SustainabilityUpdate™

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in this issue

Governance & Accountability Institute is the **"Sustainability Headquarters™"** for clients in the corporate, investment, public and social sectors. The G&A team provides research, monitoring, advisory and strategic information resources to clients in the corporate, investment, public and social sectors.

G&A Institute closely monitors the sustainability, responsibility, environmental, citizenship, and other similarly-titled reporting of US domestic corporations and the US-based subsidiaries of non-US companies. We also monitor reports of trade and professional associations, non-profits, the public sector, professional practices, and colleges & universities.

G&A Institute is the exclusive USA Data Partner of the GRI We monitor, receive, collect, analyze, and database the US corporate (and institutional) reports and make these publicly available. G&A Institute is the exclusive Data Partner of the Global Reporting Initiative (GRI) in the United States.

G&A Services Portfolio

- ESG Counseling, Strategies & Benchmarking
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GRI USA , UK, and Ireland Data Partner Report Database & Repository.

Just Back From Amsterdam

By Louis D. Coppola, Executive Vice President, G&A Institute

*I recently returned from The Netherlands where the next iteration of the **Global Reporting Initiatives' Guidelines** was released at the annual global GRI conference (which took place in GRI's home city, Amsterdam).*

There were many changes announced regarding the **"G4"** --the next generation of GRI reporting guidelines. These include the removal of the familiar "A-B-C" Application Level system; a stepped up concentration on *materiality*; and, further alignment with existing recognized standards like **CDP** and **UN Global Compact**.

We will have more comments for you going forward — be sure to make the new GRI guidelines part of your summer reading; you can download them at www.globalreporting.org

There were many significant developments being discussed by conference attendees. Some highlights we tuned in to:

The International Integrated Reporting Council or IIRC has released its consultation draft of its framework for *integrated reporting*. These guidelines are intended to pave the way for sustainability leadership companies to combine their financial reporting data with their sustainability data in creative and beneficial ways.

Take a look at www.theiirc.org — and submit your feedback as part of the public consultation process.

Ceres and **INCR** in collaboration with **NASDAQ OMX** released a draft consultation paper to set out a roadmap for stock exchanges around the world to establish standards for disclosure of ESG information. This initiative is part of a growing effort to make sustainability disclosure a consistent requirement for corporate listing on stock exchanges. You can read the draft at www.ceres.org to keep up with the parallel movement of the SSEI or **Sustainable Stock Exchanges Initiative.**

The European Commission (EC) recently adopted rules for companies with more than 500 employees to publish a sustainability report (or explain why it does not publish) — an approach intended to disclose more information on corporate strategy, results and risks in six areas — environmental, social and employee related matters, human rights, anti-corruption and bribery.

You can find out more online: http://eur-lex.europa.eu/

Photo Caption (above)
In Amsterdam: Marjella Alma, GRI Focal Point USA (left); Louis Coppola, G&A Institute (center), USA Data Partners for the GRI; Mike Wallace, GRI Focal Point USA (right).

Tuning in to European Union: Moves to Mandate Sustainability / CSR Disclosure

Stay Tuned to the news coming out of Europe...

In April, the **European Commission** (EC) acted on a proposal calling for new rules - officially, to implement, for a *Directive of the European Parliament and of the Council* to mandate disclosure of non-financial information and diversity information by large companies (500+ employees).

The proposal (prepared by a working group) calls for mandating publication of non-financial information to be included in annual and consolidated financial statements and related reports.

The effect:
Large companies in the EU will have to also include [non-financial] information related to *environmental* and *employee* matters.

These amended rules are seen as an opportunity to enhance corporate transparency of "**S**" and "**E**" information (to be provided by all large companies / all sectors) which in concept would level the playing field for such information disclosed by EU companies across the EU (in member states).

Think of this as "impact on society" reporting, the mandating of expanded disclosure intended to help companies better manage non-financial risks and opportunities. Civil society players could then use the information to assess the impacts of the operation of corporations.

The proposal for the changes that were

The proposal for the changes that were adopted in April noted that not all EU companies are now reporting on ESG performance, and that existing (and credible) global frameworks -- such as the GRI -- are readily available for corporate non-financial reporting.

(The group's finding was that only 2,500 of 42,000 EU large companies are reporting non-financial information on an annual basis, and that the quality of information disclosed does not meet the need of report users.)

Some of the EU member states have had "report or explain" models; there are other states pointing companies toward global (accepted) reporting frameworks but not having requirements to report. Some European countries have required state-owned enterprise to report.

The "level playing field" would come with *all* EU member states requiring uniform reporting under a Europe-wide process. The advantages: Companies operating in more than one member state should be able to publish one report which would apply across the union (the "Single Market").

Corporate Governance:

Corporate Governance

Addressing corporate governance, the working group observed that there is insufficient board diversity - which results in "group think," as the proposal notes, not good for the company or society in the view of the authors. Companies with "insufficient board diversity and lack of transparency" can be "less well managed, less inclusive, less innovative, and contribute less to growth..."

The Commission in effect approved amendments existing *Articles* and *Directives* previously adopted by the EC governing bodies to create new rules-of-the-road for disclosure by large corporations (500+ employees). [More information is available online: http://eur-lex.europa.eu/](http://eur-lex.europa.eu/)

Why You Should Stay Tuned

Decisions made in Europe regarding mandating ESG reporting are sure to reverberate in other capital markets - yes, including the U.S.A. corporate and investing communities. This action by the EU should be a force in moving large companies toward integrated reporting not only in the EU states - but beyond.

The June 6, 2013 UBS Message: Tonight marks the last edition of the UBS Global Portfolio Manager's Spotlight...

Farewell to UBS' *Spotlight* — Erika Karp in the Sustainability Spotlight

One of the driving forces in gaining greater recognition for and appreciation of sustainable investing is ***Erika Karp****, Head of Global Sector Research -* ***UBS Investment Bank****. Her weekly newsletter "spotlighted" capital market trends and always included value-added information about ESG considerations and focus on* ***sustainable investing*** *- the term that Erika has championed in public discussions.*

As the Spotlight publication ended, and Erika announced that she was leaving the firm, the management of UBS had this to say about Erika:

"With almost 14 years of Erika Karp's leadership in UBS Global Research, we have made great strides in bringing together a team of Global Sector Strategists and building a culture of collaboration within the Research Department that has been recognized around the world.

"The products and processes that Erika created and managed during her tenure as the Global Head of Research Product Management and then as Head of Global Sector Research, include the Q-Series®, the Global I/O®, the Global Portfolio Manager's Spotlight, and our Global Investment Review Committee will continue to support our leading global research offering.

"It is with regret that we announce Erika's decision to leave UBS to pursue opportunities outside the firm. At the same time, we are pleased that efforts to elevate the recognition of Global Research, as pivotal to our advisory proposition, have allowed us to integrate the function into our existing regional Research and Product Management teams. Erika has agreed to remain with UBS in her current position until August 1st.

"In recent years, Erika's work in Sustainable Investing/ ESG Analysis has led to more concentrated efforts in academia, in the public sector, and with NGO's including the **Sustainability Accounting Standards Board** (SASB) where she is a founding Board Member.

"We wish Erika success in her future endeavors and we thank her for her work at UBS over many years at the firm." (from) **Nick Pink**, Global Director of Research and **Mike Stewart**, Global Head of Equities

As Erika noted in her final issue:

"In creating this product over ten years ago, we aimed to take a lesson from **'The Art of War'** in which **Sun Tzu** said that *'Strategy without tactics is the slowest path to victory; tactics without strategy is the noise before defeat.'*

"In Global Sector Research aside from our strategy of providing the best possible predictive insight we could, a tactic with this product was to offer a more systematic integration of both a Global perspective, and one of more rigorous analysis of Governance, Social and Environmental (ESG) considerations to evaluate corporate excellence and the associated economic outcomes.

"Today, we discontinue the product as our efforts are weaved into that of the full breadth of our regional research and management teams."

She concluded:

> ***... The war has indeed been won for proponents of long-term corporate excellence as business models for the future need to evolve to address the greatest issues of our day. Now the warriors of the past three decades can move along with the mainstream... as will I.***

We thank Erika Karp for her passion for excellence and continuing steady hand in bringing sustainable investing to the attention of asset owners and managers, financial analysts, researchers, and clients of the firm. Erika, *Well Done!*

The team at G&A Institute hopes that UBS will reinstate the *Spotlight* in the near term - with continuing focus on sustainable investing, celebrating UBS' position in advancing the concept.

And our friend Erika has assured us that she will not be gone from the mainstream of the capital markets for long. We look forward to hearing about her next step!

Stay Tuned for news from her...

SAM Group / Now RobecoSAM New, Diversified Family of DJSI Indices Debuts

Around the world, the names are familiar to senior corporate executives, corporate directors, and to many asset owners and their managers: SAM Group, and the Dow Jones Sustainability Indexes (DJSI). There are important changes taking place that we are sharing with you today.

The well-known **SAM Group** ("Sustainable Asset Management") has a new name: **RobecoSAM**. This is the Swiss-based investment specialist organization focused on sustainable investing; products and services include asset management, indices, private equity, impact analysis & sustainable assessments, and benchmarking.

RobecoSAM publishes the familiar **Dow Jones Sustainability Indices** (DJSI), which are based on analysis of more than 2,000 listed companies. RobecoSAM was founded in 1995 and is a signatory of the **Principles for Responsible Investing** (PRI) and a member firm of **Eurosif**, the alliance of European financial analyst organizations.

New Family of DJSI Funds

On May 30, 2013, RobecoSAM and **S&P Dow Jones Indices** announced the launch of the Dow Jones Sustainability Diversified Indices Family ("DJSI Diversified Family").

The DJSI Diversified Family covers 26 developed markets and 20 emerging market countries and replicates the regional and sector allocation of the S&P Global LargeMidCap Index --taking sustainability performance into account using the RobecoSAM proprietary Corporate Sustainability Assessment (CSA) methodology.

The Index Family effective May 30, 2013:

- Dow Jones Sustainability World Diversified Index
- Dow Jones Sustainability World Developed Diversified Index
- Dow Jones Sustainability Emerging Markets Index
- Dow Jones Sustainability Europe Diversified Index
- Dow Jones Sustainability North America Diversified Index
- Dow Jones Sustainability Asia Pacific Diversified
- Dow Jones Sustainability Emerging Markets Plus Diversified Index
- Dow Jones Sustainability World Developed ex Korea Diversified Index

The players:
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Investments cannot be made directly in an index; they are made in a wide range of products based on the indices, such as the newly-announced DJSI Family (and the well-established, widely-used S&P 500 benchmark).

RobecoSAM parent **Robeco** was founded in 1929 to offer financial products and services. It has been part of **Rabobank Group**, one of Europe's leading financial institutions based in the Netherlands. Rabobank has activities in banking, asset management, insurance and real estate. Measured in Tier One capital, Rabobank Group is one of the world's largest financial institutions.

In February 2013, Rabobank announced a strategic alliance with Tokyo-based **ORIX**, an investment services organization which is pursuing a growth strategy of "Finance + Services." ORIX is to acquire 90% of Robeco; Rabobank will retain a 9.99% share; and ORIX will allocate treasury stock to Rabobank as part of the acquisition price (EUR 1,935 million).

The plan is for Robeco to become ORIX's primary platform for future growth in global asset management. ORIX has an established network in Asia and the Middle East and purchased **Mariner Investment Group** in the USA in 2010.

The Facts About FACTS® - And Trust in Leaders

G&A Institute's Q&A With Barbara Kimmel – Trust Across America / Trust Around the World

We shared news in our May issue about Trust Across America –now named Trust Around the World. Readers were interested in learning more about the organization and its activities. Here is our interview with co-founder Barbara Kimmel.

Q Tell us about **Trust Across America** – now to be known as **Trust Around the World** -- what is the organization's mission – what are your activities?

A Our mission is simply to help enhance trustworthy behavior in organizations. You can read more here about our mission, core values and principles and the evolution of our program online.

Q You recently published your annual list of the "Most Trustworthy Public Companies" – what criteria are used – what is your methodology – to come up with these rankings?

A Trust Across America / Trust Around the World -- has developed a proprietary methodology called the **FACTS® Framework**. FACTS is an acronym that incorporates five indicators of trustworthy business:

Financial stability
Accounting conservativeness
Corporate governance
Transparency
Sustainability

Our Framework allows us to analyze the trustworthiness of approximately 2,000 public companies, using independent and external quantitative data, and equally weighting our five indicators. We have also built software called **Fides™** that calculates an aggregate "trust score" for each company. No company can be named to our *Most Trustworthy* list if any of the five indicators are below average. Companies do not participate in the analysis.

Q What could or should boards and C-suites be doing to build more trust with investors – and with stakeholders?

A Boards and C-Suites first have to acknowledge that trust is a driver of good business. While most Boards and C-Suites are still "stuck" on short-termism and quarterly earnings, we are starting to see a slow shift away from this outdated business model.

Trust Around the World continues to make the business case for trust by correlating trust to stock market performance. I can point readers to our recent blog post -- Trustworthy Business and Stock Market Performance -- for more information.

Q Tell us about your "**Top 100 Thoughts Leaders**" – what is your approach to devising this list?

A The Trust Across America program was formed in the wake of the 2008 stock market crash. Our interest was in redirecting the spotlight from the "crisis of the day" to individuals and organizations that were working to foster trustworthy organizations.

One of our first initiatives was to create our **Top 100 Thought Leaders in Trustworthy Business**. We have now been publishing this global list for three years. Honorees are selected either through nominations or research, and a judging panel works to make the final selections.

Q What are the "FACTS® Framework Reports published by TAA? How can a company access the information [about the company] to find out what the TAA FACTS file is saying?

A The FACTS Reports are a business tool providing individual companies with a unique trust profile to aid in capitalizing on strengths, identifying risks and drawing peer comparisons. We offer companies several levels of reports depending on their interest and need; everything from snapshots to custom benchmarking.

Q Who is using Trust Across America's resources?

A Everyday our website draws more and more visitors from around the globe. As we speak, we had over 900 unique visitors viewing almost 1,500 pages of information. We see visitors coming from corporations, government agencies, academic institutions, media, etc. We even had the **White House** stop by one day!

Q You have recently formed the **Alliance of Trustworthy Business Experts**. What is that - and why was it organized?

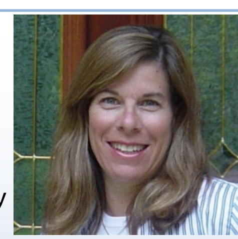
A Many consider trust to be the "issue of the decade" and it is a global topic spanning across public and private organizations, cultures, and generations.

The **Alliance of Trustworthy Business Experts** was formed at the end of 2012 to launch a **Campaign for Trust** and develop tools and initiatives to help build more trustworthy organizations. In a few short months we have grown to several hundred members from close to 20 countries. Our members are CEO's and others from the C-Suite, government officials, academics, consultants and a smattering of media folks. There is a place for everyone who wants to roll up his/her sleeves and get involved.

Finally, Trust Across America has brought together over 30 leading experts who have contributed essays for our upcoming book to be published later this year -- the title is Trust Inc.: Strategies for Building Your Company's Most Valuable Asset

Thank you for this interview opportunity, Hank. You have watched Trust Across America evolve and grow. We appreciate your continuing support, expert advice and input.

Disclosure: We have been communicating closely with Barbara and Jordan Kimmel since the early days of their TAA planning.



TAA -TAW's Barbara Kimmel is an award-winning communications executive and former consultant to McKinsey who has run her own firm (Next Decade, Inc.) for 20 years. She holds a B.A. in International Affairs from Lafayette College and an MBA (marketing) from Baruch College. In 2012 she was named one of the 25 Women Who Are Changing the World by Good Business International. Her email is: barbara@trustacrossamerica.org

CalPERS
Gets Grade "A" for Achievement in ESG

One of the state public employee systems that we track is CalPERS -- long a leader in advancing effective corporate governance and now a leader in embracing and communicating about ESG performance as part of their investment strategy.

The California Public Employees Retirement System (CalPERS) is the largest state investment fund in the USA, with Assets Under Management of US$257 billion as of March 31, 2103. More than 1.5 million public employees are covered by the system (including 550,000 retirees).

Grade A: The Asset Owners Disclosure Project (AODP) gave CalPERS a "Grade A" and the ranking of #15 of the world's 1,000 largest asset managers in the organization's *2012 Global Climate Change Index Survey*. The Project is an independent not-for-profit which evaluates the largest asset managers for disclosure level and industry best practices. The objective is to protect retirement funds from the risks posed by climate change. The annual survey yields insights for the asset owners association regarding large asset owners' strategies to deal with climate change.

Reporting Progress

CalPERS released its first report on its ESG work -- "Towards Sustainable Investment - Taking Responsibility" - detailing the "3 Ps" of its program: *Priorities, Performance and Procurement*. Explained in the report: How CalPERS integrates ESG into its own operations. The report was issued on CalPERS' 80th birthday.

In the message from CalPERS leadership team -- **Rob Feckner**, board president; **Anne Stausboll**, CEO; **Henry Jones**, chair of the investment committee; and **Joseph Dear**, chief investment officer -- is the definition of sustainability: *Sustainability in its simplest form is the ability to continue, and for a long-term investor like CalPERS, with long-term liabilities, it's at the heart of what we do.*

News

The "Towards Sustainable Investment" reporting effort received a commendation for the "Best Responsible Investment Report by a Large Pension Fund" from ***Responsible Investor.*** These awards are based on research on more than 1,000 pension funds around the world. (Responsible Investor is a UK-based sustainable finance and governance news organization.)

CalPERS was the only North American fund to be honored for an award in all pension categories at RI's London Awards Summit.

CalPERS is a founding member of the **Principles for Responsible Investment** (PRI) and has long been a leader in advancing corporate governance best practices for the companies in portfolio. (The former CalPERS annual target list for governance engagements was popular with some investors who knew that the CalPERS focus usually brought about increased enterprise value for the companies in the bulls-eye for engagement. The list has been discontinued.)

The CalPERS report can be accessed online.

G&A's Awards & Recognitions Program

Your corporate sustainability journey may have begun. Or, the journey may be far along, maturing – and the story being told through the GRI sustainability report. Who is taking notice? Who is recognizing the company's reporting effort (the progress report for corporate achievements), and bestowing recognition? Which of the many "best of" lists, and ratings, rankings, scores ,and other third party judgments is your company being included in – where are you positioned in the race to the top?

Learn more about G&A's Awards & Recognitions Program

Sharing Views on New Directions for Investors & Companies

Call It What You Like — New Investing Approach Gains Followers

By Lisa Woll

G&A Institute is a member of the Forum for Sustainable and Responsible Investment (US SIF) in the U.S.A. As the organization convened for its annual conference, US SIF CEO Lisa Woll published this update - we are sharing it with you today.

More than 11 percent of investments under U.S. professional management were selected for companies' financial performance and their social and environmental responsibility in 2012.

That's US$3.74 trillion of the $33.3 trillion in investments scanned for environmental, social and governance criteria (known as ESG), according to a November report by the **U.S. SIF Foundation**. Individuals and institutions are increasingly on the lookout for investment strategies that help them achieve environmental and social goals.

Call it what you like — *sustainable investing, responsible investing, socially responsible investing, impact investing, green investing* or just *ESG* — this practice is bringing new approaches into the traditional investment industry.

The field has expanded tremendously since trail-blazing funds, such as the **Dreyfus Third Century Fund** and the **Pax World Fund** were launched in the early 1970s. Today, sustainable investors might be concerned with climate change, alternative energy, human rights, diversity, community investing or other issues. We have seen a blossoming of specialized advisors and consultants and new investment products across all asset classes.

Many studies have shown that sustainable investing does not mean additional risk or compromised returns. To cite just one paper, **Deutsche Bank** last year reviewed 100 academic studies of socially responsible investing and found that companies with high ESG ratings also have a lower cost of capital for both debt and equity. It also found that funds dedicated fully to sustainable investment fared as well as conventional funds.

Major investment management firms recognize that current and potential clients have a growing interest in sustainable practices. Nearly 1,200 asset owners, investment managers and professional service partners have signed the **United Nations**-backed **Principles for Responsible Investment** (PRI) and are starting to disclose their ESG performance. Eighty-two U.S. money managers with US$4.9 trillion in assets ask portfolio companies about ESG issues. Just 54 managers, with $3.8 trillion in assets, reported doing so two years earlier, according to the U.S. SIF Foundation.

Some small and family foundations have already rethought their endowment investments or stepped up shareholder engagement with portfolio companies in light of their missions. They include the **Needmor Fund, Jessie Smith Noyes Foundation** and the **Wallace Global Fund.** Some larger foundations, such as the **W.K. Kellogg Foundation**, are also committed to investing in alignment with their mission.

Sustainable investment is growing because investors and other stakeholders recognize its ability to deliver returns and influence corporate behavior. Investors have persuaded publicly held companies to disclose their risk from climate change, adopt sustainable forestry practices, check runaway executive pay and address labor and human rights conditions in their supply chains. They have encouraged investment strategies that promote economic development and expand financial services in poor communities.

Many consumers already think about the sustainability of the products they buy, their commutes and what they eat. It's natural to extend that logic to their investment portfolios.

The practice may be less intuitive but is no less important for institutional investors. Their decisions can help advance a more sustainable and equitable economy.

Lisa Woll is CEO of US|SIF: The Forum for Sustainable and Responsible Investment, which recently held its annual conference in Chicago, and the U.S. SIF Foundation.

Link to original Bloomberg post.

Buyer Beware: Human & Labor Rights Failures in the Supply Chain

By Robert W. Kuhn - CEO, Kuhn Associates

Today we are sharing with you commentary on the real world challenges facing retail brands in managing large, complex supply chains -- and trying to hold far-flung suppliers accountable for their human rights and labor practices.

Recently, media of all types have focused on human and labor rights-related failures occurring in Asian suppliers to large European and American retail brands. We have read stories in the popular press, trade journals and social media about the deaths of workers from collapsing structures and from those taking their own lives because of horrific working conditions.

First and foremost, these are human tragedies of significant magnitude. But they are also perfect examples of the challenges retail brands face in managing large, complex supply chains and trying to hold far-flung suppliers accountable for their human rights and labor practices.

This isn't a case of brands intending to do harm; rather it's a case of nasty unintended consequences of outsourcing to low-cost geographies.

Brands have responded to the deaths of over 1,000 garment workers in an 8-story factory outside of Dhaka, Bangladesh, by signing on to one of several "solutions:"

- A group of mainly European retail brands, along with a few US retailers, have signed on to a legally binding pact under which building safety training and inspections will be centrally-managed and beefed up.
- A separate group of US brands, together with some industry associations, announced the formation of a working group under the auspices of the US-headquartered Bipartisan Policy Center.
- Other retail brands, like Japan's **Fast Retailing Co**. (the **Uniqlo** brand), **H+M** and others, have decided to each go their own way and deepen their engagement with suppliers on this issue. Some of these companies were frightened off from signing the European-led pact because they felt its legally-binding nature could expose them to lawsuits.
- Some brands may still opt to de-select suppliers who violate codes of conduct.

It's not just garment worker deaths that should concern us. Exposure to hazardous chemicals, poor living conditions, unsafe machinery, lack of fire safety and even "virtual" slavery (where workers' essential identity documents are held by factory management, making them unable to travel at will) are part of the daily routine in some supply chains.

While the most common places to find these conditions are **Bangladesh, Cambodia, Indonesia** and **Vietnam**, they can also occur in more mature markets such as **China** and **India** (and what will conditions be like for workers in newly-liberated **Myanmar**?).

The important point is that human and labor rights abuses occur frequently in extended supply chains that are characterized by significant opaqueness, cultural differences, corrupt governments and stretched suppliers.

The Current Approach Is Broken

Most "leading" retail brands use a multi-pronged approach to managing human and labor rights in their supply base:

- Basic due diligence during the sourcing process, including brief site visits and review of publicly-available information.
- Documentation, consisting of contract language and supplier "codes of conduct," setting forth in writing the expectation that the supplier will abide by all applicable laws and regulations.
- Supplier questionnaires and self-assessments, providing the retailer with quantitative and qualitative information on investigations, violations, accidents, etc..
- Annual or more-frequent factory audits, often by "certified" third-party auditors, which look for legal violations and violations of codes of conduct.

For some time, retail brands worldwide have believed that this approach would alert them to any possible problem in time for them to either work with the supplier to rectify the problem or, in rare cases, de-select the supplier.

Even regulators have bought into this approach -- the best example being the ***California Transparency in Supply Chains Act of 2010,*** which requires any company doing business in California and with over US$100 million in annual worldwide sales (including B2B companies) to disclose on its website its approach to identifying and mitigating human trafficking and slavery in its entire supply chain. The required disclosure tracks this paradigm perfectly.

But now the evidence shows that this approach is not working. Deaths, illnesses, injury, slavery, human trafficking and other abuses continue and millions of dollars are being spent chasing an intractable problem. There are many reasons why things aren't working, but chief among them are these:

- Companies do not have transparency very far into their supply chains and do not have legal relationships with any supply chain partners other than their direct suppliers. *You can't fix what you can't see* and *you can't fire who you don't hire*.
- Suppliers are fatigued by surveys and audits coming at them from every direction. Rather than encouraging improvement, their fatigue makes them cut corners, such as giving work to unauthorized suppliers just to keep business.
- Governments in many of these countries are notoriously corrupt, siphoning off resources intended to address the problem. Bribery is commonplace.
- Wages in many industries are set by law, so paying a supplier more likely results in richer company owners, not fairer wages or better working conditions.
- Low-cost supply models, driven in part by consumer preferences, don't leave any room for investment in anything more than the basics, if that.

Buyer Beware (continued from page 3)

It's taken a while to get to this rather dark place and it might take a while to get back out. But there are better ways to manage supply chain human and labor rights.

Fixing This Requires More Than Money

I'll admit, this is a tough one for any retail brand. There is no band-aid approach and it's totally unclear that companies have any way to eradicate the cultural problems and deep-seated corruption that contribute to these problems. But it is clear that there is a better way to do things:

- Create and share visions of healthy supply chains. Perhaps this means *zero violations* -- or perhaps it means supply chains that empower workers and improve communities. In any case, it's essential to start with a vision of success.
- Take a collaborative, rather than a one-off, approach. Industry consortia (such as the **Sustainable Apparel Coalition**, and the **Electronics Industry Citizenship Coalition**) bring together multiple stakeholders and thereby:
  - facilitate seeing the problem through multiple "lenses," based on each stakeholder's individual experience.
  - create mass that is significant enough to influence suppliers.
  - remove duplicity in surveying and auditing (activities that should, in fact, continue), alleviating suppliers of any real or imagined overburdening.
  - pool resources, especially those that must be directed to administrative tasks such as data collection.
- Take a more serious approach to corruption and bribery in the supply chain. While these activities don't account for all of the problems, investing in policy-influencing activities (where legal) that result in stricter laws and harsher penalties for illegal behavior can help in the medium- and long-term.
- View suppliers as partners, not cogs in a wheel. That means investing in training and capacity building and rewarding suppliers that create a history of violation-free activity or work quickly to expose and remediate problems.
- Partner with innovative solutions providers, such as the start-up "**Labor Voices**," which is using cell phone technology to give retailers employee-derived information about factory working conditions.
- When possible, and especially in locations where a company expects to work long-term, invest in "root cause" solutions. For example, in response to learning of child labor contributing to the manufacture of one of its product lines, a European-based global retail brand leveraged its corporate foundation to invest in educational, home care and after-school initiatives.

its corporate foundation to invest in educational, home care and after-school initiatives.

All of this will take time -- and, of course, money. And it must be done while maintaining profitability, meeting customer expectations and addressing environmental issues.

But anyone who thought that today's version of supply chain *accountability* was easy is probably confusing it with the days when you could drive down the street to your supplier, knock on the door, share a cup of coffee with the owner or manager and look them squarely in the eye.

The Payoff

Most process-change initiatives don't get the green light until someone can articulate a sound business case for making the initial investment and maintaining whatever program is needed.

Sometimes there are exceptions for crisis situations, and the Bangladesh factory collapse borders on one of these. It is clear, in any case, that investing in improved supply chain human and labor rights conditions in the manner outlined above can have a real payoff:

- **Mitigation of reputational risk** - as customers because increasingly knowledgeable and savvy about how companies are managed, investing in activities that target reputational "hot spots" (such as far-flung supply chains) can protect revenue.
- **Sharing of best practices** – by participating in a focused community of practice, such as an industry-led consortium, companies can save costs on acquiring the knowledge and skills necessary to identify the best suppliers, work with marginal companies and root out the worst of the bunch.
- **Enhancement of brand equity** – the concept of the "socially conscious" consumer is taking hold worldwide; for the brand that gets ahead of the pack on addressing human and labor rights issues, there is the opportunity to capture market share from laggards and create new revenue streams based upon sustainable business practices.

The opportunities in any one company will, of course, be unique to that company's circumstances. In cases where customers don't have much information about supply chain failures, the upside may be less discernible. But where customers have almost real-time knowledge about supply chain practices, especially in global retail brands, the payoff is likely to be *huge*.

# # #

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