways to end child labor across South Asia," he says.

Human Rights Policies

Purchasing and supply management organizations have established the following human rights policies:

- A written policy for your employees
(37 percent)
- A written policy for your purchasing and supply management employees only
(15 percent)
- A written policy for your suppliers
(16 percent)
- Specific goals and measurements for your employees
(16 percent)
- Specific goals and measurements for your purchasing and supply management employees only
(11 percent)
- Specific goals and measurements for your suppliers
(12 percent)
- A performance tracking mechanism for your employees
(15 percent)
- A performance tracking mechanism for your purchasing and supply management employees only
(10 percent)
- A performance tracking mechanism for your suppliers
(11 percent)

Human rights is an area that HP is continuously working on. A former CEO at HP stated: "We could just extract ourselves and not enter a region because of the challenges that exist, but we personally believe that HP can have a more positive impact and a more positive influence by being present in the environment." Nixon-Gardiner acknowledges that real challenges exist out there, but it's HP's goal and desire to find all the right partners, such as NGOs, governmental organizations, academic institutions and universities, and many other entities that the company can partner with to tackle human rights challenges for the long term.

Reebok: Sustaining Human Rights Standards

Applying the principles of human rights to its domestic and overseas business practices has been a high priority since Reebok initiated the footwear industry's first code of conduct in 1992. Through an assessment process, the early focus of its work was determining whether the independently owned and operated factories that made Reebok products were in compliance with the benchmarks contained in its code of conduct.

By 1997, however, Cahn says that Reebok realized it could no longer rely on factory assessments alone to turn its code of conduct into a guarantee of compliance at the factory level. Corrective actions taken after a monitoring site inspection did not protect against substandard conditions returning to the workplace. As a result, the following combination of approaches evolved:

- Provide ongoing direction and instruction to factories through education and training programs. These programs are designed to help management understand and successfully implement Reebok's Human Rights Standards. ➤

Social Responsibility Survey Results

The following responses about the *Principle* of human rights were obtained from ISM's social responsibility survey. ISM expects to collect data over time to help the supply profession measure its ongoing attention and dedication to this important area.

Currently, our purchasing and supply management function:

A. Conducts supplier visits to ensure that suppliers are not using sweatshop labor:

- | | |
|---|---|
| • To no extent whatsoever
(31 percent) | • To a good extent
(11 percent) |
| • To almost no extent
(16 percent) | • To a great extent
(8 percent) |
| • To a little extent
(10 percent) | • To a very great extent
(7 percent) |
| • To some extent
(17 percent) | |

B. Ensures that suppliers comply with child labor laws:

- | | |
|---|--|
| • To no extent whatsoever
(38 percent) | • To a good extent
(10 percent) |
| • To almost no extent
(14 percent) | • To a great extent
(9 percent) |
| • To a little extent
(8 percent) | • To a very great extent
(10 percent) |
| • To some extent
(13 percent) | |

C. Requires suppliers to provide fair compensation (a living wage) to workers:

- | | |
|---|---|
| • To no extent whatsoever
(39 percent) | • To a good extent
(9 percent) |
| • To almost no extent
(17 percent) | • To a great extent
(6 percent) |
| • To a little extent
(10 percent) | • To a very great extent
(6 percent) |
| • To some extent
(13 percent) | |

D. Treats people with dignity and respect:

- | | |
|--|--|
| • To no extent whatsoever
(9 percent) | • To a good extent
(17 percent) |
| • To almost no extent
(5 percent) | • To a great extent
(27 percent) |
| • To a little extent
(3 percent) | • To a very great extent
(29 percent) |
| • To some extent
(11 percent) | |

E. Requires suppliers to demonstrate a proactive human rights program:

- | | |
|---|---|
| • To no extent whatsoever
(45 percent) | • To a good extent
(6 percent) |
| • To almost no extent
(19 percent) | • To a great extent
(4 percent) |
| • To a little extent
(11 percent) | • To a very great extent
(3 percent) |
| • To some extent
(12 percent) | |

F. Assesses key secondary suppliers to ensure compliance with human rights policies and goals:

- | | |
|---|---|
| • To no extent whatsoever
(49 percent) | • To a good extent
(4 percent) |
| • To almost no extent
(20 percent) | • To a great extent
(3 percent) |
| • To a little extent
(10 percent) | • To a very great extent
(3 percent) |
| • To some extent
(10 percent) | |

- Explore solutions in collaboration with workers, worker representatives, factory management, NGOs, activists and academics who share a common concern for workers' welfare.
- Facilitate the development of stronger grievance procedures, worker or welfare committees, and other worker representatives to strengthen code compliance.

With new approaches in place to promote compliance, the next step for Reebok was to focus on the root causes of noncompliance. Cahn says that compliance auditing was and remains useful for answering "yes" or "no" questions about factory compliance at any particular moment because it prevents Reebok products from being produced in sweatshop conditions. However, this approach focuses solely on problems; it does not provide insight into their root causes, thus limiting the company's ability to partner with factories to sustain positive changes.

Finding the Root Cause

Reebok has since started experimenting with new factory assessment methods for identifying the root causes of noncompliance, such as discrimination, harassment and lack of freedom

of association, which are difficult to assess using a typical "check-list" audit approach. In 2005, Reebok will pilot a "sustainability tool" or "S-Audit" to assess a factory's ability to achieve and then maintain compliance over time. Integral factory systems will be evaluated to identify where policies, procedures and communication systems in factories need to be developed or improved. "Our focus is on integral factory functions that are important to management, such as a factory's ability to hire and then retain a high-quality workforce in a manner that respects human rights," says Cahn. "We are also determining whether factories have mechanisms for ensuring that workers contribute to, and participate in, developing or implementing systems that affect them."

Tracking Factory Compliance

In order to manage its implementation of human rights standards in factories, Reebok needed a database to organize the large amounts of factory information. The company quickly outgrew its first two databases and recognized the need for a next-generation system to leverage emerging technologies such as the Internet and extend the reach of the application to factories, trading

Supply management organizations are making great strides in developing processes to track human rights compliance throughout the globe. For a comprehensive overview of the progress organizations are making in the area of social responsibility, visit the ISM Web site to access "Social Responsibility and the Supply Management Profession: A Baseline Study."



In the baseline study, 26 percent of respondents, to a good extent or more, conduct supplier visits to ensure that suppliers are not using sweatshop labor.

The study revealed that 29 percent of respondents, to a good extent or more, ensure that suppliers comply with child labor laws.



ISM's study indicates that 21 percent of respondents, to a good extent or more, require suppliers to provide fair compensation to workers.

Reebok became the first participating company to have its program to improve conditions for footwear factory workers accredited by the FLA following an extensive review of the company's compliance program, including independent monitoring and verification. Through its partnerships with several human rights organizations, Reebok is committed to making the world a better place for its employees and continuing its work in human rights.

Supply management too can make the world a better place by educating suppliers about its human rights policies and following up on compliance.

McGrath of ISM's Social Responsibility Committee agrees and says it's important for supply managers to understand the company's human rights values and that they

agents and others. "We decided to develop a system internally to ensure a high degree of functional fit, and the Human Rights Tracking System was created," says Cahn. The system offers the following benefits:

- Provides Reebok with a central repository for detailed factory information, such as the factory location, contact person, management, what they produce and for whom, and how the factory measures up to the company's Human Rights Production Standards
- Enables Reebok sourcing managers to make informed decisions about where to place orders, to identify new and prospective factories, and to maintain an accurate list of primary and sub-contracted factories
- Provides a repository for the human rights team to record findings from factory human rights inspections, and assists them in submitting audit reports and other required information to internal and external audiences
- Tracks Reebok's Human Rights Production Standards for all suppliers systematically

In 2002, the Human Rights Tracking System was launched to Reebok human rights field staff and sourcing managers, and in 2003, agents and factories were given access to the system, which now has hundreds of users across more than 46 countries. In order to encourage a wide range of companies to have access to this technology platform to benefit workers, Reebok donated its system to the Fair Factories Clearinghouse (FFC), a not-for-profit organization founded in 2004. Cahn says the purpose of the FFC is to make available a common technology platform to brands and retailers so that they can manage and share noncompetitive information about workplace conditions in order to make informed sourcing decisions and help improve factory workplace conditions around the world. For more information about the Fair Factories Clearinghouse, visit www.retailcouncil.org/media/press/pr20050113.asp.

As part of an effort to create industrywide standards for factory workplace conditions, Reebok also played a pivotal role in the establishment of the Fair Labor Association (FLA). In 2004,

apply to all business relationships. "The supply manager is a critical connection between the company and its supply base, and has the ability and responsibility to ensure compliance in this area," he says. With the knowledge gained from this and previous articles about ISM's *Principles of Social Responsibility*, supply managers can promote and apply all of the *Principles* throughout their supply chains. [ism](http://www.ism.ws)

ISM's SR Web Site: www.ism.ws/sr

ISM is committed to becoming the central repository of information in support of all matters related to social responsibility as it relates to supply management. The following resources can be accessed through the ISM Web site at www.ism.ws/sr.



- *Principles of Social Responsibility*
- The accompanying supply management audit for the social responsibility *Principles*
- Links to other social responsibility-related Web sites. For example, human rights Web sites include the Fair Labor Association (FLA), the Center for Economic and Social Rights (CESR), Corporate Watch, The International Labor Rights Fund, the Business & Human Rights Resource Centre, the International Labour Organization and the University of Minnesota Human Rights Center.
- Social responsibility articles and research. To access all the articles in ISM's social responsibility series, visit www.ism.ws/SR/Articles.cfm.
- ISM's Committee on Social Responsibility
- Ways you can foster social responsibility and show your support for the ISM *Principles*