



# From Principles to Practice: The Role of SA8000 in Implementing the UN Global Compact



## **From Principles to Practice: The Role of SA8000 in Implementing the UN Global Compact**

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Center for International Private Enterprise

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# From Principles to Practice:

## The Role of SA8000 in Implementing the UN Global Compact





# Foreword:

Moving from principles to practice is the key challenge of good corporate citizenship for companies around the world. The following case studies, featuring six companies that have successfully met that challenge, show how responsible and ethical businesses can benefit in multiple ways if they take the idea of corporate citizenship seriously. In addition to enhancing their own operations to the benefit of their investors, employees, customers, and other stakeholders, these companies improve the overall business environment in their countries by raising corporate standards and leading by example.

Highlighting these benefits and showcasing ways in which companies can effectively meet their social responsibility commitments has been one of the reasons why the United Nations Global Compact (UNGC), Social Accountability International (SAI), and the Center for International Private Enterprise (CIPE) decided to put together this publication. We believe deeply – and the experiences of the six companies featured here demonstrate – that the UNGC Principles and SA8000 Standards are important tools that companies can use to meet their good corporate citizenship goals. Our shared objective is to help businesses around the world, and especially in emerging markets, take concrete steps toward ensuring voluntary compliance with key global standards.

The company executives interviewed for this publication gave generously of their time and shared their experiences of implementing the UNGC Principles and the SA8000 standard. They highlighted both synergies between the two as well as unique country and industry circumstances that pose challenges to implementation.

Our three organizations hope the experiences included in this report will be useful to other companies as practical examples of carrying out their commitments as UNGC participants. They are examples of best practice and also evidence of the feasibility of implementation in a variety of business ventures and business environments. We look forward to continuing to learn with and from these companies and their peers.

– Georg Kell, Eileen Kaufman, John D. Sullivan



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## United Nations Global Compact

Launched in 2000, the United Nations Global Compact is a call to companies around the world to align their strategies and operations with ten universal principles in the areas of human rights, labor, environment and anti-corruption, and to take action in support of broader UN goals. Through the development, implementation and disclosure of responsible corporate policies and practices, business can help ensure that markets advance in ways that benefit economies and societies everywhere. The Global Compact is a voluntary leadership platform for dialogue and learning, it is not a regulatory body. With more than 8,000 signatories in 135 countries, it is the world's largest corporate responsibility initiative. [www.unglobalcompact.org](http://www.unglobalcompact.org).



## Social Accountability International

Social Accountability International is a 13-year old international multi-stakeholder organization of business, labor and NGOs whose mission is to advance the human rights of workers around the world. It carries this out through training, capacity building, and the SA8000 workplace standard, which is based on ILO and UN conventions. Over 2000 organizations, in over 60 countries, employing over 1 million people, are certified compliant with SA8000 by organizations accredited by SAAS (Social Accountability Accreditation Services). SAI has partnered, in dozens of countries, to conduct training, capacity building and workplace rights consultations—attended by workers, factory managers, auditors, labor inspectors, trade union representatives, supply chain managers, brand compliance officers, NGOs—about implementing management systems and criteria for ethical workplaces. [www.sa-intl.org](http://www.sa-intl.org).



## Center for International Private Enterprise

The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society in more than 100 countries. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, corporate citizenship, democratic governance, access to information, the informal sector and property rights, and women and youth. [www.cipe.org](http://www.cipe.org).

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In developing this report, interviews were conducted with company leaders by Anna Nadgrodkiewicz (CIPE) and Eileen Kaufman (SAI). Aleksandr Shkolnikov (CIPE), Soren Petersen (UNGC), and Jonas Haertle (UNGC) provided guidance throughout.

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# Introduction:

Just as good corporate citizenship goes beyond statements and declarations, participation in the United Nations Global Compact (UNGC) goes beyond signing a name on the dotted line. As companies commit to implementing the ten principles of the UNGC, they undoubtedly seek the best mechanisms to ensure that the principles are reflected in their performance. While there is no single best approach, there are some mechanisms that may prove useful for many companies around the world. One example is the SA8000 global social accountability standard for decent working conditions developed by Social Accountability International (SAI).

This publication shows how six UNGC participants – companies of different sizes representing different sectors and corners of the world – use the SA8000 workplace standard as a tool to implement and report on the commitments to the Labor principles (Principles 3-6) of the UN Global Compact. Each company is both a UN Global Compact participant and certified compliant to SA8000. The six company case studies presented here also explore the synergies between SA8000 and other voluntary standards in advancing all aspects of corporate citizenship expressed under the UNGC commitment.

The companies that appear in this publication – Beraca (Brazil), Rosy Blue Diamond (Thailand), Sabaf (Italy), TDE (Bolivia), TNT (Argentina), and Yesim (Turkey) – vary greatly in size, age, and corporate structure, but they are united by a desire to share best practices and practical solutions to challenges that many other UNGC members face. CEOs and other company leaders spoke with us about their paths and motivations to deliver on their responsibilities. Although country and industry conditions



differ, they have all moved from ideas and statements to action.

The companies present an interesting industry mix: apparel, appliance controls, chemicals, electrical transmission, jewelry, and transportation. They all have international presence and relationships, either through trade on the global markets or through membership in corporate groups. All but TDE sell to international consumer brands. At the same time, each company is an active member of its local community and engages diverse stakeholders in sustainable business operations. Beraca and TDE, for instance, have considerable interaction with rural communities. All emphasize investment, and the return on investment, in their workforce.

Despite shared goals, their paths to compliance vary. For TNT Argentina and Sabaf, UNGC participation predates SA8000 certification; for Yesim, Beraca, and Rosy Blue, SA8000 came first. For TDE, both initiatives were implemented in the same year.

Yet, the similarities between the profiled companies are striking. All use a management systems approach to sustainability, with a determination to integrate their ethical commitments internally. They also cite SA8000 as a particularly useful tool for extending the Principles to their supply chain. The six companies engage systematically with suppliers to encourage and enable them to be responsible employers as well.

These companies' SA8000 certification is a public statement of both commitment and compliance, subject to ongoing verification and open to

stakeholder scrutiny and complaints. As detailed in the individual chapters, some also use externally verified environmental and industry-specific social performance standards. All see employees as key first stakeholders. All felt the UNGC was well aligned with their existing ethical framework and intent, and have embraced it as a system and tool for operationalizing them. Each has a strong company code with which both UNGC and SA8000 are congruent.

Implementing these commitments entails moving from high-level statements down to daily operations. It is not a matter of philanthropy but rather of an organizational change that institutionalizes compliance in day-to-day business and makes social responsibility an integral part of corporate strategy. Such organizational change requires incentives that provide a business case for good corporate citizenship, particularly in emerging markets. The companies profiled here demonstrate those benefits in terms of improved sales, employee satisfaction, community relations, as well as brand and industry reputation.

The growing coalition of companies that signed onto the UNGC Principles, as well as those that became SA8000-certified, also provides a strong case for the business benefits of responsible corporate citizenship. Ultimately, a more ethically sound business environment, one in which managers and workers strive together toward the shared goal of responsibility, improves company performance. The six firms featured in this publication demonstrate how SAI's SA8000 certification process can help achieve this goal.



# Beraca: Integrating Sustainability into Strategic Planning

## FACTS & STATISTICS

**Founded:** 1956

**Legal entity:** S.A.

**Sector(s):** chemicals, natural ingredients

**Headquarters:** São Paulo, Brazil

**Plants:** 7 in Brazil

**Revenue:** 54 million USD

**Number of employees:** 232

**Number of active suppliers:** 706

**Initiatives:** UN Global Compact (June 2006); Business and Biodiversity Initiative; Abrinq Foundation – Children’s Friends Company

**Certifications:** SA8000 (January 2004); Prodir – Responsible Distribution Process; Ecocert; BDK Parve Kosher

## Key benefits of UNGC and SA8000 participation

- Expressing company values and principles
- Building trust with local supplier communities
- Enhancing reputation among customers
- Paving the way to award-winning initiatives

## Introduction

Ulisses and Marco Antonio Sabará inherited Beraca Sabara Quimicos e Ingredientes Ltda., a family-owned company founded by their father in 1956, and have shared its presidency for more than 30 years. Throughout those years, they have worked to live up to what they describe as their own values and principles through socially responsible business conduct. Thanks to their underlying philosophy and core values, the brothers had put corporate social responsibility and sustainability firmly in place long before the company formally committed itself to the United Nations Global Compact (UNGC). Still, Beraca had many operational and environmental obstacles to overcome in order to adhere better to its own principles and its UNGC commitment.

The brothers found that several key challenges are related to production and operations in Brazil’s fast changing business environment. Beraca works in different regions in Brazil for production and distribution, which poses a number of obstacles for socially responsible business. Ulisses Sabará notes that corruption remains widespread in the country and the rule of law is not uniformly applied. “A lot of times, it takes tough discussions and sometimes even business losses to stick to our principles,” he said.

Labor and human rights issues are important challenges throughout Brazil, but especially in the North and Northeast regions, which are the poorest in the country. Beraca has three important production sites in these regions and faces substantial labor and human rights issues – in particular the problem of child and forced labor – on a daily basis. Although the law prohibits children younger than 14 years old from working, the UN estimates that there are 7 million



**“We are trying hard to follow the highest standards on environmental and social issues but we realize that there is a long path to be pursued.”**

**Ulisses Matioli Sabará, Co-President, Beraca**

child laborers in Brazil.<sup>1</sup> Frequently, some child labor practices stem from different cultural traditions of local inhabitants.

The company leaders believe that only with human and labor rights in place can Beraca offer its employees the best working environment and its customers a guarantee of high quality, ethically manufactured products. Therefore, Beraca seeks to become a model for continued private sector development without jeopardizing future generations of Brazilians. They believe that the way to overcome child labor practices is through educating local communities, building trusted relationships, and explaining why unfair labor practices can be harmful even if traditionally they have been widely accepted. Beraca works to set an example and to bring its own suppliers into implementation of the UNGC principles. “It is only step by step that the human and labor rights conditions in such difficult settings can be improved,” the Sabará family said.

### **Focus on Sustainability in Diverse Lines of Business**

Beraca has seven production sites in Brazil, specializing in technologies and chemical raw materials for multiple industries. It has four business divisions: water technologies; food ingredients; health and personal care; and animal nutrition and health. The water technologies division is one of the largest providers of chlorine-based water treatment products and services in Brazil, accounting for over 70 percent of the company’s revenue. Beraca’s health and personal care division – its second largest area of business – is among the leading natural oil and extracts suppliers in Brazil. As one of the largest suppliers of natural and organic ingredients for pharmaceutical and cosmetics manufacturers and brands, the São Paulo-based company has customers in 47 countries for its biodiversity products. Among them are leading cosmetics brands such as L’Occitane, L’Oreal (Kiehl’s), Natura, and Aveda.

In all their diverse lines of business, Beraca’s owners strive to focus on sustainability, which often presents significant hurdles in Brazil. Operating throughout Brazil, responsible business management at Beraca has to address the organizational and logistical difficulties of maintaining uniformly high standards at several production sites. Beraca also faces a diverse cultural setting and legislative framework where clear ethical and legal rules of business conduct are often absent, inconsistent, or not implemented. Yet, even

1. The UN Works for Kids, “What’s Going On?: Child Labour in Brazil,” [www.un.org/works/goingon/labor/goingon\\_labor.html](http://www.un.org/works/goingon/labor/goingon_labor.html)

in this complex environment, the company builds on a strategy outlined in its 2008 Sustainability Report: “innovation in responsible products and services, corporate governance, people management and development, valuing natural resources, social and environmental risk management, and local and regional development.”

Beraca has sought tools to help it meet these objectives by integrating sustainability into strategic business planning. SA8000 has been one such tool ever since the company became certified in 2004. The initial motivation for adopting SA8000 followed from the company’s long-standing commitment to the welfare of its workers and a suggestion by Avon, one of Beraca’s key customers. Having achieved the certification, Beraca made SA8000 an integral part of its workplace and business model. Today, the company Social Responsibility Policy is explicitly based on SA8000 and six out of the seven Beraca’s production sites have been SA8000 certified. The last facility still to be certified is a brand new plant in the Amazonian region, currently being prepared for certification in the second half of 2010.

Ulisses Sabará first learned about the UN Global Compact in 2006 while surfing a customer’s website. At the same time, the company was seeking further improvement of its sustainability strategy. Thus, recalls Mr. Sabará, it was “beyond question” that his company would sign on. He attended the UNGC Summit in Geneva following an invitation from Ethos Institute, which acts as a local hub for the UN Global Compact Network in Brazil, and was convinced by what he saw there. “It was a host of global players, of people with hands-on experiences, and of discussions about approaches to make a difference around the world – all set in an inspiring UN atmosphere.” Ulisses Sabará wanted to learn from those experiences and personally decided to participate in the UNGC.

Inspired by the UNGC participation, Beraca published its first comprehensive Sustainability Report in late 2008, based on the Global Reporting Initiative’s G3 guidelines. An updated Social and Environmental Report is planned for the end of 2010. Within the framework of its UNGC participation, Beraca submitted its Communication on Progress for the first time in 2008, linking company programs to specific UNGC Principles. As noted in these reports, SA8000 certification and the guidance it provides for workplace conditions and responsible labor practices played a key role in adhering to UNGC Principles and producing results.



Beraca’s production plant

## The UNGC Principles and SA8000 in Daily Business Operations

Beraca undertook various internal efforts in order to ensure that its work environment is compliant with the UNGC Principles and SA8000 norms. In fact, its most recent UNGC Communication on Progress lists the SA8000 standard as the key approach for fulfilling Principles 3 to 6. As a result of adopting SA8000, Beraca introduced improvements in several key areas: quality of life (dental plan, flu shots, health tips and seminars); communication (Beraca’s newspaper – electronic and printed on recycled paper); benefits (new staffing and compensation program, scholarship, and foreign language program); management (employee survey on key workplace issues, new sustainability committee as a part of the company’s corporate governance framework, supply chain compliance with SA8000); and others (e.g., selection of responsible transport suppliers).

Beraca communicated those policies and tangible workplace improvements through newsletters and staff training on issues ranging from health and safety procedures to anti-corruption rules, in order to educate the employees about their rights and the company’s workplace initiatives. There are, of course, some out-of-pocket costs associated with UNGC participation and SA8000 adherence: direct and staff costs of additional training and improved management systems, and costs of audits, reporting, and certification. But there are also significant institutional benefits.

One such benefit has to do with positive market perceptions that improve the bottom line. Supplying sustainable forest product ingredients has helped Beraca establish the business case for socially and environmentally responsible practices. Ulisses Sabará knows that customers care about sustainability principles when they decide which product to buy. Although Beraca is in the business-to-business field and does not market directly to consumers, its business customers are sensitive to the demands of their end clients and would not buy ingredients from Beraca if they were not confident in its high ethical and environmental standards. “The main part of our business,” Mr. Sabará notes, “is to work correctly in terms of human rights, labor standards, and environmental protection – otherwise we would be out of the market. It’s easy to understand that this must be part of our daily actions.”

Maintaining high standards is not always easy. Sourcing for natural and organic products leads Beraca to the Amazonian region where individual communities extract raw materials from the rainforest. The cultural context of this region – in which work is organized in family units and children traditionally follow in their parents’ footsteps and prefer work over school – presents obvious challenges for compliance with SA8000 and implementation of UNGC principles. The company has developed close commercial relations with more than 3,000 families in the communities engaged in non-timber extractivist activities, providing economic opportunities and market access at the same time.

Engaging this group of stakeholders with the aim of realizing a sustainable supply chain goes far beyond distributing Beraca’s Code of Ethics and supplier training. To encourage sustainability, Beraca seeks to establish trusted long-term relationships, provides guidance to its suppliers in environmentally friendly processing techniques, facilitates the organization of cooperative production, and supports fair remuneration practices and development projects. In February 2010, Beraca convened 17 community leaders representing hundreds of families from five Northern and Northeastern States of Brazil at an event called “I Beracom – Beraca and Community Leaders Dialog at Amazon Region.” This was the latest of several upstream projects and it built on the award winning SEED initiative. At the Beracom event, the plenary discussed needs and challenges of business relationships for two days with the aim of having the suppliers both understand and sign on to Beraca’s code of ethics. “It is a challenging audience,” admits Ulisses Sabará, “but we are talking to them regarding

many different subjects, and one of them is the same principles we apply everywhere in our business, because it is very important.”

## Benefits and Synergies of the UNGC and SA8000 Participation

Both UNGC participation and SA8000 certification make the company’s clear commitment to international principles irrevocable: “Once you take the road to responsible business practices and introduce standards, it is hard to turn around and break those standards in the future,” observed Ulisses Sabará. They both help create new ways of doing business and integrate sustainability into all aspects of Beraca’s operations. Another important benefit of UNGC and SA8000 participation goes beyond the internal advantages realized by Beraca. Voluntary standards create an international community of companies that share the same values of responsible business conduct and act upon them. Collectively, they demonstrate the positive effects of good corporate citizenship and its ability to gradually transform the global business environment toward being more principles based.

Mr. Sabará says, “The Global Compact has created a virtuous circle of good companies and we are now part of highly committed companies’ supply chains.” The universality of the UNGC principles – which reflect Beraca’s own founding principles – creates a common base for socially responsible companies around the world, providing trusted business partners and global market access. Similarly, SA8000 is a powerful tool that underpins the seriousness of intent among responsible businesses and lends credibility to UNGC participation.

Beraca has been successfully using SA8000 to translate its UNGC commitments into concrete actions verified by certification audits that customers both value and reward with a willingness to pay the premium prices for quality products and by establishing long-term business relationships. These are real returns on the investments Beraca made in responsible practices.

Beraca’s engagement has yielded further benefits to its reputation. The company has been recognized internationally and earned multiple awards, including the FINEP Award for Technological Innovation, the Von Martius, and the Chico Mendes Environmental Awards. Beraca is also a member of the Union for Ethical BioTrade (UEBT) and signed an agreement with FairWild Foundation on promoting the

sustainable use of wild-collected ingredients through the implementation of joint projects and of FairWild Standard. These contribute to making Beraca a supplier of choice to companies that value sustainability in all its dimensions.

In 2009, the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and the International Union for Conservation of Nature (IUCN) gave their SEED Award for Entrepreneurship in Sustainable Development to Beraca, recognizing its innovation efforts in local environmentally friendly and sustainable entrepreneurship. In cooperation with partners, Beraca encouraged the organization of co-operatives in local communities by transferring technologies and training them in the production of oils made from Amazonian seeds. This led to increased income for the communities through better market access, expanded Beraca's sustainable supply chain, and contributed to building mutual trust – an important incentive for extractivist suppliers in the Amazon region to improve their work practices in accordance with Beraca's Code of Ethics.

In another partnership with its customer Kiehl's, Beraca ran a contest for children artists in the Nazarezinho village in the northern Pará State as part of outreach to supplier communities in line with its UNGC and SA8000 human rights and labor commitments. Kiehl's requested Beraca's help with this project for a special edition of the Açai Mist toner, a cosmetics product launched during "Earth Month" (April) at Kiehl's stores. Açai is an Amazonian berry used for nutrition and cosmetics. However, its growing popularity in the United States created concerns about depriving the local population of a traditional nutrient and encouraging child labor.

The Kiehl's-Beraca partnership emphasized sustainable ways of sourcing açai and focused on children as future guardians of rainforests. "Our policy on açai is the same we have regarding other extractivism, wild collection, and farming-based products in the Amazon Basin communities: to inform, to educate and finally, to present a standard that must be followed by our partners," said Mr. Sabará. To emphasize this point and raise awareness about responsible business conduct with the Amazonian communities, Kiehl's used artwork from the contest's winner, Waldirene dos Santos Cardoso, on the label of a special edition of



**Kiehl's Açai Mist featuring the winning artwork**



**Waldirene dos Santos Cardoso, winner of the Beraca-Kiehl's contest for children artists**

# Prize-Winning Initiative: Building a Sustainable Supply Chain

Marajó Island in the Amazon is surrounded by fresh water and is the largest such island in the world. The 200,000 people who live there are blessed with abundant fish during the dry season. Yet during the other half of the year, when the fish migrate elsewhere, the population suffers and often resorts to cutting trees in the Amazon rainforest to support themselves.

The rainy season is also the cue for the Andiroba tree to deposit its water-born seeds. Vast numbers of these seeds are carried downriver every year. Many fetch up on the beaches of Marajó. The local people always collected them but only for their own use, not commercially.

A Brazilian company Brasmazon based in Belém, which in 2003 became a subsidiary of Beraca, saw an opportunity to turn Andiroba tree seeds into an alternative income source for local communities, because the seed oil can

be used to produce candles and cosmetics. Seven years ago the company helped to establish a cooperative, Coopemafilma, to collect the seeds and extract their



oil for sale to the cosmetics industry. Brasmazon now buys around 500 tons of seeds from the cooperative every year, benefiting around 1,000 islanders.

This initiative won Newsweek's World Challenge 2007 competition and in 2009 earned the SEED Award for Entrepreneurship and Sustainable Development.

The cooperation also gained support of the Brazilian government. The locals receive public money to grow aromatic and medicinal plants that they can later sell to Beraca and other businesses to earn a living while at the same time preventing deforestation.

Beraca's chemical testing lab





Açaí Mist. These examples of successful cooperation highlight how environmental, social, and economic sustainability can go hand in hand, and enhance business as well as community development.

## Lessons Learned

Sharing strategies that work is one key lesson Beraca takes to heart and the local UNGC network provides a useful platform for doing just that. With 150 Brazilian companies that have joined the UN Global Compact, UNGC Principles are widely known in Brazil and have a wide-reaching impact. Beraca shares its learning about sustainable business with other Brazilian UNGC members and supporters. It also shares with customers, including L’Oreal, Natura (one of the largest Brazilian cosmetic companies), and others to ensure credible standards and sustainable production.

Beraca has found that UNGC Principles helped it organize existing ethical principles and build a firmer foundation for social responsibility. Based on these principles, effective instruments can be identified for a systematic implementation of socially responsible policies. SA8000 has been one such key instrument that Beraca has used to implement the UNGC human rights and labor principles. The SA8000 standard is a crucial tool for Beraca, functioning as a road map to improve its labor environment and overcome new challenges as the company expands operations. Its customers both expect and appreciate Beraca’s documented responsible practices; the company feels it has more sustainable customer relationships because of the confidence coming from SA8000 and UNGC participation.

When asked about the most important lessons learned, Mr. Sabará was quick to point out the importance of a structured and long-run approach to sustainability: “It is the multiplicity of regional and cultural contexts of Beraca’s business operations that present the most challenges to implementing the universal UNGC principles and thus need to be more strongly recognized on the UN dialogue platform,” he says.

Against the background of difficulties with ensuring compliance in multiple cultural and labor settings, Ulisses Sabará feels that Beraca’s experiences can be generalized to provide lessons for other companies facing obstacles in implementing UNGC Principles. Beraca’s experience also raises a number of important questions on applying these Principles in diverse settings. How does one achieve universally recognized results in different regions, with different people from different cultural backgrounds? Is compliance easier

for companies in developed countries, and if so, can companies from the global south share lessons learned from tougher business environments? Given the differences, how can such results and impacts be measured and communicated, not only through UNGC Communications on Progress but also in daily business interactions?

Striving for uniformly high standards in diverse country environments is precisely where synergies between UNGC participation and SA8000 certification come into play. It is a complementary relationship in which the SA8000 provides a roadmap for UNGC implementation in individual settings. For Beraca, the SA8000 helped translate universal principles into specific Brazilian contexts through guidance on what steps need to be taken and how. This synergy supports Beraca’s commitment to human and labor rights in Brazil and around the globe, and can serve as a compelling example to others.

Ulisses Sabará is realistic; he knows that there is always more to do to advance his company’s mission and vision. Voluntary standards are not a panacea for all problems that businesses face, especially where laws or cultural traditions may be lagging behind the internationally accepted norms. However, regardless of the local conditions, company leadership is of paramount importance. Mr. Sabará assures that Beraca remains devoted to striving for excellence in corporate citizenship through SA8000 and other voluntary standards. “Being average is not my call for this work,” he said. “People look up to me as a leader, and [SA8000] certification is the credibility and reliability that we need here in Brazil.”



# Rosy Blue: Local Compliance and Global Cooperation

## FACTS & STATISTICS

**Founded:** 1989 (Rosy Blue Diamond Co., Ltd. in Thailand became a part of Rosy Blue Group in 1989)

**Legal entity:** privately owned subsidiary

**Sector(s):** diamond manufacturing

**Headquarters:** Phitsanulok, Thailand

**Plants:** 1

**Revenue:** 45 million USD

**Number of employees:** 250

**Number of active suppliers:** 3

**Initiatives:** UN Global Compact (June 2008); Responsible Jewellery Council (2005); DeBeers Best Practice Principles (2005)

**Certifications (Thai Facilities):** SA8000 (2008); ISO9001 (2008); TLS8001.2546 (2007)

## Key benefits of UNGC and SA8000 participation

Making implementation of standards more systematic

Bringing global best practices into diverse workplace contexts

Enhancing environmental awareness and “green” business conduct

Improving brand and industry reputation

## Introduction

Arunkumar Mehta and Bhanuchandra Bhansali founded Rosy Blue in 1960, a joint family enterprise providing diamonds and jewelry. From a small Mumbai, India diamond workshop, Rosy Blue grew into a network of businesses around the world, giving employment to 10,000 people in 14 countries, and with over \$1.8 billion in annual sales in 2008. Rosy Blue Group’s business includes trading of rough diamonds and manufacturing and distribution of polished diamonds and jewelry. As the company has grown, it has worked to address social issues in its own operations and throughout its supply chain. An integral part of this process has been participating in the UN Global Compact and SA8000 certification of its key diamond processing facility in Phitsanulok, Thailand, managed by Palitha Jayasekera.

The work of diamond cutting and polishing is a highly skilled craft. Thus, worker retention and training are key parts of high quality products, strong customer relationships, and sustainable operations. Those considerations contributed to Rosy Blue’s decision to certify its manufacturing facility in Thailand to SA8000, making it the only certified diamond plant in the world.

Baron Dilip Mehta, Rosy Blue’s CEO, emphasizes how the company’s overall social responsibility has been grounded in the personal values of the founders: diversity, integrity, and accountability. “Our business was started over 50 years ago, and we feel we have managed it in accordance with our family principles, including those of the Jain religious community, especially treating everybody equally. The practical side of that belief is that being good is about more than charity; it is about creating quality employment and helping people advance. Those principles, cherished in my family for generations, are very much captured in the UN Global Compact.”

Dilip Mehta joined the family enterprise in Mumbai in 1970 and moved to Antwerp, Belgium in 1973 to establish Rosy Blue business there. In 2006, he received an honorary title of Baron awarded by the Belgian foreign ministry and the Belgian Royal Palace.



**“The UN Global Compact is adding a lot of value to our business, not necessarily in dollars and cents, but in terms of better relations with the customers, the suppliers, and the workforce.”**

**Baron Dilip Mehta, CEO, Rosy Blue Group**

## **Challenges Facing the Diamond Industry**

In providing context for his company’s SA8000 and UNGC participation, Mr. Mehta outlines the challenges that these voluntary standards help to address. “Until about the late 1970s or early 1980s, the most important challenge in the industry was labor practices,” he says. “As the diamond business expanded rapidly worldwide, there were abuses involving child labor that have since largely been addressed.”

The industry’s most serious current challenge emerged in the late 1990s and early 2000s and is related to gems originating from conflict zones in Africa. These so-called “conflict diamonds” fuel violence and abuse unless they can be properly traced and prevented from being sold freely on international markets.

In response, the diamond industry developed production and tracking standards against conflict diamonds to control global sourcing and make sure it does not involve human rights violations. The Kimberley Process Certification Scheme (KPCS) – a joint international initiative created in 2000 among governments, industry, and civil society to stem the flow of conflict diamonds – is the best known response. Standards of conduct were also introduced among major diamond producers and mining companies such as the De Beers Best Practice Principles and Rio Tinto Business Excellence Model.

In 2005, diamond producers and top jewelry brands in the world formed the Council for Responsible Jewellery Practices to advance responsible ethical, social and environmental practices. It also aims to protect human rights throughout the diamond and gold jewelry supply chain, from mine to retail. Rosy Blue is one of the 14 founding members of the organization, which today has more than 220 members and has been renamed the Responsible Jewellery Council (RJC).

“The bottom line of all this is that consumers, when they buy diamonds, need to be sure that certain standards have been followed,” says Mr. Mehta. “The industry really started changing the way things are done.”

## UNGC and SA8000 Commitments in Global Business Operations

As Rosy Blue expanded its operations around the world, it wanted to ensure that the same high standards of business conducts would be observed in all countries where the company is present. One such challenging environment is Thailand, where concerns about underage workers and work conditions are common. Rosy Blue Diamond Co., Ltd. was established in Phitsanulok, Thailand in 1989 as part of the Rosy Blue Group. It operates a diamond cutting plant with 250 employees, focused on diamond manufacturing for export to Belgium. The company has since placed particular emphasis on making this state-of-the-art facility excel in upholding social responsibility standards.

The company decided to seek SA8000 certification in 2005, and one year later became the only diamond cutting factory in the world to obtain it. Mr. Mehta explained the rationale to do so: “We wanted to understand if we are at par, or above the industry standard. We learned that it is hard to take international standards to a country, hard to change national practices.”

Rosy Blue is also the first diamond cutting company in Thailand to receive ISO 9001:2000 certification. The company uses a number of standards as well to ensure health and safety of its workers and community responsibility. Like the entire Rosy Blue Group, it adopted the De Beers Best Practice Principles in 2005. It also utilizes the national Thai labor standard, TLS8001.2546, to which it was certified in 2007.

Palitha Jayasekera, manager of the factory, states, “These standards have clearly shown that the company is above par in its corporate citizenship.” They also contributed to award-winning performance over time and to the following awards in 2009 alone:

- Zero accidents in 6 million working hours—an award from the Thai Ministry of Labor
- Best factory—winner of the National Occupation Safety and Health Award
- Outstanding establishment for 5 consecutive years achievement on labor relations and welfare—another award from the Thai Ministry of Labor
- AIDS Standard Organization’s recognition for best management practices—awarded by the Thailand Business Coalition on AIDS (TBCA).



Rosy Blue Thailand’s Compliance Team

Examples of the programs that these awards recognized include communication initiatives through a system of committees representing all workers and work-life balance programs that reflect the gender composition of Rosy Blue’s workers in Thailand. Two-thirds of the employees are women who benefit from a number of family-friendly programs. The company organizes an annual “children’s day” when the children of workers can visit their parents in their workplace and learn what more about what they do. There is also an on-site nursery to assist employees when they need help with child care during work hours.

Beyond the workplace, the company also undertakes extensive community engagement: from planting 60,000 trees to anti-drug and tobacco initiatives, involving youth in sports and extracurricular activities, as well as scholarships for employees’ children and housing renovations for underprivileged employees.

As Mr. Mehta comments on the Thai company’s success, “We used our facility in Thailand for a pilot project. The whole idea was to set standards and learn from that experience to find out if these best practices can be transplanted elsewhere. The current focus is: how do we reach similar standards in other factories, be it in China or in India?” Participation in the UN Global Compact provided one important answer to that question when Mr. Mehta, together with the Rosy Blue Group management, made the decision to join in 2008. “We were very happy to try and we have improved upon what we were doing.”

## Corporate Social Responsibility in Daily Business Operations

In 2007, the Global Corporate Affairs Department was appointed in Antwerp, headed by Iris Van der Veken, Manager of Corporate Affairs Global, to manage compliance activities across the Rosy Blue Group. Among the first tools they developed were a Rosy Blue internal Corporate Social Responsibility (CSR) model and CSR extranet. Each country where the company operates has access to this online system. This internal CSR knowledge platform offers training manuals and relevant legislative overviews on different compliance areas, such as business, social, and environmental practices. The use of certifications goes along with the company opinion that there is a need, throughout its industry, for generating and sharing better indicators of progress in the area of CSR. The same applies to using the Global Compact principles.

Since the UNGC philosophy is very much aligned with the traditional philosophy of Rosy Blue, membership required minor tweaks rather than major changes. The part of the UNGC that required the most attention at Rosy Blue was environmental awareness. Green thinking has since come into the company through various efforts to reduce its carbon footprint, for instance through better paper management and recycling in offices, or eliminating unnecessary air travel and instead using other means of communications more effectively.

There weren't many changes regarding the labor standards and human rights because Rosy Blue was already SA8000 compliant prior to joining the UNGC. Similarly, the company has traditionally been very strict on anti-corruption. Employees are not allowed to accept any gifts from potential business partners without first asking their supervisors. The company also modified how it conducts anti-corruption training. The training used to consist of a long presentation with theory-filled slides – now it is simpler, more practical, interactive, and focused on concrete examples of proper and improper conduct.

Rosy Blue also uses the UNGC principles in other training activities. In 2008 in China, for instance, it conducted an information campaign on human rights for its employees. Extra training sessions on human rights were provided for department heads on the basis of the Compact principles and the new labor law in China, helping Rosy Blue's 1,600 Chinese workers better understand what their rights are and how to implement the new labor legislation. This experience of trying to replicate the socially responsible model of its Thai operation made Rosy Blue realize that

making international standards applicable to local circumstances is not just about improving the workplace facilities. It is about learning from the locals, understanding their traditions, and helping them understand the company's standards.

Although Rosy Blue has not formally incorporated the Global Compact into employee performance evaluations or annual reviews, the way employees behave and respect each other in accordance with those principles is an important factor for rating their job performance. From the perspective of Rosy Blue's global operations, those shared principles underpin its ability to create environments where people from various nationalities and cultural backgrounds can harmoniously and productively work together.

## Benefits and Synergies of the UNGC and SA8000 Participation

For Rosy Blue Group, joining the UN Global Compact was a natural step, as Mr. Mehta explains, "UNGC looked just natural to us once we became familiar with it. It has been making us more organized about doing what comes natural to us; it is also a way of branding and a way to communicate." The company had already followed many of the best practices without clearly articulating them, but after joining the UNGC Rosy Blue became more systematic about setting the standards, training employees in those standards, and communicating outcomes to stakeholders.

"It helped us do what we were already doing better and it helped uplift the image of the industry globally," Mr. Mehta concludes. Among the direct synergies between the UNGC and SA8000 in Rosy Blue Thailand have been better monitoring wages and hours, and being able to see and analyze in a more structured way how all the UNGC elements are currently covered in the company's daily operations.

The company feels it enjoys real benefits from more contented employees, evinced not only by the results of surveys, but by productivity increases of 10 percent. Rosy Blue also feels that UNGC participation has made it significantly more aware of environmental issues, including its carbon footprint. As far as external benefits, the brand image is probably the greatest one for Rosy Blue. As Mr. Amit Bhansali, Chief Operating Officer Rosy Blue NV, states, "Adherence to the UNGC standards adds more value to our business because it makes Rosy Blue a preferred partner. That does not necessarily mean that customers will pay more for our product, but we believe customers

want to do business with a partner that acts right. Our commitment to the UNGC reflects our license to operate.”

Discussing synergies between SA8000 and the labor principles of the UNGC, Mr. Mehta also noted that elements of SA8000 such as rules against child labor, forced labor, and rules on health and safety are reflected in the UNGC and reinforce each other. “We have started monitoring, for example, health and safety, work-related accidents, any occurrences of discrimination, working hours standards, remuneration and minimum wage, so there are a lot of synergies.”

The company sees the UNGC as an integral part of its business model. “We have a better understanding with employees and we are a preferred business partner. Some costs have increased [as a result of adopting SA8000 and joining the UNGC] but they are repaid over time and we see long-term benefits from these investments,” Mr. Mehta says.

As noted above, there are also industry-specific standards that Rosy Blue strongly supports and consistently works with: the Kimberley Process Certification Scheme to eradicate the trade in conflict diamonds, De Beers Best Practice Principles for diamond mining and purchasing, and the Business Excellence Model from Rio Tinto. Rosy Blue has also implemented Wal-Mart Standards at its production site in India.

Rosy Blue participates in a pilot project based on the RJC Code of Practices in two of its facilities to establish their current position and prepare for RJC Certification this year in collaboration with De Beers and SGS, the world’s largest control and inspection company. The pilot is being used as a learning tool to understand the new global requirements of the RJC. The project covered aspects from manufacturing to trading. It took place in a manufacturing environment in Indore, India and an office environment in Dubai, United Arab Emirates.

## Reporting, Measuring and Improving

Rosy Blue’s first annual Corporate Social Responsibility (CSR) report was published May 4, 2009; publication date of the second is June 18, 2010. The report serves also as the UNGC Communication on Progress and indexes its sections to the ten Principles as well as to the Global Reporting Initiative. The UNGC’s effect on Rosy Blue’s practices and procedures led to roughly a 20 percent change in

reporting format and coverage. As Iris Van der Veken states, “You will see how our commitment to the UNGC has made a significant change in our second report as we have been more actively promoting the principles of the UNGC throughout our business operations and communicating actively with different stakeholders.”

The report includes current and prospective key performance indicators for “CSR, business partners – suppliers, contractors, customers – for meeting the code of conduct, workplace per UNGC and training and employee satisfaction, health and safety, environment, community.” The company conducts internal CSR audits through its global corporate affairs department and there are also third party visits by SGS. The audit includes a country-by-country comparison covering results from the previous three years and lists only seven minor infringements in 2008 and differentiates results from desktop review of administrative reports as compared to onsite CSR audits in 13 countries.<sup>1</sup> The main areas of improvement identified were: time registration (managing working hours), instructions

*1. Infringements in 2005/6, 2007, 2008 reported from external d ## years: Belgium-1/1, USA, Armenia-5/1, China, Hong Kong, Thailand, Sri Lanka 1, 2/ 2, Russia, South Africa, India 4/ 2, Israel, Japan, UAE*



# Cooperation with Wal-Mart on Traceable Diamonds

The key problem with eliminating “conflict diamonds” is the challenge of diamond traceability. They are sorted by various quality categories, not places of origin, which leads to overlapping stock from different suppliers.

To address this challenge, Wal-Mart has introduced the “Love, Earth” collection which is a completely traceable fine jewelry line giving customers the ability to trace the path of what they buy from the mine, through cutting and manufacturing, to the store.

Rosy Blue joined Wal-Mart’s initiative in 2008 with its mining partners Rio Tinto supplying diamonds and Newmont supplying gold. Inter Gold, one of India’s largest diamond jewelry companies and the jewelry manufacturing arm of the Rosy Blue Group, is also part of this program to ensure that the company’s entire supply chain is in compliance.



The program aims to give confidence to consumers that the diamonds they buy are sourced responsibly by companies who adhere to international environmental and labor standards. To improve traceability, Rosy Blue created a dedicated product line where each step of diamond processing is very well documented. Wal-Mart’s audit and the provisions of the Kimberley Process are there to additionally verify compliance.

Programs such as this make an important progress toward raising both customers’ awareness and industry standards. Rosy Blue strives to be at the forefront of such industry efforts as traceability of diamonds.

Diamond polishing in Rosy Blue’s Thai plant





on how to use protective equipment, and policies and procedures implementation. Such transparency is best practice reporting.

The CSR report also notes that inspiring suppliers and contractors throughout the supply chain to measure their own CSR performance is a major goal for the Group going forward. A key challenge facing Rosy Blue and the industry as a whole is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies with all players in the supply chain from mining to retail. Rosy Blue plans to address that challenge by helping its smaller business partners understand the importance of good corporate citizenship and preparing toolkits for them to implement responsible practices.

At the same time, the company remains committed to leading by example and seeks constant improvements in its own operations. The report states what Rosy Blue wants to measure continuously: employee satisfaction; staff turnover; sickness absence; working hours; equality and diversity; training; injury rates; records of internal and external health and safety audits; energy, paper, and water use; waste management-chemicals use; and impact on local communities.

Additionally, the company keeps a chart to integrate standards: Global Compact Principles, Best Practice Principles, RJC Code, SA8000, and the internal integrated companies model—which has 11 elements, adding health and safety to the ten Global Compact Principles – and citing the provisions of the four other systems which address those issues.

External reporting occurs not only in print. Rosy Blue works in multiple venues to inform stakeholders about its participation in voluntary standards. “We set up two meetings when we released our CSR report,” Mr. Mehta says, “At the meeting in India we invited key bankers, key suppliers, press, and management to present our CSR approach and our membership in the UNGC, as well as the other initiatives we are part of. A week later we repeated the event in Antwerp.”

Mr. Mehta also noted that his company attends international forums like the Antwerp Diamond Symposium in November 2009 to share Rosy Blue’s experience with its colleagues so that they can make an informed decision to adopt various voluntary standards. He concludes, “The Global Compact provides a way to communicate the company commitments to customers, suppliers, and workers alike.”

Mr. Mehta had some concerns that due to the global recession the diamond industry may suddenly lose

what it had gained in the past years, because it may be tempting for struggling businesses to abandon good practices during tough economic times. Fortunately, there has been much less backsliding on CSR than Rosy Blue had feared and the industry is still vigorously working together to address common challenges. One such positive development is that the Responsible Jewellery Council has evolved from 80 members in 2008 to more than 220 members in 2010. This shows a clear commitment to a sustainable supply chain.

## Lessons Learned

Rosy Blue has considerable experience in using a variety of voluntary standards to meet its vision. Baron Mehta noted that the ways of ensuring that voluntary standards are working, for instance through both internal and external audits. “External audits are used for our supplier compliance requirements and UNGC Communication on Progress reports. Voluntary standards help us set internal goals and challenge ourselves where there are not industry standards,” he says. “We understand how important it is to learn from other industries and other companies about best practices. We would like to combine that knowledge rather than simply set the standards ourselves because at the end of the day you do not want to set a standard and have nobody follow it. Voluntary standards should be user friendly as well as culture and region specific, and we are working with our peers on the right model for the diamond jewelry industry.”

Since January 2009, Rosy Blue has been actively involved in a supply chain management workgroup formed by the members of the Business and Society (Belgian CSR organization) including top Belgian companies such as Umicore, Colruyt, Delhaize, Solvay, UCB, Ernst and Young, Ichech, and Etex Group. The main objective of the workgroup is to share best practices and learn from different business models across industries. Rosy Blue hosted the introductory session and used the Business for Social Responsibility (BSR) as well as UN Global Compact Supply Chain Sustainability Guidance toolkit to explain the different steps in developing a sustainable supply chain.

Going forward, challenges remain. It is relatively easier in the diamond industry to implement labor standards in an office environment than at the factory level. The current multiple standards should be integrated to avoid duplication. Now it is time to combine the efforts and move forward to the implementation stage.

Rosy Blue is actively involved in the Global Compact Network Belgium, which was established in October 2009, and wants more companies in its industry to join the UNGC. It also believes that it is vital to bring the mining industry on board, as well as intermediate suppliers and contractors. The first General Assembly of the Belgian UNGC Network took place on February 25, 2010 and marked the effective set up of the Local Network as a non-for-profit organization and the election of a Steering Committee including KBC Group, Efico, Ubeon, Rosy Blue and Junior Chamber International Belgium with the support of the Ministry of Foreign Affairs.

Rosy Blue's Iris Van der Veken, who became the newly elected Chairman of the UNGC Network in Belgium, concludes, "It is our vision to take the best practices of UN Global Compact Belgium signatory companies and feature them on the CSR global platform. Our ultimate goal is to create a benchmark in Belgium across different industries in cooperation with the UN Head Office New York and other CSR organizations." Georg Kell, Executive Director of the UN Global Compact in New York, adds, "I am delighted to welcome the new Local Network in Belgium, situated at the heart of Europe, to the Global Compact family. There is much that Belgian businesses and other stakeholders can contribute to our mission of advancing corporate responsibility around the globe."

The company also feels that all parties should consider the demands of UNGC and SA8000 compliance relative to company size, since some of the costs involved and reporting requirements are very difficult for smaller companies. One way to help them is to encourage larger companies – for which those smaller enterprises work as suppliers and contractors – to take initiative on educating them on CSR standards and sharing practical advice on effective implementation. This fits in with meeting the SA8000 requirements about contractors and other suppliers.

Rosy Blue undertook its first contractor audit in November 2009. Mr. Mehta describes this process: "We met with them to explain the principles and asked for formal commitment on the Best Practice Principles and the UNGC also. The reception was very positive, especially for our simplified contractor toolkit instead of a big manual that wouldn't work in a small factory."

The company expects to use the RJC standards and will apply for RJC certification in 2010 (as soon as the auditors are accredited), based on results from recent pilot audits at Rosy Blue facilities in India and Dubai that address every level of the value chain.

The company has a retail business in India as well as stores operated by local partners in South Africa, China, and Hong Kong. Involving them as client-facing ambassadors of Rosy Blue and its values will help ensure that consumers can trust in the origin of the diamonds they buy and they know that they have made the right choice. The priority for Rosy Blue in the nearest future is to actively communicate on CSR practices with these business partners.

Rosy Blue's CEO concludes, "Transparency and dialogue with organizations such as the UNGC and SAI can help businesses implement compliance standards and improve the standards of small and large companies by learning from best practices. At Rosy Blue we acknowledge that there is always room for improvement. Our focus as a large corporation is to integrate the different standards we use to avoid duplication, assist smaller businesses to implement them, and embed these standards throughout the diamond and jewelry industry."

Mr. Mehta emphasizes that one important benefit of the Global Compact is its comprehensive coverage of key areas of good corporate citizenship. When Rosy Blue analyzed all the existing voluntary standards and compared them, there was clearly one common denominator that reflected the company's values: the UNGC Principles on Human Rights, Labor, Environment, and Anti-Corruption.

# Sabaf: Integrating values into international business operations

## FACTS & STATISTICS

**Founded:** 1950

**Legal entity:** S.p.A. (public limited, family-owned)

**Sector(s):** industrial machinery, manufacturing

**Headquarters:** Ospitaletto (Brescia), Italy

**Plants:** 2 in Italy, 1 in Brazil

**Revenue:** 233.9 million USD

**Number of employees:** 697 (2008)

**Number of active suppliers:** about 1,000

**Initiatives:** UN Global Compact (May 2004); CECEC Italia Code of Conduct

**Certifications:** SA8000 (December 2005); ISO9001; ISO14001; STAR segment company of Italian Bourse; Model 231 (Italian standard for corporate crime prevention)

## Key benefits of UNGC and SA8000 participation

- Increasing employee satisfaction and retention
- Enhancing communication and dialogue with stakeholders
- Helping to maintain competitiveness and maintain innovation
- Improving stock valuation and investors' perceptions

## Introduction

Founded by Giuseppe Saleri and his brothers in 1950 in Lumezzane (in the Italian province of Brescia, Lombardy), Sabaf is a hallmark success story of its region. The region has strong mechanical engineering traditions and continues to play a major role in national exports. This economic significance has allowed companies like Sabaf to integrate into their local communities, linking their long-term success to the ability to establish legitimacy and acceptance from local stakeholders such as employees, public authorities, financial organizations, suppliers, and citizens.

Sabaf is one of the world's leading manufacturers of components for domestic gas cooking appliances. The company sells approximately 50 percent of its products on the domestic market and exports the remaining half worldwide, mostly throughout Europe. Based on a strong growth record, in 1998 Sabaf adopted a formal public limited company structure that separates family ownership and management, chose Angelo Bettinzoli as its CEO, and became listed on the Milan Bourse. Sabaf created its Corporate Governance Manual and complies with the Italian Corporate Governance Code. This organizational transition has been a part of Sabaf's overall social responsibility strategy, providing a sustainable framework for decision-making and engagement with stakeholders. A key example of such constructive engagement came in 2002 when Sabaf decided to transfer its base from Lumezzane to Ospitaletto, also in northern Italy. The company conducted a transparent and close dialogue with trade unions and employees regarding the move.

Sabaf focuses on the quality of the burners, valves, thermostats, oven and dishwasher door hinges, and other elements of cooking appliances that it produces, but also prides itself on the context in which they are manufactured. "The quality of our products would



**“It’s easy to do the right thing when society is making money, and hard to show solidarity in economic hardships – but this is when we need corporate responsibility the most.”**

**Angelo Bettinzoli, CEO, Sabaf**

be meaningless if we were not constantly engaged in trying to make everyone happy – first our employees and then our customers,” says Angelo Bettinzoli.

Sabaf has manufacturing facilities in Italy and Brazil and maintains three additional wholly-owned subsidiaries focused on marketing and logistics in China, Mexico, and the United States. It is a leading supplier for household appliance companies such as Indesit, Bosch-Siemens, and Whirlpool. Given Sabaf’s market share (50 percent in Europe and 10 percent globally), this medium-sized company understands the impact it can have beyond its facilities and direct stakeholders, into homes around the world.

Sabaf entered the 21st century with a goal to grow and expand in international markets. Parallel to this process, Sabaf also deepened its commitment to corporate social responsibility and company values in new regions of operation. It introduced social reporting and stakeholder input monitoring tools like surveys and other feedback systems in 2000. As a result, in 2001 the company was listed in the Segment for High Requirement Shares (STAR) of the Italian Stock Exchange, which is dedicated to international best investment practices for middle and small capitalization companies. The aim of the segment is to demonstrate the quality of companies that choose to comply with superior internal standards. Being listed in STAR requires extensive company commitment to transparency, good corporate governance, and communication.

### **Social Responsibility through UNGC and SA8000 Commitments**

In order to structure its corporate practices around its values, Sabaf in 2003 developed its Charter of Values (CoV) – a document where the company’s Board of Directors states its values, principles of conduct, and commitments to stakeholders including staff. This charter is based on, and explicitly refers to, the UN Declaration of Human Rights, the EU Charter of Fundamental Rights, the Italian Constitution, and ILO core conventions. It also includes elements of the SA8000 standard, to which Sabaf later became certified. Not only does Sabaf’s CoV state values, mission, and principles of conduct, it also spells out specifically its relevance for all stakeholder groups.

“Centrality of person” is Sabaf’s foremost ethical tenet, recognizing that the company is the people of whom it consists. Thus, the first CoV commitment is

to promote respect for workers' fundamental human rights wherever the company operates by applying the principles set in the SA8000 standard. In the charter, the company describes its commitment to guarantee equality of opportunity, increase capabilities of its employees, and eschew any form of exploitation (physical, moral, or cultural). The charter also mandates communication with internal and external stakeholders, training of all staff members, and a complaint mechanism for reporting violations.

Based on the CoV, Sabaf continued its "path of excellence" by participating in other initiatives – CECED Italia (the Italian code of conduct adopted by over 100 companies in the domestic and professional appliance sector) and most notably the UNGC. With the principles of the Global Compact already present in Sabaf's Charter of Values, "we are enthusiastic about our participation in the UNGC. It was a decision made because sustainability is a key value for us," Angelo Bettinzoli emphasizes.

Propelled by the company's desire to enhance its commitment to the principles and practices in which it strongly believes, decisions on SA8000 certification and the Global Compact membership occurred essentially at the same time: the UNGC in 2004 and SA8000 certification in 2005. The company pursued these two avenues of good corporate citizenship concurrently and with the same purpose, as Angelo Bettinzoli put it, "to reinforce diffusion of the corporate responsibility values and principles, which we planned during the years before and implemented progressively."

Today, both the SA8000 and the Global Compact are key parts of Sabaf's corporate responsibility management process. Mr. Bettinzoli explains, "Our company values translate into formal commitments through participation in the UNGC and into concrete company practice through SA8000 compliance and certification." As a result, these are not separate commitments but rather intrinsic elements of performing in accordance with the company's CoV.

Apart from SA8000, the company obtained certifications to two other international management standards of the International Organization for Standardization (ISO): quality (ISO9001) and environmental (ISO14001). Sabaf also uses the AccountAbility AA1000 Stakeholder Engagement Standard as a methodology for stakeholder engagement even though it is not formally certified under this standard. Social and environmental

responsibility policies at Sabaf are translated into actions, operations, and governance tools by applying "ProGRESS," a national responsible management system for sustainable development that harmonizes various existing approaches.

## Implementation of the UNGC and SA8000 in International Operations

When asked what changes the company had to make regarding UNGC principles and SA8000 compliance, CEO Angelo Bettinzoli noted that those adjustments were rather minimal. They mostly involved changes in the extent of staff training, but the content remains largely congruent to the charter that predates both UNGC and SA8000 at Sabaf. "Global Compact principles are translated into company policies and procedures which are systematically implemented and monitored," Mr. Bettinzoli says about the use of UNGC in daily operations.

The Human Resources and Quality, Safety, and Environment departments jointly manage compliance to SA8000 and the compact. Other company functions, specifically purchasing and sales, are also involved in compliance. Daily applications of UNGC and SA8000 principles include procedures for hiring, choosing suppliers, and monitoring environmental management. Beyond these, there are incentive plans for staff based on sustainability targets in the economic, ecological, and social performance dimensions.

Though Sabaf's SA8000 certification does not yet extend to its subsidiaries, policies guaranteeing compliance to SA8000 are being implemented at these companies. Eventually, the goal is to replicate the Italian process at all of Sabaf's production sites and develop the necessary systems to earn SA8000 certifications at those locations.

In Brazil, where the company began operations in 2001, Sabaf had to work hard to replicate the Italian model of corporate social responsibility while developing a capital-intensive manufacturing project and a regional distribution network. It took a while to identify appropriate managers to embed Sabaf's social principles into the Brazilian facility's management system. As Mr. Bettinzoli emphasizes, "numerous initiatives were undertaken to reinforce employees' sense of belonging, motivation, and level of satisfaction." Increased internal communication

efforts were among those measures.

In 2009, for the first time since its founding, Sabaf do Brasil was able to obtain positive economic results – a key condition to guarantee that the company will continue its Brazilian operations. This success was made possible by a high degree of coordination and assistance from Sabaf Italy in shaping all aspects of the Brazilian facility's operations and in investments made to increase production capacity. The implementation of the SAP business management system in Brazil as of January 1, 2010 further improved the coordination, control, and alignment of operation procedures.

The key issue facing Sabaf do Brasil is personnel retention; the turnover rate in 2009 was very high despite the company's objective to reduce turnover and absenteeism by 50 percent. Although that objective was not achieved in 2009, Sabaf used it as a learning experience. The company benchmarked its salaries against local peers and noticed that they were far below average, which explained high turnover. In response, Sabaf do Brasil introduced new initiatives, including a revision of remuneration policies and new targets for the management, to more effectively reduce turnover in 2010.

Quality certification is the next step for Sabaf's Brazilian subsidiary (targeted for 2010), to be followed by environmental and SA8000 certifications immediately thereafter. This experience will inform Sabaf on establishing sound environmental, social, and governance systems if it decides to introduce manufacturing into its China subsidiary. The company is considering expanding Chinese operations for implementation within the next three to five years.

Suppliers are also included in the Sabaf Charter mandate, in compliance with Italy's Legislative Decree No. 231 of 2001, which makes corporations legally liable for crimes committed or attempted both in Italy and abroad on their behalf or to their advantage by their business partners (directors, management, personnel, or people acting under the supervision of the company such as agents). "Although Sabaf purchases very little from developing countries, we are committed to monitoring compliance to the SA8000 principles at our suppliers in these countries, especially in Brazil," says Mr. Bettinzoli.

The company's current sourcing pattern – 87 percent within Italy, another 10 percent from the rest of the EU, and only 3 percent from non-EU countries – is likely to change due to evolving global sourcing trends.

Yet, Sabaf remains committed to having the same contracting procedures apply as more countries are added to the mix. Since the company experienced some problems with corruption suspected among suppliers in the past, all suppliers must now sign a document stating that they will behave in accordance with Sabaf's values. Supplier contracts also include a clause based on SA8000 as a minimum prerequisite for long-term relations with Sabaf. Suppliers must also comply with environmental and safety standards. In addition, supplier workshops on SA8000 are conducted on a regular basis. Mr. Bettinzoli reports, "We reach out to our suppliers as well as other stakeholders like universities and stock analysts to explain these issues. We also have meetings on specific Global Compact themes; for example, we funded a conference in 2006 in Milan to increase awareness about ways to save energy and carbon in cooking."

While most of its suppliers don't mind signing on or have even joined the Compact, only few are SA8000 certified because they fear additional costs. However, their compliance is verified through audits by Sabaf staff and third party audits. Sabaf conducted 24 such supplier audits in 2008 and 23 in 2009 – none revealing any critical non-conformity.

## Benefits and Synergies of the UNGC and SA8000 Participation

Socially and environmentally responsible management for Sabaf is not only an ethical obligation but is also considered a tool to obtain and maintain competitiveness and pursue innovation. This is reflected in the central values of Sabaf's vision that revolve around: innovation and openness to change, safety assurance, transparency, and dialogue, as outlined in its Charter of Values.

Like most companies, Sabaf finds its customers' purchasing decisions start with product price. It is difficult to change that price bias even though customer retention is often related to more than just product pricing. Trusted, long-term relationships are typical between Sabaf and its client appliance companies. However, Sabaf finds that even for customers who also participate in the UNGC, price is still the key criterion for purchasing. "Most customers care more about discounts [than social responsibility]," the CEO adds.

On the other hand, a customer survey, published in Sabaf's 2008 Annual Report revealed a high level of

familiarity with Sabaf's commitment to social and environmental responsibility among customers - 83 percent know about both the SA8000 and ISO 14001 certification. This may bode well for the future, as the report notes: "Certain companies have affirmed their interest in cooperative action on consumer communication activities regarding social responsibility issues [including] the environmental efficiency [of] products."

Sabaf sees greater appreciation for the manufacturer's ethical performance and the SA8000 application in particular among stock markets and investors – especially Anglo-American, but also some Italian. Unsurprisingly, Sabaf has a strong presence at financial forums for analysts and investors and at universities, communicating its strategies and experiences implementing of sustainable and responsible business model. It is in the stock price where Mr. Bettinzoli says, "We feel the return on investment is positive, through risk reduction and reputation improvement." The company also publishes on its website a quarterly Sabaf Magazine (in Italian) featuring, among other business news, key updates on CSR; over 1,000 copies of the magazine are printed and distributed to stakeholders.

Internally, Sabaf workers are enthusiastic and identify strongly with the rights and values expressed through the charter, UNGC Principles, and SA8000. In

accordance with the company's belief in the "centrality of person," multiple efforts (training, sustainability incentive program, social activities and benefits) and intense internal communication (weekly HR consulting hours, quarterly magazine, bulletin boards displaying trade union news and press releases) aim to improve workers' environment as well as their professional development, and personal growth.

As part of SA8000 implementation, Sabaf has facilitated a continuing dialogue between management and worker representatives concerning the concrete application of SA8000. "Although we don't necessarily expect to see customer relations benefits, we do expect to see continuing benefits in terms of improvement in the workplace atmosphere," Mr. Bettinzoli says.

### Reporting, Measuring and Improving

The synergies of UNGC participation and SA8000 certification for Sabaf lie in implementing and verifying the core principles of the one through the other. Angelo Bettinzoli puts it this way: "Thanks to SA8000 certification procedures and audits we can measure our compliance in a structured way with a point system and verify precisely that we meet our commitment." Involvement in both initiatives also

Sabaf headquarters in Italy



helps integration across departments so that all of them work according to the same values.

Sabaf published its first social responsibility report in 2000. That first report followed the Global Reporting Initiative guidelines; its structure has since been modified to improve disclosure by integrating reporting on financial, social, and environmental performance. Starting in 2005, Sabaf began to publish an integrated annual report that fully incorporates financial reporting with social and environmental reporting. Today, the company's corporate social responsibility report is not only a means of communication but also, above all, a management tool committed to keeping stakeholders informed and engaged.

As an element of external reporting, Sabaf launched a website ([sabaf.life.com](http://sabaf.life.com)) in 2008 that addresses current issues and company activities on the environment and technology, particularly with regard to safe and efficient technologies in the field of home cooking. Sabaf's UNGC commitment and SA8000 certification are part of the message on this website; they are part of the background to environmental and safety innovations and the responsibility the company takes for its products, its customers, and employees. These aspects of UNGC compliance are accompanied by waste reduction and savings for the company.

Social reporting at Sabaf is managed by the Office for Investor Relations. In 2004, Sabaf received the 50th anniversary "Oscar di Bilancio"<sup>1</sup> award for corporate reporting for the fourth edition of its CSR Report, "distinguished by the innovative project designed to combine management of intellectual assets with corporate social responsibility in a perspective of sustainable long-term development." The award was presented by Nobel Prize winner in economics Joseph Stiglitz. In Sabaf's 2008 Annual Report, social sustainability reporting focused on relations with all important stakeholders, on SA8000 implementation, and on staff turnover. In addition, Sabaf is listed on the Ethibel Sustainability Index and counts among its shareholders socially responsible investors such as Dutch merchant bank Kempen.

Sabaf communicates about events, activities, and performance figures, and focuses on the methodology of reporting: it cites accordance to Global Reporting International (GRI) and Italian business reporting guidelines and the AA1000 standard on social reporting processes.

Since SA8000 certification in 2005, the SA8000 has also been used as a tool of Sabaf's social reporting and communication on UNGC Principles 1 to 6. In December 2005, the CISE certification organization reported favorably that "consistent with its values,

Sabaf employees in the burner lids enameling department





Sabaf recognizes the great importance of an enterprise's social dimension and of its consequent responsibilities. Inside the organization, Sabaf pursues full achievement of the requisites required by the SA8000 standard." Further testifying to compliance, SA8000 as well as the ISO certifications require periodical audits by third parties.

In its UNGC reporting, Sabaf has consistently issued and expanded its Communication on Progress reports (COPs) along with the social responsibility section of its annual reports. The first COP in 2006 stated the company's commitment to the UNGC's ten Principles and cross-referenced them to the respective sections of the annual report from fiscal year 2005. The following year, the COP expanded to cross reference the methodology of reporting based on the GRI G3 Guidelines and name concrete examples of improvement. Finally, Sabaf's 2008 COP contains a greater amount of details on specific elements of UNGC implementation linked to Sabaf's own Charter of Values, the SA8000, and the annual report.

For example, the 2008 COP states that "during 2007, in line with its policy to encourage involvement of its stakeholders, the management of Sabaf invited its main suppliers to a workshop to analyze and discuss the principles of the SA8000 standard and the social responsibility policies that Sabaf hopes to extend to its suppliers." The same year, the management invited trade union representatives to participate in a panel to discuss Sabaf's CSR policies and its social report, opening the floor to suggestions for improvement.

## Lessons Learned

The synergies between Sabaf's own values, the UN-promoted universal principles, and third party-verified SA8000 compliance provide a crucial foundation for the company's social responsibility goals. Equally as important as the commitment to those principles is their actual integration in daily business operations and communication processes. The entire Sabaf staff has been directly involved in implementing the Charter of Values as well as UNGC Principles, which also includes procedures for reporting any non-compliance and for stakeholder input. For Sabaf, integrated accounts reporting is key for learning the lessons from what works in making corporate social responsibility a part of both the company's strategic vision and daily

operations. "Only what is measurable is manageable," observes Mr. Bettinzoli.

In many ways, Sabaf has benefited from the overall level of attention to corporate citizenship issues in Italy. Consistent with the European Union's contribution to the global debate on CSR, the Italian government and other national institutions strongly support the implementation of corporate responsibility, especially among small and medium-sized companies. Italy leads Europe in the dissemination of environmental and social management systems, with a remarkable increase in certifications in recent years. Eighty-eight percent of SA8000 certifications in Europe and 45 percent of the worldwide total are in Italy. Several Italian regional governments also have strong CSR-affirmative procurement and incentive programs. In Lombardy, the region of Sabaf's parent base, the Italian Union of the Chambers of Commerce has local desks and networks to inform, support, and conduct research of local CSR practices.

Yet, even in an environment that encourages good corporate citizenship, it takes the initiative and dedication of a particular company to implement real reform. Sabaf has set an example in its industry for socially responsible operations both in its home market and abroad. The UNGC Principles and becoming certified to SA8000 and other voluntary standards have not caused Sabaf's socially responsible policies and business decisions – the commitment to values they express has been at the company all along. However, standards do help to institutionalize those values and communicate them to stakeholders. Even in tough economic times, Sabaf and its leadership remain firmly committed to social responsibility objectives.

Angelo Bettinzoli comments, "Going forward, as we are in and come out of the global financial crisis, we will see who is sincere and who is shallow, as it is harder to do the right thing in hard times. Especially along the supply chain, the crisis tests whose principles strong or weak – many customers preach solidarity but pay late, push on prices, and threaten suppliers with order cancellation."

One way in which Sabaf tries to maintain responsible business conduct, particularly during the crisis, is by paying smaller, more vulnerable suppliers first. It also makes sure to replicate good practices everywhere else the company works. "As we expand internationally, we look forward to using these systems," Mr. Bettinzoli says. "We will use them in Mexico and in China and we will face any difficulties step by step. We have only one model – the Sabaf Italy model – and will repeat it wherever we go."

<sup>1</sup> Since 1954, the Oscar di Bilancio has been the most important national prize given to private, public and non-profit companies for their annual financial report, including corporate governance. The prize is organized by FERPI - Federazione Relazioni Pubbliche Italiana (Italian Public Relations Federation) under the high patronage of the President of the Italian Republic.



# TDE: Advancing Responsible Business Practices in the Energy Sector

## FACTS & STATISTICS

**Founded:** 1997, acquired by Red Eléctrica de España (REE) in 2002

**Legal entity:** 99% subsidiary, 1% shares owned by employees

**Sector(s):** Electricity Transmission

**Headquarters:** Cochabamba, Bolivia

**Revenue:** 37 million USD (2009)

**Number of employees:** 124

**Number of active suppliers:** 2,441

**Initiatives:** UN Global Compact (May 2007)

**Certifications:** SA8000: 2008 (March 2007); ISO9001:2008; ISO14001:2004; OHSAS18001:2007; RS-10:2009

## Key benefits of UNGC and SA8000 participation

Integrating responsible business conduct into corporate strategy

Expanding compliance throughout the supply chain

Supporting integrated social management systems

Communicating social responsibility and building reputation

## Introduction

The energy sector is very important in Bolivia, a country rich in natural resources such as natural gas and lithium that play a key role in the energy industry. In particular, the electricity transmission industry is of key importance for a country whose developing economy constantly raises the demand for electricity. The sector is also a pioneer of social responsibility in the workplace: there are only three SA8000-certified organizations in Bolivia, each energy-related. Transportadora de Electricidad (TDE) S.A. is among them.

Exercising social responsibility, respecting the environment and promoting the development of the country and people is a key element of TDE's business mission and vision. TDE is the main electricity transmission company in Bolivia whose primary function is to build, maintain and operate high-voltage electrical installations that ensure the flow of electricity. Although TDE does not generate power, it owns and operates 73 percent of Bolivia's high voltage network and maintains nearly 2,000 km of transmission lines and 23 substations. TDE operates in six of Bolivia's nine departments: La Paz, Cochabamba, Santa Cruz, Chuquisaca, Oruro and Potosi.

TDE's headquarters are in Cochabamba, Bolivia's third largest city. Originally government-owned, the company was privatized in 1997. In 2002, 99 percent of the shares were purchased by Red Eléctrica Internacional (REI), a wholly-owned subsidiary of a Spanish company Red Eléctrica de España (REE). TDE's current and former employees own the remaining 1 percent of shares.

TDE obtained its SA8000 certification in 2007. That same year, the company joined the UN Global Compact. Twenty-nine of the 42 Bolivian UNGC participants are



**“Corporate responsibility begins within a company where it first needs to be integrated in order to be successfully disseminated to the outside.”**

**Javier de Quinto, Executive Vice President, TDE**

businesses, and TDE is one of the 13 small and medium-sized enterprises (SMEs) within that group. TDE’s participation in both SA8000 and the Global Compact is remarkable; the energy sector worldwide has been slow to embrace social responsibility policy and reporting.

### **Corporate Social Responsibility Challenges in Bolivia**

Even though Bolivia has ratified core International Labor Organization (ILO) standards, implementation is not entirely easy. For example, in terms of gender equality of employment, it is not common in Bolivia to find women professionals with skills in electrical areas. That is why TDE’s workforce is just about 14 percent women.

TDE’s labor force for maintaining and operating a hi-tech electric grid system is highly skilled, with 77 percent professional staff and 23 percent support staff. TDE Executive Vice President Javier de Quinto considers Bolivia to be a challenging environment for socially responsible businesses, especially considering the extent of informal employment. As Mr. de Quinto says, “We consider it an accomplishment if we can convince our suppliers to formally hire their workers.”

Formal employment is particularly important as the TDE grid network expands and more frequent construction projects require using contractors and subcontractors. Hiring informal workers remains commonplace among competing suppliers, but TDE avoids this practice, following its commitments under both SA8000 and the UNGC Principles that extend to the supply chain. The key challenge to the UN Global Compact implementation in Bolivia has been raising the awareness among local suppliers and contractors for whom informal employment, combined with little regard for environmental protection, remain the norm.

TDE is also facing industry-specific issues that make good corporate citizenship challenging in Bolivia, such as right-of-way issues. The company’s operations require land acquisitions and easements or limited permission to use other people’s property in order to develop and maintain its electrical grid. This situation stems from the overall weakness of formal property rights in the country. The 2010 International Property Rights Index<sup>1</sup> ranks Bolivia 119 out of 125 evaluated countries, or 21 out of 22 countries ranked in Latin America, with the score of only 3.4 on a scale from 0 to 10 (10 representing the strongest level of property

1. IPRI, <http://www.internationalpropertyrightsindex.org/bolivia-c12>

rights protection and 0 the non-existence of secure property rights).

A transmission line TDE built in the isolated agricultural region of Chapare in 2007 illustrates the difficulty of working around weak property institutions. Because property rights remained unclear, stakeholders reached a complex agreement whereby TDE cooperated with trade unions to develop a fair compensation scheme for land use. Based on this agreement, the unions then passed compensation on to the local communities. The process complied with Bolivian law and World Bank/International Finance Corporation (IFC) requirements, and was considered a good example and commended by the government. TDE succeeded in avoiding impositions to the communities. Instead, TDE reached mutually agreeable fair market value compensation based on willing buyer-willing seller negotiations. IFC approval of the systems is evinced by an ongoing relationship with TDE.

## Implementing UNGC and SA8000 Commitments

TDE's decision to join the UNGC came shortly after the decision to pursue SA8000 certification; both were accomplished in 2007. The decision on the UNGC was made by the CEO and the board of directors – as is the case in most companies – as a good way to integrate social responsibility strategy, policy, and commitments. Becoming a part of the Global Compact was congruent with TDE parent company REE's commitment but was an independent decision; TDE cooperates with its parent company in the field of corporate responsibility on an issue-by-issue basis. Ultimately, TDE sets out and implements its responsible practices by itself, but results are shared mutually and opportunities for improvement are discussion topics within the company as a whole.

Javier de Quinto considers the UN Global Compact to “fit nicely with existing company values and views.” Consequently, few modifications of company policies were necessary following UNGC adoption in 2007 because, “most policies were already in place and implemented.” In particular, adherence to the UN Global Compact reflects the company's vision and corporate responsibility policy in four areas: corporate governance and ethics, external social responsibility, internal social responsibility, and environment. Pursuant to continuing to improve upon its past progress on these fronts, TDE has been focused on developing a system for evaluation and monitoring.

Changes that did take place included an improved management system for human resources as well as limits on working hours and required days off. Due to the geographic dispersion of TDE's work sites, some in hard-to-reach places, implementing those changes involved a coordinated effort to resolve logistical issues and adjust work schedules. The new requirements are reinforced through awareness building and dissemination of compliance activities throughout TDE's work sites.

Underlying TDE's use of external standards is its own Code of Ethics and the company's stated core value as a “people-based” organization, as well as several key voluntary standards. Mr. de Quinto cites SA8000, ISO14001, OHSAS18001, ISO9001 and the Spanish national standard RS-10 on integrating management systems and stakeholders as the standards that contribute most to TDE's compliance with the Global Compact. These are also parts of the company's integrated management systems. Management systems integration focuses on ensuring quality, safety, and social responsibility through monitoring, detailed operational plans, and a balanced scorecard approach. It has been a major initiative since 2001, when TDE decided to participate in a competition for the Ibero-American quality award from FUNDIBEQ Foundation.

TDE was first introduced to SA8000 in 2005 when REE earned certification. The company has since been implementing SA8000 in daily business through its integrated management systems program that defines key elements of operational control. The objective is to ensure respect for human rights and conscious practice of the requirements established by the SA8000 standard and to provide an abuse-free and pleasant working environment. The management system also establishes the extension of all the SA8000 principles to suppliers and contractors. Thus, SA8000 has been a key for TDE to develop the structure for engaging with suppliers, contractors, and subcontractors on social responsibility issues. Furthermore, the worker committee and consultations encouraged by SA8000 are key parts of communicating progress on those issues internally and externally.

As part of its integrated management system, TDE also provides its employees with training programs, including awareness of TDE's environmental policy, implementation of operational procedures, emergency and natural disaster preparedness programs, and training programs for subcontractors. As a part of the effort to extend compliance throughout TDE's supply

chain, informational meetings took place in 2009 with the 44 suppliers on a recent expansion project. The goal of those meetings was to evaluate suppliers and inform them about UN Global Compact perspectives on human rights, labor issues, and other principles.

Social responsibility has become a key part of the company's five-year strategic planning and the annual operational plan that establishes specific timelines and milestones. The company uses a balanced scorecard method to track these milestones. Among the scorecard business goals are also crucial elements of what Mr. de Quinto calls "consolidating TDE as an enterprise of corporate responsibility." This entails the development of Corporate Responsibility Manual along the guidelines of REE and global standards, and a review and update of stakeholder mapping to identify and address the needs of different groups. In 2010, the company plans to communicate its corporate responsibility to the public through its first Sustainability Report.

### **Benefits and Synergies of the UNGC Participation and SA8000 Certification**

Mr. de Quinto believes that SA8000 and UNGC complement each other well, saying "The Compact expands on the SA8000 by diffusing it to more stakeholders." In turn, SA8000 expands the UNGC commitments down the supply chain. At TDE, the entire purchasing process in the supply chain, from bid invitations to contracting, is subject to the compliance commitments established by the principles of SA8000 and the Global Compact. At the same time, the Global Compact principles expand on the scope of SA8000 coverage (e.g., environment).

TDE published its first Communication on Progress (COP) report in October 2008. In developing the COP, key tasks were to extend existing methods for evaluation and monitoring, using Global Reporting International (GRI) and management systems tracking, and to associate them with the corresponding UNGC Principles. Compliance is then evaluated and monitored through internal audits and inspections, with the joint internal management system committees providing additional control and monitoring.

TDE has also been working with its contractors and subcontractors to improve their social responsibility, even if that requires extra costs. The company notes that, apart from the added cost of UNGC and SA8000 compliance and reporting, its contractors and subcontractors have incurred out of pocket cost

increases as they formalized their hiring and made work hours and other practices follow TDE's standards

Mr. de Quinto says that this increase in cost pays off, "By asking our business partners for a minimum compliance with legal requirements and higher voluntary standards, we reduced not only our own and our contractors' reputation risk but also risk of labor disputes." This reputation, in turn, strengthens TDE's ability to negotiate better working conditions for its contractors' staff. It is also a sign to TDE's business partners that if they want to maintain a business relations they must begin to define new standards for themselves.

These efforts devoted to good corporate citizenship are paying off in terms of stakeholder relations. The adherence to the Global Compact and the SA8000 certification is in full alignment with the policies and actions of TDE's owner-stakeholder REE. All the companies of the Red Eléctrica Group are committed to the ten UNGC Principles. Having its subsidiaries – among them TDE – follow the same socially responsible business practices contributes to the quality of REE's GRI indicators and has a positive impact on stock prices.

TDE workers have been pleased with SA8000 and noted that the restrictions on the number of working hours and days improve the balance between work and family life. In addition, workshops and awareness-building activities improve the company's relations with its contractors and subcontractors. In terms of public engagement, TDE makes contributions to social programs in several communities in which it operates. For example, TDE supports a rural educational program whose goal is to teach safety practices around the transmission lines to children in their schools.

The company is also committed to supporting social programs in locations where it may construct transmission lines in the future. In doing so, "sustainability over time" is TDE's crucial motto. Mr. de Quinto says, "The communities are receptive and positive about our work with these initiatives; financial institutions are appreciative of the fact that the human environment at the company is sound; and the trade union finds this work positive."

The company's ongoing relationship with the IFC, which began in 2003, is another example of a benefit from following SA8000 and UNGC Principles. The IFC expects its partners and borrowers to adhere to social and environmental guidelines; its lasting cooperation

with TDE confirms the latter's high CSR standards. A joint 2008 contract was one such example, where the IFC and TDE worked together to explore the development of renewable energy resources to supply off-grid electricity and other energy services to isolated rural communities throughout Bolivia. This wind atlas mapping of the proposed wind energy supply network was published in March 2009. In March 2010 the government announced that Bolivia's National Electricity Company (ENDE) would build the first wind farm in the department of Santa Cruz.

In this way, the company generates greater stakeholder appreciation, evinced in part by invitations extended to TDE to participate in seminars and forums to share its experience and commitment (for example the 2009 Symposium of Environmental Management Systems sponsored by the Industrial Chamber of Cochabamba). Finally, with company staff actively involved in implementation at all levels, working with SA8000 and the UNGC strengthens worker identification with the company; workers feel that a company using these standards is always better than one that does not. Stakeholder surveys support this conviction.

## Reporting, Measuring and Improving

In many cases, the benefits of having earned SA8000 certification or joined the United Nations Global Compact are not easily measurable because they have a more qualitative than quantitative nature. However, TDE has been striving to design various self-assessment guidelines such as its balanced scorecard that contains social responsibility elements. The company also aims to make the most out of its UNGC reporting to be able to reach the expected results and redirect efforts as necessary to redefine objectives or establish new ones. All the actions and results that figure into the Communication on Progress (COP) reports are monitored by the Organization and Human Resources Department, which is responsible for the preparation of these reports.

In the 2008 and 2009 COP reports, TDE reported extensively on SA8000, citing it as directly relevant to six of the human rights and labor principles of the UN Global Compact. Action plans for improvement under SA8000 are also a component of this reporting. Javier de Quinto observes that as TDE expands, it particularly notes a key synergy of SA8000 and UNGC Principles in Principle 6, the elimination of discrimination in respect of employment and occupation. However, the company applies all the elements of both SA8000 and the UNGC in the field. Thus, in the transmission line South



Employee at a TDE worksite

Expansion 1 Project, six inspections and two internal audits evaluated contractors and subcontractors on their compliance with social accountability standards.

The 2009 COP report notes that SA8000 auditors highlighted the importance of TDE communications via newsletter and worker representative workshops. The report also notes the importance of extending the requirement for worker representatives to suppliers, contractors, and subcontractors. Supplier selection and evaluation is another key part of TDE's commitment: it rejects suppliers unwilling to comply with or not having a clear position compatible with TDE principles of corporate responsibility and SA8000. Thus TDE's internal social responsibility system establishes that the SA8000 standard is extended to suppliers and contractors as well as the company's own employees.

Communicating SA8000 and UNGC principles internally is done largely in person. For example, in June 2009 TDE held the second in a series of workshops on SA800 at which participants discussed how to strengthen the respect for human rights in

all TDE activities. At this workshop, TDE emphasized the need to prevent forced labor and conducted role-playing games to identify preventive measures with contractor personnel. The result was a proposal (subsequently implemented) for a standardized contract amendment clarifying the unacceptability of forced and child labor among other social accountability requirements. These informational meetings with contractors and subcontractors went into the detail of each SA8000 requirement and their applicability. Also at the worker representative workshop, each element of SA8000 was reviewed and there were examples of how to comply with them.

Previously, the seven supervisors of the expansion projects, who also had direct contact with contractors, were assigned oversight of SA8000 and occupational health and safety. This broadened TDE's social responsibility outreach, and allowed on-site meetings with contracted construction workers to raise awareness of SA8000 requirements. Public meetings are another way of sharing the lessons learned. For example, in August 2009 TDE attended the launch, in Ecuador, for the international seminar of Socially Responsible Management in Latin American Energetic Sector.

TDE distributes its annual report, which includes all actions related to corporate responsibility, to all its stakeholders and the public. Additionally, the COP report is available to all interested parties on the company website. The board of directors also periodically releases the results of the management review of corporate responsibility systems and programs through newsletters, booklets and other means depending on the target audience.

Finally, TDE surveys stakeholders about their perception of the company's social responsibility performance. According to a survey TDE conducted in 2006, there has been a remarkable 87 percent improvement in the public perception of benefits that TDE brings to society. The company believes the improvements happened due to its social accountability initiatives and intends to repeat the survey in 2010 to gather new data.

## Lessons Learned

TDE uses industry and regional activities to build on the company's experience with UNGC and SA8000 and to share that experience. TDE is one of the 23 members of the UNGC Local Network Steering Committee in Bolivia, launched by the Bolivian

A control center at TDE's main office





Foundation of CSR. In this function, the company organizes a regional CSR forum on a regular basis. To share best practices and learning, it also convened the first regional, specialized forum on CSR in the electricity sector during September 2009 in Cochabamba. Javier de Quinto sees great value in those meetings. “We learn from foreign companies and the regional forums on corporate responsibility,” he says. “It is also important to put our experience with efforts on better working conditions, quality of life, and environmental protection in a sustainable manner at the disposal of the public in seminars and forums.”

Reflecting on TDE’s use of these standards, Mr. de Quinto emphasizes the importance of addressing working conditions among contractors and subcontractors – the SA8000 supply chain requirements – in fulfilling TDE’s Global Compact commitment. “It cannot be overemphasized how important it is for CSR to be part of all company processes and for all employees to have ownership of these policies and programs,” he adds.

TDE’s efforts are particularly note-worthy given that this level of attention to CSR issues in the energy industry is still highly unusual, especially in the supply chain. In the international context, as described by a Harvard Law School report, “the energy sector is the least likely to have supply chain LHR [labor and human rights] policies, at 14 percent, although a much higher percentage of companies have broad human rights policies that do not address supply chain issues specifically. This probably reflects the more integrated nature of energy companies, which tend to rely less on suppliers than firms in other sectors. It also may reflect the fact that many operate in politically unstable countries with pervasive LHR challenges. The story is the same regarding policy implementation. . . only 4 percent of energy companies say they do enforcement of some sort.”<sup>2</sup>

TDE experience shows that this situation is not inevitable; enforcement procedures can and do change even in a developing country like Bolivia where national economic and social conditions remain challenging. TDE has found that becoming certified for the SA8000 standard and participating in the Global Compact provided an important roadmap on how to stay committed to human and labor rights, environmental stewardship, and anti-corruption.

*2. Aaron Bernstein and Christopher Greenwald. “Benchmarking Corporate Policies on Labor and Human Rights in Global Supply Chains”. Occasional paper series, no 5, Nov 2009, pp. 18-19. Pensions and Capital Stewardship Project, Labor and Workforce Program, Harvard Law School.*



# TNT Express Argentina: Pioneering a Socially Responsible Business Delivers Results

## FACTS & STATISTICS

**Founded:** 1946

**Legal entity:** subsidiary of TNT N.V.

**Sector(s):** Transportation

**Headquarters:** Buenos Aires, Argentina

**Distribution locations:** 4

**Revenue:** Group consolidated including TNT Argentina: 10.4 billion Euro

**Number of employees:** 200

**Number of active suppliers:** 123

**Initiatives:** UN Global Compact (October 2004)

**Certifications (TNT Argentina):** SA8000 (June 2007); ISO9001; ISO14001; OSHAS18001; Investors in People standards

## Key benefits of UNGC and SA8000 participation

Leading the market in high standards of business conduct

Improving employee satisfaction and lowering turnover

Reinforcing a corporate culture of anti-corruption and respect for human and labor rights

## Introduction

Amsterdam-based TNT N.V., through its two divisions, Express and Mail, is a leading global provider of transportation and distribution services. This large international group has over €10 billion in revenues and 160,000 employees in 64 countries around the world. In Argentina, the company's local branch, TNT Express Argentina, is the fourth largest among its competitors. However, it leads the market in terms of corporate social responsibility.

Being a pioneer is never easy; even today there are only three SA8000 certified organizations in Argentina. Yet, TNT Director of Corporate Responsibility Mike Patrick is confident that fulfilling the commitments of the UNGC and SA8000 is a key way to grow a sustainable multinational business. He also believes it is valuable for TNT subsidiaries to sign on individually and to actively participate on the national level.

In its 2008 corporate social responsibility report, TNT explained its intent to certify all its sites outside OECD countries to the SA8000 standard. So far, TNT's operations have been SA8000 certified in all non-OECD countries except for major acquisitions in Brazil, Cambodia, Cyprus, Fiji, Kenya, and Slovenia. TNT Argentina is one of the first companies in the country and the first in the South American courier industry to do so.

TNT Express, the Argentinian company's corporate parent, began its participation in the UN Global Compact six years ago. "It was a great opportunity for us," says Mr. Patrick, "because it is fully aligned with what we think, feel, and how we act." TNT N.V. is also a member of Social Accountability International's Advisory Board and Mike Patrick sits on two of the Advisory Board's committees.



**“The challenge in this century is to recognize that profitability is no longer the only indicator of success. Sustainable organisations will be those that integrate social and environmental demands with the demands of the business and influence others in the process, creating responsible enterprises by taking sustainable action.”**

**Mike Patrick, Director of Corporate Responsibility,  
TNT Express**

TNT Argentina made the decision to join the Global Compact and to seek SA8000 certification in 2006 as a part of the TNT Group’s larger commitment to good corporate citizenship. These standards fully align with the company’s management philosophy, which makes them the foundation of responsible business, embedded into daily operational processes. TNT Argentina ultimately became SA8000 certified in 2007.

Following these standards makes TNT Argentina unique in the market. “A good thing about having both the UNGC and SA8000 is that in certain areas the Global Compact has better coverage – e.g., environment – but then SA8000 complements it on workplace conditions,” Mr. Patrick noted. At the same time, SA8000’s “wider scope on the supply chain” works well with the UNGC.

### **Country and Industry Contexts**

Argentina has a high level of participation in the UNGC with 225 companies, the sixth largest number of members of any country. However, the transport sector in Argentina presents particular challenges for some aspects of implementing the UNGC principles, because it is a large and rapidly growing country with significant labor-management tensions and corruption issues. In the case of the transport industry, the issue of particular concern is avoiding bribery among customs officials and other governmental agencies responsible for regulating cross-border movement of goods.

Violation of intellectual property rights and counterfeit goods are also a concern of transport companies, as they strive to avoid carrying illicit merchandise. Each of these issues points up the importance of the tenth UNGC Principle, devoted to anti-corruption, for TNT and its industry.

The industrial relations landscape of Argentina is also challenging. The national trucking union has long been a major political force within Argentina as well as a strong participant in the International Transport Federation. Thus, as Mr. Patrick observes, “industrial relations are always high on the agenda of Argentine companies in the transport industry and it is key to work together with the union.” The rate of unionization at TNT Argentina stands at about 55 percent.

Another national challenge related to UNGC labor standards (Principles 3-6) involves employer social security contributions. Many companies operate informally, hiring unofficial workers and concealing their lack of compliance with employee benefit

regulations. One of TNT's major efforts with its suppliers has been to explain not only that the illegality of this practice is not acceptable to TNT as a customer but also that there are advantages for a business to provide its employees with insurance and health benefits: greater worker loyalty, satisfaction, retention, and productivity.

The transport industry is affected by many of the priority issues in the international economy – trade regulations, anti-corruption efforts, industrial relations. Within Argentina, these are also priority issues, and TNT participates in regional and national consultations on customs and other shipping regulations. TNT Argentina is in its second term as the President of the Argentina Chamber of Couriers and participates in the annual conference of South American and Iberian customs directors. The transport sector is also on the cutting edge of measuring its environmental impact, reporting on it, and raising expectations for greater fuel efficiency and less pollution. One-fifth of the total CO2 emissions in the world are produced by transportation, making environmental concerns a priority for the industry.

## **SA8000 and UNGC in Supply Chain Management and Daily Operations**

Probably the most important area in which SA8000 certification helped improve TNT Argentina's business operations is the supply chain. Mike Patrick notes that "the supply chain management aspects and contractor issues [covered by SA8000] are very important to us." TNT pre-qualifies new suppliers, a process that includes a meeting with members of the audit team to discuss the ISO14000 and SA8000 policies and to assess the supplier. For existing suppliers, TNT uses a structured evaluation process that begins with a ranking of all its 500 suppliers based on strategic importance for the company's operations (such as airlines and trucking companies) and compliance with ethical norms. Some contractors are ranked in only one category, some in both. Suppliers also submit documentation of salaries and social security payments as evidence that they are following TNT policy.

Out of all its suppliers, the company has defined 120 firms as key suppliers expected to carry out the implementation of TNT's corporate responsibility norms—these include vehicle repair services and vehicle cleaning services. One example of how TNT Argentina encourages norm implementation among this group was to prefer, and hire, a cleaning services

company using biodegradable soap and dramatically less water.

Suppliers are asked to align with the principles first through a letter, but encouragement and discussion are also often necessary. Part of TNT's encouragement uses market-based arguments, noting that better workplace practices bring more business because they improve services offered and provide access to large international companies that work only with compliant suppliers. "The challenge is not to force but to convince of the benefits and work together," explains Mr. Patrick.

On occasion, TNT has had to terminate its relationship with some suppliers, not because of, as Mr. Patrick put it, "being dogmatic about certification but because of failure to improve." The company also works closely with the Ministry of Labor by helping facilitate a supply chain workshop for companies, seeking to achieve a multiplier effect of good practices and sound corporate citizenship principles down the supply chain.

Supply chain management is not the only area where SA8000 has served as a tool for TNT Argentina to demonstrate its commitment to socially conscious ways of conducting business. Few explicit changes were necessary to meet both the SA8000 and UNGC requirements because the company had been living by many of these principles. Still, where needed, compliance was strengthened through improvements in internal policies. For instance, the company defined and documented its business principles, established an ethics committee, joined the World Economic Forum's Partnering Against Corruption Initiative (PACI) and installed strong whistleblower procedures to address fraud and corruption in accordance with the UNGC Principle 10, as well as human rights and any other issues raised by employees. Any employee can write an email or comment about their concerns, providing an important and systematic tool for an open communication with management.

Another way of embedding principles in daily operations has been through pay and incentive policy. The company's performance management scheme is related to the implementation and maintaining certifications, thus providing some tangible reward for implementing the standards. TNT understands that the key to successful and sustainable integration of the Global Compact, SA8000 and other standards into company operations lies in making them a crucial part of those operations even though that requires time and effort.

Mike Patrick believes that engaging employees in corporate sustainability is an opportunity to instill pride in them and genuinely inspire them. In particular for commitments that extended beyond compliance, he says, “The only way we get this engagement is by directly involving our employees and suppliers to understand the benefits and see that they play an incredibly important part in not only sustaining our programmes but also continuously improving them.”

There are certain costs associated with meeting the UNGC and SA8000 standards, including training, communications, alignment with processes, and auditing. There have of course been a lot of benefits for TNT Argentina, including:

- Increased employees’ confidence in sharing issues and ideas;
- Employees’ perception that SA8000 has resulted in tangible benefits to them;
- Increased employee engagement;
- Improved corporate responsibility image (TNT Argentina is one of the few companies following both the UNGC and SA8000 standards);
- Better understanding and focus on supply chain,
- Reduced absenteeism and turnover;
- Better transparency and understanding of local custom and practice; and
- Consistency in employee performance.

Aside from monetary costs, adopting these standards brings a lot of responsibility that not every company is willing to undertake. Yet, the example of TNT Argentina shows that, in the end, benefits outweigh costs.

## Benefits and Synergies of the UNGC and SA8000 Participation

Although TNT N.V. is a UNGC participant, not every subsidiary has decided to participate. This makes TNT Argentina’s UNGC commitment all the more meaningful and testifies to its benefits. TNT Argentina’s SA8000 certification, unlike its UNGC membership, is connected to the larger policy on this standard by TNT Group. The Group also uses the Investors in People systems in meeting development commitments to employees, with TNT UK being one of the first companies, in 1994, to use those tools for improving and measuring staff development.

It is important to remember, however, that SA8000 works in TNT Argentina not only because it was TNT N.V.’s international policy but also because it is a good fit with the company’s goals and aspirations.

“We recognized an important part of our commitment was and still is sharing responsibility for the world in which we operate,” Mike Patrick says, “And also that sustainable development is a process of continuous change meeting the present and future needs of the business.” He also notes that SA8000 meshes well with other international norms at TNT Argentina: “We have ISO9000 for all processes, and have a strong conviction that these norms will enable us to constantly improve our service and position in the market. No other company in Argentina has earned this set of certifications.”

Mr. Patrick also points out the importance to business growth and sustainability of being a company people feel good about working for. These are evidenced in low absenteeism and a very low voluntary turnover rate of about 4-5 percent, which brings big recruitment and training savings. The company reports that voluntary turnover at TNT Argentina is just a third of the industry average of 14 percent.

There are also definite productivity benefits resulting from a stable, more experienced workforce. Mr. Patrick emphasized that “a high turnover rate means that you have to hire many people every year and spend a lot of money in terms of hiring fees, advertising, training, interviews.”

A related benefit is the sense of unity and common purpose within the company because it has fully trained and informed its workers on their rights and benefits. In addition to regular training, every quarter TNT Argentina senior managers present to the entire staff on TNT’s policies, worker benefits, and on what employees can do to work effectively while implementing those standards.

Once a year senior management accompanies a courier to deliver and pick up packages in order to monitor first hand how the company is operating on the ground and what issues its workers face. In that regard, another major benefit is the usefulness of SA8000 in facilitating dialogue with trade unions.

Positive reputation effects are also present and the company is frequently invited to give talks about corporate responsibility (CR) strategy implementation. Another example of being recognized as a leader in CR, was TNT Argentina’s participation in the UNGC climate change summit. Reputation also matters for the bottom line, especially in tough economic times. In previous years, TNT Argentina has been growing at 30 percent annually. Last year the growth slowed down to due to the global recession and despite the crisis, the company retained the loyalty of its key customers and

it is still ahead of the competition in terms of inbound and outbound shipments to and from Argentina.

## Tracking and Reporting Challenges and Successes

Reporting on compliance with corporate responsibility standards at TNT Argentina is both internal and external. The company also includes a review of the standards in its yearly business plan. Internal reporting ranges from statistical to dialogue based. The company produces monthly reports on CR indicators, which are also aligned with the Global Reporting Initiative guidelines and provide a good way for measuring impact. Mr. Patrick also describes additional ways of monitoring the company's internal compliance. "TNT Argentina has meetings where we review the norms and the quality initiatives, which include both the management team and worker representatives from the union and from the non-unionized workers. Senior management talk about challenges and issues and update everyone on how we are doing with the norms and standards we use."

Publishing external reports is also well established within the company – TNT Group issued its first corporate sustainability report in 2004, reporting according to the Global Reporting Initiative (GRI) requirements. It also met a goal of complete coverage of key sustainability management systems in all its fully owned operations by end of 2007 – ISO9001, SA8000 (for those countries outside of the Organisation for Economic Co-operation and Development), Investors in People, ISO14001, and OSHAS18001.

TNT finds the various standards line up with specific issues that are part of the Global Compact principles: ensuring operational excellence (ISO9001); ensuring a safe place to work (OSHAS18001); ensuring a responsible external impact (ISO14001); enabling workers to grow personally and professionally (Investing in People); demonstrating social responsibility (SA8000); and reporting sustainability performance (GRI).

A major and structured part of complying with each of these standards has been stakeholder engagement. At TNT Argentina, it consists of sharing experiences with, and learning from, other organizations such as those in the national Chamber of Couriers. Mr. Patrick says it is a high priority on his agenda to share best practices with colleagues, customers, suppliers, and even competitors because that is the spirit of the UNGC

and SA8000. He does that by speaking at universities, conferences and at industry association meetings, and many other venues.

He also credits his company's participation in the Global Compact with giving more structure to TNT's reporting and performance regarding its principles. For example, TNT has developed a specific program called Planet Me ([planetme.tnt.com](http://planetme.tnt.com)) launched in 2007. Its primary objective is to reduce the environmental impact of TNT's operations and boost the financial performance of TNT by improving fuel and energy efficiency. TNT environmental programs have helped it set specific targets for carrying out some of the UNGC environmental commitments. TNT has also been an active partner of World Food Programme, the world's largest humanitarian aid agency, since 2002.

Another way in which TNT Argentina shares socially responsible initiatives with its stakeholders consists of regular meetings with the community, where the company explains specific areas where it goes beyond the legally mandated minimum to be supportive of health and family life of its workers. These benefits include: comfortable work environment with ergonomic chairs and computer equipment, an extra week of both pre- and post-maternity leave; double the mandated travel time for parents to go home earlier and spend time with their children; higher levels of life insurance; longer paternity leave; and double the required number of days employees can devote to education to raise their qualifications.

External reporting for TNT Argentina starts with the annual publication of Communication on Progress (COP) and with reporting on SA8000 and other certifications the company earned, but it doesn't end there. Mr. Patrick observes, "many companies write the Communication on Progress, but do not live it."

TNT Argentina's Communications on Progress clearly demonstrate the alignment of what the company does with corresponding principles and standards. Specifics of implementing the human rights principles are demonstrated by the use of SA8000. Thus, reporting on Principles 1-6 references SA8000 audit findings and reports. For example, the May 2009 COP notes that SA8000 audit results state there is no evidence of discrimination or child labor, and that surveillance audits found no instances of non-compliance. It also notes that 48 percent of employees are covered by collective bargaining agreements.

TNT Argentina places emphasis on gender equality: 10 percent of its managers are female, as are 30 percent of logistical staff. The COP also highlights TNT

# Saving a River Helps Local Community

TNT Argentina's main complex is located next to the Matanza-Riachuelo river and is surrounded by a community of about 30,000 low-income people, including Argentinians as well as immigrant populations from Paraguay, Bolivia and Peru. The river suffers from serious pollution due to the industrial and domiciliary waste. For the local population access to basic services, such as drinkable water, sewage, and electricity, is limited or lacking.

In an effort to address this environmental and social problem, TNT Argentina partners with Fundación Ciudad, an organization established in Buenos Aires in 1995 with the goal to contribute to the preservation and the development of the quality of urban life in Argentina. With TNT Argentina's help, in terms of funding and volunteer time from employees, Fundación Ciudad coordinates clean-up efforts to sort and dispose of waste, and recycle where possible.

The company's Guardianes del Riachuelo (Guardians of the Riachuelo) program, created to support those efforts, began

in October 2005 through an agreement with Environmental Subsecretary of the Government of the City of Buenos Aires. The program increased access to clean water by reducing the waste that municipal services must remove from the Matanza-Riachuelo river. It has also helped instill a sense of shared responsibility for the environment and for the community – values inherent to TNT globally.

TNT Group recognized those efforts through awarding TNT Argentina an internal award for community service. This initiative was also presented and praised at the Argentine Business Council for Sustainable Development.

Mike Patrick commented that TNT Argentina won the award “because of the actions the team put in place to preserve the natural environment and support environmental sustainability in the community while engaging our employees in very worthwhile actions.”



The Matanza-Riachuelo River before clean-up efforts began



The Matanza-Riachuelo River after clean-up efforts

Argentina's corporate responsibility strategy, which includes product quality, environment, occupational health and safety, and social responsibility.

Similarly, at a global level, the TNT Group CR report shows key performance indicators, including certification levels to OSHAS18001, Investing in People, SA8000, ISO9001 and ISO14001, numbers of accidents, levels of CO2 emissions, surveys of employee engagement and customer satisfaction, and financial results. This “triple bottom line” reporting is cross-referenced to both the GRI G3 Guidelines and the Global Compact Principles.

## Lessons Learned

In today's globalized world, demand for international shipping services continues to grow. According to Mr.

Patrick there are three important factors to advancing corporate responsibility in Argentina.

First, the efforts of companies such as TNT Argentina must be accompanied by cultivating the same tenets of good corporate responsibility among peers, suppliers, and subcontractors in the industry. Responsible conduct and transparency must extend all the way through the supply chain.

Second, there must be a stronger global agenda for implementing the initiatives such as UNGC and SA8000 more widely. Mr. Patrick notes that the role of governments and international organizations and multinational entities is crucial here and they need to partner with the private sector on issues such as anti-corruption, human rights, and labor conditions. Governments and ministries of labor should also



do more to fulfill their roles and ensure that labor laws, including those against informal employment, are enforced in their countries. Similarly, customs and other regulatory agencies need to work with international shippers to limit illicit trade and customs fraud.

Chambers of commerce such as the Argentina Chamber of Couriers need to work together with the World Customs Organizations, national governments, and international organizations to put those issues on the international and domestic agendas. That does not mean, however, that specific corporate social responsibility measures should be legally mandated. In Mr. Patrick's opinion, coercion is not the way and CR standards work best when they are voluntary and the wider benefits are understood.

Third, Mr. Patrick points out that interacting and generating dialogue with our customers is a key element of creating greater demand for a responsible business. As Mike Patrick says, "Our key account customers are taking a more active interest in our programs and are working with us as we form part of their supply chain." He sees that there is a tipping point where companies who are able to prove a responsible approach to broader social and ethical issues will gain a vital competitive edge and inspire the confidence of their stakeholders.

The company's business has been growing impressively and despite being only a medium-sized firm in Argentina, it has been leading the transportation industry there in many ways, such as pioneering the SA8000 certification. Its representatives are often called upon to speak in public about ensuring integrity of business operations, beneficial human resources policies as well as pollution control policies. These high standards used in daily operations and the positive investments in people they bring are important to the company's sustainability and identity in both the short and the long run.



# Yesim Tekstil: Systematic Approach to Responsible Business in a Global Marketplace

## FACTS & STATISTICS

**Founded:** 1983

**Legal entity:** YESIM TEXTILE A.S.

**Sector(s):** Textile and garment

**Headquarters:** Bursa, Turkey

**Plants:** 2 (Turkey; Egypt)

**Revenue:** 250 million USD

**Number of employees:** 3,000

**Number of active suppliers:** Over 500

**Initiatives:** UN Global Compact (September 2006)

**Certifications:** SA8000 (May 2005); Sustainable Textile Certificate; CTPAT – Customs and Trade Partnership against Terrorism

## Key benefits of UNGC and SA8000 participation

Enhancing differentiation in a fiercely competitive global industry

Increasing workers' satisfaction, loyalty, retention, motivation, and productivity

Providing a framework for systematic integration of social compliance in business operations

Adding visibility and credibility to corporate responsibility

## Introduction

“Producing for the world” – the slogan of Turkey’s Yesim Tekstil couldn’t be any more true. With a large fully integrated yarn-to-finished-product facility under one roof, Yesim Tekstil is a leading manufacturer of knit goods for United States and European retailers. A production partner of the Nike brand since 2005, Yesim Tekstil also sells to Gap, Banana Republic, Old Navy, Zara, Esprit, Hugo Boss, Lands’ End, and Tchibo.

The industry is challenged by rising living and labor costs within Turkey, combined with intense price competition from lower-wage countries. In this increasingly competitive global market, many companies succumb to the downward cost pressure and resort to questionable labor practices and excessive overtime, creating tensions with the unions and making collective bargaining difficult. Yesim chose to do the opposite: instead of lowering its labor standards to compete on price, it became SA8000 certified and joined the UN Global Compact as a sign of firm commitment to the highest principles of business conduct.

Thanks to Yesim’s reach in terms of employees and products, the potential impact of its commitment is massive.

As one of Turkey’s largest employers, the company has a large national presence. Based in Bursa in Northwest Turkey, it directly employs around 3,000 workers in its garment and home textiles facilities. The fully integrated textile business – performing all steps from knitting to dyeing and printing to lab-testing finished products – has a daily production capacity of 55 tons of knitted products, 70 tons dyed, 100,000 meters of printed fabric, 150,000 garments, and 60,000 home textile products.



**“Social compliance is tough, and a dilemma to begin with. Resolving it takes implementation through a systematic approach to each and every issue.”**

**Senol Sankaya, CEO, Yesim Tekstil**

Apart from its main production facilities in Turkey, the textile giant partners with a factory with 1,000 workers in Egypt. Additionally, Yesim subcontracts to companies in Moldova which employ another 1,700 workers, as well as to numerous manufacturers within Turkey. The company is driven by the goal “to establish an internationally recognized brand known for top quality products and customer-centric, personalized, responsive service.”

In February 2010, Yesim won the bronze prize in the country’s Stars of Export “Export Incentive Awards” organized by the Dünya Gazetesi periodical and sponsored by Akbank with the cooperation of DHL Turkey. The award is presented to companies that achieve the highest increase in their exports compared to the previous year. Given its importance in Turkey’s exports, Yesim is a key contributor to the country’s economic growth centered on the textiles and apparel industry. This sector accounts for around 20 percent of Turkey’s exports and 36 percent of its employment.

Yesim follows a clear vision of how it wants to accomplish and maintain its business goals without compromising on its employees’ well-being. The company’s “people first” philosophy was its founding principle in 1983 and still informs Yesim’s business strategy and daily operations. This philosophy means that the company commits itself to business practices based on an awareness of and attention to the people who work for it. Therefore, taking the responsibility for a decent work environment at every stage of its operations and making social compliance an integral part of its corporate culture is Yesim’s explicit mission.

“In our company fundamentals we have already addressed issues like collective bargaining, subcontracting and overtime,” CEO Senol Sankaya proudly emphasizes, adding that all the workers in Yesim factories are employees, not contract workers, and they have been members of the sector-wide union Teksif since the company’s founding.

### **Implementing UNGC and SA8000 Commitments**

Throughout its history, Yesim has been working to set a high standard for corporate responsibility in textile and apparel manufacturing. Although guided by its “people first” principle from the very beginning, Yesim chose to embed the implementation of its corporate standards in a more systematic way six years ago. The company conducted research on which customer codes of conduct apply to its activities and drew

up a matrix of requirements to compare available standards.

“We found the SA8000 to have the widest coverage. In addition, it emphasizes our founding strengths in social responsibility,” Mr. Sankaya concluded. Consequently, Yesim sought SA8000 certification and in 2005, became the first ready-to-wear producer in Turkey to be SA8000 certified.

In 2008, Yesim upgraded its corporate social responsibility principles by formally committing to the ten principles of the UN Global Compact. Mr. Sankaya explains the decision to join as a good fit with the company’s existing policies; becoming a part of the Compact entailed only minimal activity changes other than documentation and reporting. “All we had to do is add the UNGC Principles and a commitment statement to our social policy as citation.”

Taking on the voluntary implementation of UNGC and SA8000 was not without some concerns. Initially, Yesim feared that seeking SA8000 certification could result in additional costs caused by possible delays in business operations and slower delivery stemming from SA8000’s prohibition of extensive overtime. The company was concerned about a potential loss of flexibility to meet customer needs without becoming non-compliant. Worries about extra costs were related to the introduction of a monitoring system to control overtime, and to the prospect of shifting extra work to subcontractors and monitoring their practices. These early concerns evaporated, however, once Yesim implemented SA8000 and encountered no serious delays or problems with curbing overtime.

In fact, limiting overtime brought benefits to the company and its workers. Although the amount of work given to subcontractors might have increased, SA8000 gave Yesim’s management a systemic approach to make sure its business practices are socially responsible. Workers, especially long-term employees, recognize the benefits of decreased overtime if they receive fair compensation for their regular work. In the words of Mr. Sankaya, “workers’ appreciation for our overtime practices is high, as we pay living wages.” The company’s employees also emphasized that, in addition to addressing the issue of overtime, SA8000 certification brought greater attention to health and safety, better training, and improved communication with management.

## Maintaining Responsible Business Practices in a Competitive Global Marketplace

Making a company’s own business conduct compliant with the highest international norms is a challenge and an achievement in its own right. However, in today’s globalized world, it is not enough for companies simply to be compliant in their own factories and in their own countries. They must also consider whether or not their foreign operations and suppliers are up to the same standard. Therefore, challenges to implementing SA8000 reappeared in the new context as Yesim expanded its business beyond Turkey’s borders.

In Egypt, where the minimum wage is very low, the company’s workers demanded overtime to make ends meet when Yesim’s management took over in 2009. At the same time, their efficiency during regular hours was only about one-third of the average in Turkey. Workers would demand overtime to make extra money and then simply push the work they were supposed to finish during regular hours into overtime. Yesim’s response was to cut overtime as required by SA8000 but encourage better productivity by paying its Egyptian workers triple the Egyptian minimum wage. After six to eight months of transition, the system was in place and accepted, supported by training and education of workers. As a result, workers were better prepared to accomplish their tasks and felt more valued. Hourly productivity rate increased while working hours decreased.

Yesim has also expanded the commitment to socially responsible business to cover the relationship with its suppliers and subcontractors in, Egypt, India, Moldova, Pakistan, and Turkey. They have focused particularly on making yarn suppliers compliant; these suppliers are large companies around the world that account for a significant part of Yesim’s supply chain. One such major supplier is a Turkish company Topkapi Iplik, which is also SA8000 certified. Yesim has developed a system for subcontractors of periodical audits and training, follow-up audits, and action plans to improve compliance. There is zero tolerance for issues such as child labor; subcontractors found to be guilty of a major transgression are removed from Yesim’s system.

Going forward, the challenge for Yesim and other socially conscious companies in the textile and garment industry is to maintain the principles they value –human rights and workplace practices, environment, and anti-corruption – in the face of increasing competition especially from Asia and

Africa. Whether there is financial return on investing in responsible business practices depends at least partly on customers' awareness and willingness to pay a premium. Not all customers equally appreciate Yesim's commitment. As Senol Sankaya noted, "some care, some do so on paper only, others don't care at all." In Yesim's experience, their U.S. customers have required social compliance on a steady basis, whereas their European customers have started placing value on it only recently.

For a responsible company with higher labor costs like Yesim, this difference in customer attitudes may result in cost disadvantages compared to producers from other countries. However, the good news is that the most valuable customers do see the benefits and do usually care. Nike, which is Yesim's key customer, paid attention when the company committed itself to the UNGC. Mr. Sankaya wishes for more companies in his industry to participate in the UNGC as a way to increase the demand for social compliance and thereby create a level playing field for responsible producers.

Yet, for more companies to simply join the UNGC is not enough. Both integration of the UNGC commitment into the management system and subsequent verification are crucial for the Compact's effectiveness.

Structured implementation and third-party certification is precisely the advantage of the SA8000 standard. In terms of having a verifiable impact, as Mr. Sankaya points out, "with the SA8000 certification we have a tool to control and prove our compliance." He adds that one key concern about ensuring the effectiveness of the UNGC commitment globally is how much the UNGC can contribute to a level playing field throughout a supply chain.

As Yesim's experience shows, even if buyers are Compact participants who dutifully implement their UNGC commitment within their own company, not all of them automatically choose other Compact member companies as their suppliers if they have a cost disincentive to do so. Therefore, although Yesim is committed to upholding UNGC standards in business relationships with its own supplier, that fact alone does not always make it a supplier of choice for others. This creates uncertainty about the applicability and effectiveness of the UNGC in the supply chain.

Yesim's main facility in Turkey



## Benefits and Synergies of the UNGC and SA8000 Participation

Despite challenges that persist in the global marketplace, the UNGC, in Mr. Sankaya's view, has a key role as an umbrella system for improving corporate citizenship of companies around the world. Given how many private codes of conduct exist, the UNGC distills their complexity to ten clear principles that all responsible businesses and their customers can agree on. By aligning common corporate responsibility efforts among like-minded companies, the Compact has the potential to level the playing field step by step – both horizontally in terms of expanding participation by companies on every continent and vertically through improved business practices in those companies' supply chains. Such broader and deeper UNGC compliance in turn paves the way for increased application of SA8000.

Yesim has benefited from its commitment to both the Compact's principles and SA8000 standards in several ways. Yesim's adherence to its founding values and production in comparatively costly Turkey can cause some difficulty in attracting and retaining customers. However, those principles – affirmed by participation in the UNGC and SA8000 – are precisely what helped the company differentiate itself in a competitive textiles and garments market, attracting the most important customers.

SA8000 standards also helped the company make good corporate citizenship an integral part of its day-to-day operations. Mr. Sankaya's explains, "SA8000 teaches us a systematic approach which feeds into our quality management system. Before SA8000, we had everything in place but not in a systematic way, not integrated with other functions of the factory. Now, social compliance is everybody's business."

Being a part of the UNGC and obtaining SA8000 certification has improved the international visibility of Yesim's corporate social responsibility. UNGC participation provides multiple opportunities for member companies to communicate on a regular basis and showcase best practices. For example, as a company with a high-level commitment to the UNGC, Yesim was invited to the United Nations Industrial Development Organization's General Conference in 2009 in Vienna, which included a Roundtable on Social Compliance in Vienna. Yesim also shares its experiences and corporate citizenship efforts through coverage in the national media, materials published on its website, and in customer presentations – and stakeholders do pay attention.

Senol Sankaya finds that, most of Yesim's key business partners appreciate its UNGC commitment and the SA8000 certification. "Many find it of value to be aligned with UN expectations," he adds. Moreover, the combination of both UN-level commitment and SA8000 verification helps to secure new business connections: "It signals to potential new partners that Yesim is already fulfilling compliance with their codes."

Internally, Yesim has benefited from its UNGC participation in terms of relationship with its employees: "It helped us in maintaining a good and dedicated workforce under this umbrella of principles, which contributes to the quality of our production processes and the results." This consistent systematic approach is used with all the UNGC elements, such as in Yesim's environmental responsibility. The company has not only shared its commitment through publishing its Social Compliance Policy, but has also integrated it into a corporate culture of responsibility. An in-house Social Responsibility and Environment Club launched in 2008 in order to involve workers in these strategic goals.

Today, Yesim's management system and its own code of conduct align all the standards that are considered important by the company, with SA8000 as its social compliance backbone. In the 2009 CIPE-SAI publication<sup>1</sup> featuring Yesim Textil (and its major supplier Topkapi Iplik), the company credited SA8000 implementation for increased awareness of workplace issues among both managers and workers, for better vocational training facilitation and compliance with environmental health and safety standards, and improved grievance and management systems.

## Reporting, Measuring and Improving

Annual reporting of Communication of Progress (COP) is required by the UNGC. Senol Sankaya notes that "preparing a Communication of Progress has added value" for Yesim. The company's COP published in December 2009 demonstrates the benefits of measuring and analyzing its ongoing efforts to fulfill the Global Compact commitment. The COP can be used to communicate Yesim's pioneer use of SA8000 in its sector. It also helps to capture Yesim's achievements with regard to the UNGC principles, based on measurable results of SA8000 compliance. In turn, verification by a third party adds the value of

<sup>1</sup> CIPE and SAI (2009). *From Words to Action: A Business Case for Implementing Workplace Standards. Experiences from Key Emerging Markets.* [www.cipe.org/publications/papers/pdf/SAI.pdf](http://www.cipe.org/publications/papers/pdf/SAI.pdf)

credibility to the Communication of Progress in the areas of human rights and labor covered by SA8000.

In its reporting, Yesim follows the same systematic approach it uses to implement its business tenets. Key performance indicators for compliance have been developed and are used for reporting on the company's compliance with the UNGC Principles based on measurable achievements. For each Principle, the report summarizes the outcomes of implementation on four levels: commitment, good practices, key performance indicators, and realization and target. References to company documents cited throughout the COP make its findings easily to confirm.

The backbone role the SA8000 has for Yesim's UNGC compliance is evidenced by the very placement of the company's social policy in the COP: it is stated on the report's first page. Furthermore, the reporting on Yesim's activities with regard to UNGC Principles 1 to 6 refers directly or indirectly to SA8000 use in all four levels of implementation. Among Yesim's top achievements of SA8000 implementation are: a 37 percent decrease in work time lost due to accidents and sickness (from 652 to 414 days), and nearly 100 percent compliance with overtime limit requirements (in 2006, only 4 out of 2,500 employees exceeded the yearly limit of 270 hours; in 2007, only one employee exceeded that limit).

Constantly seeking to improve, Yesim places special emphasis on its extensive 66-question employee survey designed in accordance with the European Federation of Quality Management excellence model. Through this survey, the company can systematically reach thousands of its workers and explore their awareness of SA8000 issues and satisfaction generally as well as in particular areas such as discrimination. The survey response rate in 2009 was 91 percent and revealed that employees' awareness of Yesim's social compliance policies and management system is very high, standing at about 85 percent.

Yesim shares survey information and other feedback not only with its labor force, but with the public at large via the Turkish media. The company has found that this visibility increases its worker retention. Furthermore, those results can identify needs for future improvement.

## Lessons Learned

At the Global Compact's Annual Local Networks Forum in 2009 in Istanbul, Yesim was asked to give an opening keynote speech. On day two, Yesim's

corporate communications manager shared the company's COP and answered questions from the fellow members of the UNGC Turkish network. Sharing best practices does not happen only during UNGC meetings, however; member companies also provide each other with one-on-one advice.

In September 2008, several companies from the Turkish network visited Yesim's facilities to better understand the company's social compliance systems. Through UNGC participation and SA8000 certification Yesim became a model for others, demonstrating that compliance is feasible for a garment manufacturer in Turkey. It also proves that UNGC and SA8000 certification are compatible with business success, and compliant companies can be a source for learning about best practices.

In CEO Senol Sankaya's view, the UNGC membership is a commitment, a declaration, and a call to action. "If you address any problem systematically, you can solve it in a way that assigns proper responsibilities and ensures sustainability," he said. "It was our major learning from a systematic approach to compliance."

For the Global Compact commitment to be realized in that systematic way, tools are needed to guide implementation. SA8000 is a key tool in this regard, since its requirement of third party verification adds value to voluntary commitments. This is the key synergy between the UN's highest alliance for social compliance and the SA8000.

Senol Sankaya notes that this synergy can translate into important benefits for business, "SA8000 shows our good practices at the beginning of new business relations. If you are SA8000 certified, it is very easy to convince potential customers about your social compliance. They don't ask for anything else." He also adds that the standards management system element fits with the company's emphasis on systematic integration of its social responsibility.

The buy-in and support of top management and workers alike, and the company's work with its suppliers and facilities outside of Turkey to bring them into compliance, are all indicators of commitment to social corporate responsibility and sustainable growth. Mr. Sankaya believes that the only missing element of the SA8000 that could improve it further is highlighting the environment, especially regarding proactive measures and a licensed environmental code.

At the same time, Yesim's experience with implementing its UNGC and SA8000 commitments raises important issues regarding the applicability of these principles throughout supply chains that stretch



across country borders. Mr. Sankaya notes that for even more leverage and impact, the UNGC must not only focus on the relations between producer and customer companies within the UNGC framework but also emphasize the need to make businesses around the world and the public more aware and appreciative of the value of social compliance. On the supplier side, that means bringing international suppliers of companies such as Yesim into compliance. On the consumer end, it means making Yesim's client companies and end consumers aware of the need for greater social compliance along the entire value chains of the products they buy.

Branding can be an important part of that effort, because brands that build a reputation for good corporate citizenship can help extend the awareness for comprehensive social responsibility and sustainability among customers. If customers – through their purchase choices – are demanding responsible supply chain management, greater compliance will follow. Senol Sankaya believes that the UN should play an important educational and awareness-raising role, with the Global Compact as a crucial forum to accomplish that goal, bring more companies on board, and create a better level playing field for socially conscious companies in increasingly competitive global markets.

# Annexes

# Annex 1: The UN Global Compact Principles for Labour Standards

## The Ten UNGC Principles:

### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

### Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment, and anti-corruption.

The four labour principles of the Global Compact are taken from the ILO's Declaration on Fundamental Principles and Rights at Work. This Declaration was adopted in 1998 by the International Labour Conference, a yearly tripartite meeting that brings together governments, employers and workers from 177 countries. The Declaration calls upon all ILO Member States to apply the principles in line with the original intent of the core Conventions on which it is based. Consensus now exists that all countries, regardless of level of economic development, cultural values, or ratifications of the relevant ILO Conventions, have an obligation to respect, promote, and realize these fundamental principles and rights. At the G8 Meeting in Evian, France, in 2003, the leaders of the industrialized world encouraged companies to work with other parties to implement the Declaration.

The Principles and Rights identified in the ILO Declaration comprise the labour portion of the Global Compact. They are:

- to promote and realize in good faith the right of workers and employers to freedom of association and the effective recognition of the right to collective bargaining;
- to work towards the elimination of all forms of forced or compulsory labour;
- the effective abolition of child labour; and
- the elimination of discrimination in respect of employment and occupation.

The aim of the ILO is to harness the support of the business community for these principles through the Global Compact. The labour principles deal with fundamental principles in the workplace and the challenge for business is to take these universally accepted values and apply them at the company level.

# Annex 2: The SA8000 Certification Standards

**Social Accountability 8000 [SA8000] is an auditable standard for third-party certification of compliance with key international workplace norms for labor rights including International Labor Organization conventions, the Universal Declaration of Human Rights, and the UN Convention on the Rights of the Child. A summary<sup>1</sup> of the standard's requirements:**

1. **Child Labor:** No child labor; remediation of any child found working
2. **Forced Labor:** No forced labor; no lodging of deposits or identity papers at employers or outside recruiters; no trafficking
3. **Health and Safety:** Safe and healthy work environment; system to detect and prevent threats to health & safety; regular health and safety worker training; access to clean toilet facilities and potable water
4. **Freedom of Association and Right to Collective Bargaining:** All personnel have the right to form and join trade unions and bargain collectively; where these rights are restricted under law, the company shall allow workers to freely elect their own representatives
5. **Discrimination:** No discrimination based on gender, race, caste, origin, religion, disability, sexual orientation, marital status, family responsibilities, trade union or political affiliation, or age; no sexual harassment
6. **Discipline:** No corporal punishment, mental or physical coercion or verbal abuse
7. **Working Hours:** Compliant with applicable law, but, in any event, no more than 48 hours per week with at least one day off following every six consecutive days of work; voluntary overtime paid at a premium rate and not to exceed 12 hours per week; overtime may be mandatory if part of a collective bargaining agreement
8. **Remuneration:** Wages paid for a standard work week must meet legal and industry standards and be sufficient to meet the basic needs of workers and their families and to provide some discretionary income
9. **Management Systems:** To earn and sustain certification, facilities must go beyond simple compliance to integrate the requirements into documented management systems and into their supply chain, including complaints response, workplace dialogue, and stakeholder engagement.

In 1996, SAI convened an international multi-stakeholder advisory board to develop and oversee the implementation of SA8000, a voluntary standard for workplaces based on ILO and other human rights conventions. Published in 1997, with revisions in 2001 and 2008, the SA8000 standard and verification system provide tools for creating, managing, and sustaining ethical workplaces. SA8000 certification requires auditors to find evidence of compliance, revisit periodically to confirm continuing compliance, and follow up with certified organizations to see that any identified problems are addressed. An associated organization, Social Accountability Accreditation Services (SAAS), oversees certification providers through a structured accreditation and surveillance process of the auditors themselves.

The rationale for creating SA8000 was to provide a unifying framework for various workplace codes of conduct and verification methodologies. As companies started to develop their own codes and audit supplier performance, numerous methods emerged for defining and checking compliance. This resulted in considerable confusion because there was no easy way for consumers or wholesale customers to know whether the goods they purchase were manufactured in ethical workplaces. Meanwhile, suppliers faced the hassle of multiple audits on behalf of customers who apply different standards. SA8000 addresses these issues by being based on international norms and designed to be auditable for certification of compliance. Compliance with SA8000 includes compliance with ILO conventions, local and national law, openness to worker concerns, and a commitment to continuous improvement.

Codes of conduct, just like laws, are not necessarily followed. Incentives are key and the challenge is to find a way for compliance to trump avoidance. In order to achieve that, moral arguments are rarely enough. Systems are needed wherein it is more rational to meet high standards than avoid them, where the benefits of compliance are as visible as the costs, and where mature industrial relations and social dialogue are an integral part of a basic business model. Today, over one million people in 68 countries and 67 industries work in SA8000-certified enterprises. Many other organizations and businesses are working toward SA8000 and using its tools to improve performance.

<sup>1</sup>. Entire standard available at [www.sa-intl.org/SA8000](http://www.sa-intl.org/SA8000)







**From Principles to Practice:**

**The Role of SA8000  
in Implementing the  
UN Global Compact**

United Nations Global Compact  
Two United Nations Plaza, DC2-621  
New York, NY 10017  
[www.unglobalcompact.org](http://www.unglobalcompact.org)

Social Accountability International  
15 West 44th Street, 6th Floor  
New York, NY 10036  
[www.sa-intl.org](http://www.sa-intl.org)

Center for International Private Enterprise  
1155 15th Street NW, Suite 700  
Washington, DC 20005  
[www.cipe.org](http://www.cipe.org)