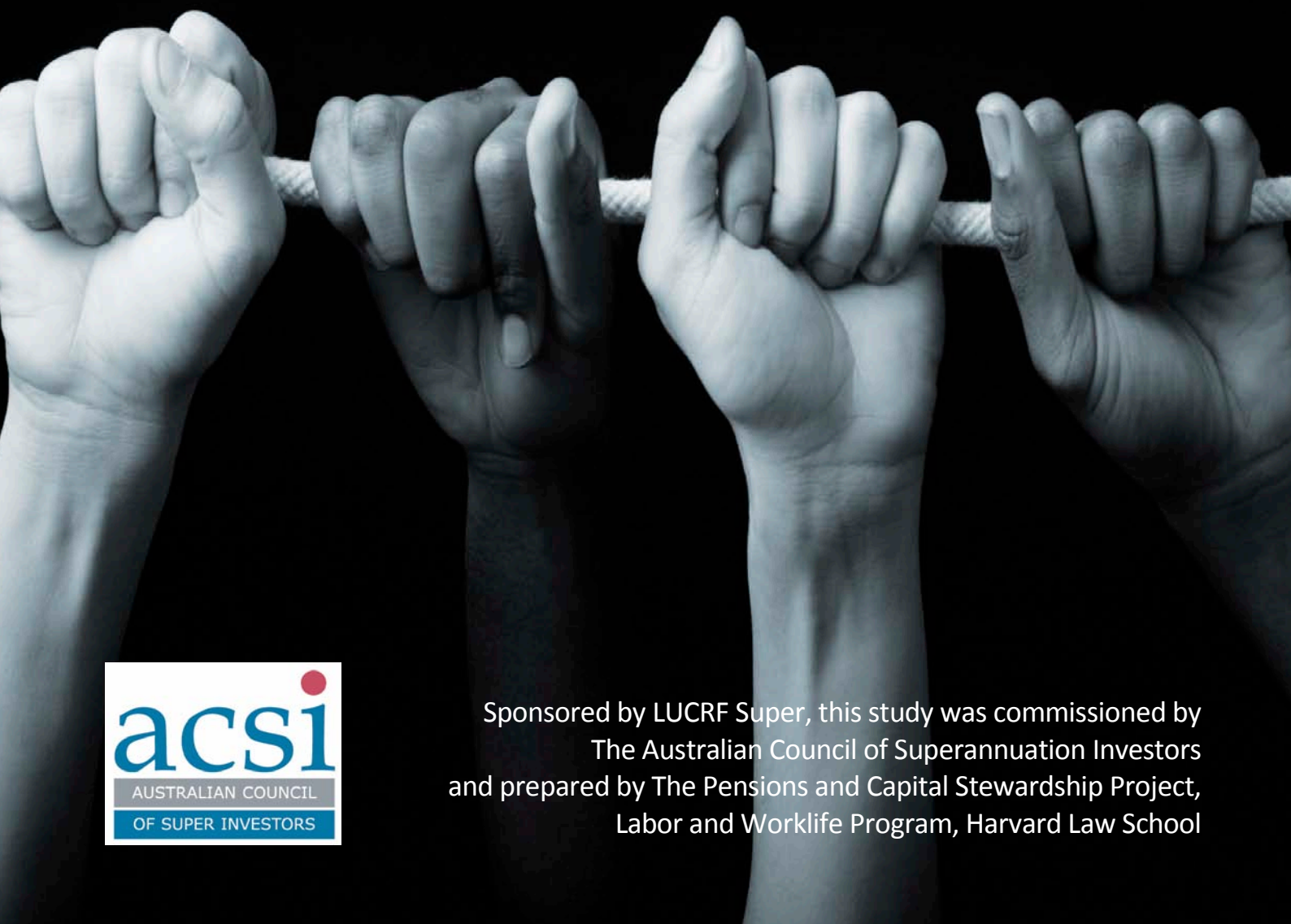


Supply-Chain Labour and Human Rights

**S&P/ASX 200
and Global Company Policies**



Sponsored by LUCRF Super, this study was commissioned by
The Australian Council of Superannuation Investors
and prepared by The Pensions and Capital Stewardship Project,
Labor and Worklife Program, Harvard Law School

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About the Author

The Australian Council of Superannuation Investors

The Australian Council of Superannuation Investors (ACSI) provides independent research and advice to assist its member superannuation funds to manage environmental, social and corporate governance (ESG) investment risk. ACSI believes effective governance structures and processes decrease risk and potentially increase returns, because they create stability that supports the development of long-term investment strategies. ACSI's research platform serves to underpin policy positions and raise awareness of emerging governance issues.

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LUCRF Super

LUCRF Super (Labour Union Co-operative Retirement Fund) was founded in 1978 and is Australia's first industry superannuation fund. Based in Melbourne, Victoria, the fund maintains branches in New South Wales, Queensland and South Australia and services over 184,000 members and more than 14,700 employers Australia-wide. LUCRF manages in excess of \$2.8 billion in funds under management and is committed to investing ethically and responsibly, with a strong belief that ESG issues can affect the performance of investment portfolios. The fund is a signatory to the United Nations Principles for Responsible Investment, highlighting its ongoing commitment to the promotion of more sustainable markets and long-term investment using ESG issues to improve investment practices.

LUCRF Super is the principal sponsor of this research report.

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The Project was established to educate and inform workers, scholars, researchers, and practitioners on issues of retirement security, including employment-based retirement plans, and of pension fund governance, management, investment, and related matters.

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Foreword

The Australian Council of Superannuation Investors (ACSI) is pleased to introduce *Supply-Chain Labour and Human Rights* – a research report sponsored by LUCRF Super and prepared by The Pensions and Capital Stewardship Project, Labour and Worklife Program, Harvard Law School.

Long-term investment strategies require the careful assessment of risk management issues within investment portfolios. In an increasingly globalised investment market, investors have witnessed a growing trend towards companies' sourcing inputs and operations from foreign jurisdictions. This means that thorough due diligence now includes an assessment of how these foreign operations are managed and to what standards. This is particularly the case in a climate of highly interconnected global media where exposure to reputational risk threatens a much greater impact on company value than perhaps a decade ago.

In this business environment, long-term investors have a responsibility to seek assurance that investee companies strive to maintain stakeholder relations which, at the most basic level, guarantee that human rights are upheld. Companies should be protecting their employees against abuses of human rights such as forced labour and child labour, whilst ensuring provisions for adequate health and safety and freedom of association. Without these guarantees, companies and their investors compromise the integrity of their business, building short-term profits on inefficient and exploitative systems and risking significant reputational damage, legal liability and long-term sustainability.

A modern day company has the responsibility to ensure that every member of its labour supply-chain across the world is afforded universal human rights. Similarly, a modern day investor has the responsibility to scrutinise the company to ensure that this is the case.

Investors are increasingly recognising that positive supply-chain labour relations are integral to not only the fair and equitable treatment of people but also to the long-term sustainability of companies. Companies benefit from efficient supply-chains, positive brand association and low staff-turnover. Furthermore consumers are becoming more interested in companies' practices in this area and are making purchasing decisions based on the ethics and values embedded into a company's policy, culture and operations. In such an environment, poor supply-chain labour human rights (LHR) practices in a company reflect a failure of risk management at the board-level.

LUCRF Super sponsored ACSI to commission this research to encourage a greater focus on supply-chain LHR by both investors and companies. As the research shows, Australian companies lag their international peers in the robustness of their supply-chain LHR policies, meaning this report should be a timely warning for companies to improve their practices. The report also echoes calls from the updated OECD Guidelines for Multinational Enterprise, published in May 2011, for increased attention by companies to issues of human rights and responsible supply-chain management.

It is hoped that this research report will highlight the urgent need for a strengthening of supply-chain LHR policies across Australian companies and expose the range of risks that currently exist in this area. ACSI will also use this information as a basis for future company engagement activities so that investors can start working with companies to confront this challenging issue.

Sincerely



Ann Byrne
Chief Executive Officer, ACSI

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1. Executive Summary

This research report benchmarks companies listed on the S&P/ASX 200 (ASX 200) according to the labour and human rights (LHR) policies that they have established for their global supply-chains. The metrics employed were developed for a 2009 study from the Pensions and Capital Stewardship Project of the Labour and Worklife Program at Harvard Law School, which benchmarked the corporate policies on supply-chain labour and human rights for 2,500 of the largest global companies.

This research finds that ASX 200 firms as a whole lag those listed in other markets, with only 17 percent issuing an LHR policy covering their supply-chains, versus 35 percent of the global sample. Similar differences were found for corporate procedures to implement such policies. The most notable exception is for the largest ASX 200 companies, which match their global peers. Australian firms as a whole also come close to global levels on health and safety policies. However, on the remaining LHR benchmarks they score poorly on rankings developed for this paper.

As part of the project the 2009 study was updated, showing across-the-board increases of five to ten percentage points in LHR policies and implementation procedures over the nearly two-year period.

These benchmarks are designed to help investors to compare how Australian companies manage LHR risk in light of policies common in other markets. LHR abuse in global supply-chains has generated considerable negative attention in the past two decades, posing long-term reputational risk to companies that ignore it. Factory-level studies also have found operational inefficiencies resulting from such problems. Market-wide benchmarks offer investors a way to assess the long-term investment risks posed by varying approaches companies take to mitigating LHR risk.

2. Introduction

This study benchmarks the policies of companies listed on the S&P/ASX 200 (ASX 200) regarding labour and human rights (LHR) as they are applied to global supply-chains. It employs ten metrics developed in a 2009 study by the Pensions and Capital Stewardship Project called “Benchmarking Corporate Policies on Labor and Human Rights in Global Supply Chains”¹.

The aim is to determine how Australian companies traded on the ASX 200 manage LHR risk and compare their policies with those of companies in other markets. This paper and the 2009 study are part of a broader undertaking by researchers and investment analysts to assess so-called environmental, social and governance (ESG) risks, with LHR factors typically falling into the social category.

Over the past decade or so, a diverse array of organisations around the world has published benchmarks and guidelines on the long-term investment risk associated with corporate governance and environmental factors.² The purpose has been to set standards or best practices for how companies should manage these risks. These efforts have been both reinforced and informed by dozens of studies correlating various governance standards to measures of corporate performance such as higher total shareholder returns and greater profitability. Increasingly, shareholders use these standards to judge a company’s investment potential, in the belief that those with good corporate governance will perform better and deliver superior long-term returns.

Considerations of S factors are typically motivated by similar concerns: A company’s long term performance could be endangered if its business practices run the risk of violating national or international LHR standards or causing adverse impacts on local communities and cultures. Such violations may damage a company’s reputation, undermining its standing with consumers, regulators, and lawmakers. They also may weaken its operational performance by increasing employee turnover and inhibiting worker motivation and productivity. However, very little benchmarking has been initiated regarding social factors such as LHR or human capital, despite investors’ commonly expressed concern for ESG risks.³

Corporations have long faced both national and international laws and regulations covering many social factors, including the conventions issued by the International Labour Organisation (ILO).⁴ But these are usually enforced unevenly or not at all. They also typically have been issued for normative purposes, to govern what societies consider to be fair and just treatment of employees and citizens. None have been developed to help companies or investors assess potential reputational, operational or investment risks that social factors may present. So far, few entities setting corporate standards on governance and the environment from an investment risk perspective have attempted to do the same thing for social factors.

As a result, investors and corporate managers have few effective methods for comparing companies' LHR policies against each other or learning which approaches might be more effective in reducing any long-term reputational or operational risk. Although private investment research firms increasingly benchmark and assess corporate policies and practices in these areas, little of their work enters the public domain. The breadth of coverage and the analytical rigor of what is publicly reported are uneven. This paper and the 2009 study help fill the gap.

This paper concludes that ASX 200 firms as a whole lag those listed in other global markets. Only 17 percent of the Australian companies have issued an LHR policy covering their supply-chains, versus 35 percent of the global sample of 2,508. The pattern holds for nearly all of the LHR policies that reference specific abuses such as the use of child labour, as well as policies on implementation. A substantial portion of this disparity is the result of the composition of the companies in the ASX 200 and global samples. For example, the Australian group has a much higher percentage of energy firms and smaller companies, both of which are less likely to adopt an LHR policy than their global peers. Australia also has fewer consumer products companies, which are in general more likely to have a policy. However, these differences do not account for all of the disparity. Even among energy firms and smaller companies, a lower percentage of Australian firms have LHR policies.

The most notable exception is for the largest companies, those with market capitalisations of US\$10 billion or more. These ASX 200 firms match their global peers on the adoption of LHR policies. Overall, the Australian firms also come close to global levels on health and safety (H&S), an issue which also has commanded the most attention in other markets. 35 percent of ASX 200 firms have such a policy, compared to 40 percent among global ones. While small Australian firms lag dramatically on adoption of LHR policies, they do so to a much lesser extent with respect to H&S policies: 23 percent have one compared with 26 percent of small companies among the global 2,508.

The prevalence of H&S policies among Australian companies helps to explain why ASX 200 firms come out better on the rankings developed in this paper to characterise overall company performance on LHR issues than their relative lack of LHR policies as a general matter might suggest. The rankings are organised according to the number and type of benchmarks companies meet. A very modest percentage of global companies and an even lower percentage of ASX 200 firms fall into the top two levels. ASX 200 companies fair even worse on the basis of an alternative, perhaps more appropriate ranking which does not include health and safety policies.

It is important not only to understand current corporate practices on LHR issues but also to grasp the extent to which they are evolving. Toward that end, this paper updates the 2009 benchmarks, finding across-the-board increases of five to ten percentage points in LHR policies and implementation procedures over the nearly two-year period.

The findings presented here are based solely on descriptions provided by each company in public documents such as annual reports and corporate social responsibility reports. They do not reflect any external verification or assessment of how well companies actually implement their stated policies and procedures, or whether they even carry them out at all. However, publicly disclosed policies represent the primary basis upon which investors can evaluate LHR risk across a wide range of companies. By examining both the specificity and degree of explanation of corporate statements, it is possible to formulate objective benchmarks of LHR supply-chain policies, better understand where the most significant challenges lie and make inferences about best company practices.

This report offers investors, corporate officials and other interested parties a starting point from which to construct more elaborate assessment frameworks. For investors, market-wide benchmarks can provide a basis by which to compare the investment risks posed by the varying approaches companies take to mitigating LHR risk. Doing so would allow them to move beyond the negative screens often used to restrict portfolio investments in companies found to be in violation of LHR norms. The exclusion approach has limitations, since it only allows investors to address investment problems after they have occurred and offers no means to proactively manage LHR or other portfolio risks. Investors and others also can use these benchmarks to develop objective rankings of companies based on their LHR supply-chain policies relative to industry and sector peers.

3. Literature Review

The 2009 benchmarking study looked at market-wide descriptions of corporate LHR policies in supply-chains and policy implementation. There has been no other published study that has employed as large a sample size or examined the distinction between broadly worded policies and more specific standards and follow-up procedures. Most of the research that has been done on the subject has been undertaken by private-sector research firms that sell ESG-related investment data and analysis to institutional investors. This shows that there is an interest in this area on the part of investors and their asset managers who perceive supply-chain risk as potentially material to their assessment of companies. Often these private-sector publications are available only to the firm's clients, although some have publicly released LHR studies or summaries of them. Other studies have been done by non-governmental organisations such as the OECD and are usually available publicly.

The conclusions of most of the studies appear to be broadly in line with those of this paper, finding significant percentages of companies with broadly worded policies and much smaller shares with detailed standards and follow-up procedures. However, comparisons with prior studies are difficult because they do not always spell out the details of how they define corporate policies. This is particularly important because companies themselves often describe their policies in vague or general terms. The problem is compounded by the lack of standardised definitions of basic concepts. As a result, companies may have different definitions of say, child labour, and other studies may categorise those descriptions in different ways. The following review summarises relevant studies in order of their importance to the topic of LHR policy benchmarking.

MSCI Proprietary Benchmark Series⁵

- A fifth of 1,800 global companies said they had supplier codes of conduct on LHR issues in 2007. The companies included those in the S&P 500, the Toronto Stock Exchange 300 and the Morgan Stanley Europe, Australasia, and Far East index, excluding Japan. Child and forced labour and workplace discrimination were the issues most commonly addressed, with at least 15 percent of the companies saying they set standards in these areas. Freedom of association was the next most common, addressed by 12 percent of firms, while 10 percent described standards for harassment, health and safety and wages. However, lower percentages specified that their standards followed the corresponding core conventions of the International Labour Organisation (ILO).
- Companies based in the European Union were the most likely to have adopted a supplier code, with 35 percent having one in 2007. Twenty-two percent had one in the rest of Europe, 17 percent in the United States, 10 percent in Australasia, and 8 percent in the rest of the Americas. MSCI also reported that it had collected three years of data for U.S. companies (i.e., those in the S&P 500), which showed a clear trend toward code adoption. Thirteen percent had a code in 2005, 16 percent in 2006, and 22 percent in 2007.

FTSE 100 study⁶

- A third of the companies in the index as of April, 2007 had what the author referred to as “codes of conduct” covering supplier health and safety standards and working conditions, 28 percent covered freedom of association and 25 percent covered what was described as “human rights.” The author also found a range of compliance policies: 32 percent demanded code compliance by suppliers; 23 percent monitored adherence to their code; and 17 percent applied sanctions for code breaches and worked with suppliers that committed them.

EIRIS The State of Responsible Business⁷

- 280 companies in the FTSE All-World Developed Index as of 2007 were identified as high or medium risk for supply-chain violations, based on those with the greatest concentration of activities involving global supply-chains. Company policies were categorised as basic, advanced, or residual. Basic meant that the firm “demonstrate(d) commitment to one of the core ILO (International Labour Organisation) conventions areas, and make the policy publicly available.”⁸ Advanced meant that it “also demonstrate(d) integration of its policy with the company’s procurement process and membership of a relevant initiative dealing with labour standards, such as the Ethical Trading Initiative, Fair Labour Association or Social Accountability International.”⁹ Residual referred to companies with “no evidence of reporting publicly on their supply-chain labour standards policy and systems.”¹⁰ Outcomes were reported by geographic regions: Europe, Australia/New Zealand, North America, Japan, and Asia ex-Japan. EIRIS did not provide numbers for all 280 firms in its sample but instead reported its findings by geographic region.
- The results broadly paralleled those of MSCI. Less than 20 percent of companies in all regions other than Europe had a LHR supply-chain policy. More than half of those based in Europe had a basic policy, and a third met the advanced criteria. EIRIS found comparable rates for management systems designed to implement these policies and for reporting publicly on their actions. The fact that EIRIS selected companies with higher risks of supply-chain violations may in part explain why it found more policies than MSCI. However, EIRIS also used a different measurement standard. It ranked companies by their stated commitment to core ILO conventions, by “other key labour standards identified by EIRIS,” and by membership in relevant multi-stakeholder associations (MSAs).¹¹

EIRIS Labour Standards study¹²

- A 2009 study of 400 companies in Europe, North America and Asia Pacific ranked companies by the level of risk to which their LHR policies expose them. Less than one percent was classified in EIRIS's top category, meaning they had the best "policy, management systems and reporting on this issue, based on information they have made publicly available."¹³ Five percent were in the next highest category, deemed "good;" fifteen percent in an "intermediate" category; and another thirty-five percent in a "limited" one.¹⁴ The remaining 45 percent did not provide enough public evidence of how they dealt with the issue to be ranked. EIRIS did not report the benchmark data underlying its risk categories, making it difficult to compare with our rankings.

100 largest non-financial global corporations¹⁵

- A 2011 study by the United Nations Conference on Trade and Development used EIRIS data (as of June, 2009) and analysis to rank the 100 largest non-financial global corporations. A section on supply-chains focused on thirty considered to have high or medium exposure to LHR risk in this area. Of those, 28 were found to have an LHR policy and 24 provided a report on their policies, "practices and performance." The thirty also were ranked according to EIRIS criteria, only some of which were explained. The criteria included indicators such as whether the company had management systems to identify major human rights challenges and develop procedures to remedy non-compliance; whether it conducts supplier audits, develops procedures for addressing non-compliance and assign oversight responsibility to senior management; and whether it reports cases of non-compliance. The rankings scored companies on a scale of 1 to 100 and grouped them into five ranks. Eight of the thirty firms ranked in the top group, with scores between 91 percent and 73 percent. Another eight fell into the second group, with scores of 73 percent to 55 percent. Three in the middle group had scores of 55 percent to 37 percent. Six in the fourth group scored 37 percent to 19 percent. The last five scored 19 percent to 1 percent. While this study appears to cover many of the same benchmarks examined in our paper, there is insufficient detail about EIRIS's ranking criteria to determine the scope with precision.

Roberts Environmental Centre study¹⁶

- This 2008 study by a centre at Claremont McKenna College focused on 100 companies randomly selected from those that issue sustainability reports using guidelines published by the Global Reporting Initiative.¹⁷ Its purpose was not to benchmark LHR supplier codes but to assess the quality of corporate reporting on human rights that is done under the GRI rubric. Like MSCI, the researchers examined what companies said about their actions in public documents released in 2007 such as GRI reports, sustainability or corporate social responsibility reports, and annual reports.

It found much higher rates of general reporting on key LHR factors (although the study didn't distinguish between reports that focus on a company's own workforce as compared to those that discuss its global supply-chain). For example, 79 percent discussed freedom of association, 97 percent discussed non-discrimination, 71 percent discussed child labour, and 67 percent discussed forced labour. These robust rates likely reflected selection bias, since companies with no policies on these issues would have little reason to use GRI reporting guidelines.

- However, the study also found major deficiencies in the depth of reporting on LHR issues. The GRI guidelines require companies to describe their policies regarding each specific right, as well as the actions they have taken and the performance they have achieved on each. But only 9 percent of the 100 companies reported on all three aspects regarding non-discrimination, while 11 percent did so with respect to child labour, nine percent to freedom of association, and six percent to forced labour.

As You Sow survey¹⁸

- A 2010 survey by this US non-profit ranked the LHR practices of 15 large US apparel and retail companies. The rankings were based on a detailed survey sent to 33 firms (the other 18 did not respond). It asked about corporate policies covering all the benchmarks included in this paper, but with more specificity about each one. It also included other policies such as whether factory audits were conducted in the local language, whether a scorecard was used to track supplier compliance and whether the company had established programs to help suppliers continuously improve their compliance systems. Levi-Strauss and Company and Wal-Mart Stores Incorporated ranked the highest on a scale of one to four, with Levi's getting 3.4 and Wal-Mart 3.3. Four companies received 3.0 to 3.2, another four received scores in the 2s, and five received a 1.9. Aside from the smaller sample size, the major difference between the As You Sow approach and the one taken in this paper is that much of the data was not in the public arena and was obtained through the survey.

Hang Seng Index study¹⁹

- 48 percent of the 42 companies listed on the Hang Seng Index in 2009 said that they had health and safety standards for supply-chains, according to a study released in 2010 by Oxfam Hong Kong. Forty-one percent set labour standards, although these are not specified by the survey. It also found that 24 percent had a monitoring mechanism that covers all their key suppliers, and 21 percent have them covering some key suppliers.

UN survey of the 500 largest global companies²⁰

- This 2006 survey found that nearly 93 percent said they had policies on human rights which covered their supply-chains. Almost 90 percent said they had internal reporting and compliance systems in place, while nearly 75 percent said they engaged in some form of external reporting. Nearly 96 percent of respondents said their policies covered health and safety, 87 percent covered freedom of association, and 80 percent covered forced and child labour.²¹ These findings are considerably higher than those reported by MSCI and EIRIS. Selection bias undoubtedly played a role in these differences, since the UN received only 102 responses from the 500 corporations. As the study said: "... (I)t may well be the case that companies with human rights policies and management practices responded to the survey at a higher rate than those that don't." Another possibility is that some firms have LHR supplier standards but don't report on them publicly, in which case the MSCI and EIRIS studies would not have uncovered them.

UN human rights report²²

- The UN undertook a companion study of publicly reported LHR policies to supplement the 2006 survey. It looked at the public statements issued that year by 314 companies, including the 102 that had responded to the initial survey questionnaire; those listed on the Business and Human Rights Resource Centre's website as having publicly reported human rights policies; and companies that had submitted a Communication on Progress for 2005 or later as required by the Global Compact.²³ It found that companies stated LHR policies at levels that were closer to the 93% found by its survey questionnaire than to the lower rates reported by MSCI. For example, 54 percent of companies had supply-chain management policies that included LHR; 87 percent had policies covering non-discrimination; 65 percent covered freedom of association; and 60 percent covered forced and child labour. These rates also are much higher than the market-wide MSCI and EIRIS studies, again most likely due at least in part to the selection bias of the companion study, which focused exclusively on firms already known to have LHR policies.

UN study of Chinese firms²⁴

- A third UN study examined the LHR policies reported in 2006 by 25 Chinese firms which were selected to include "a roughly equal distribution between companies (1) ranked in the Fortune Global 500; and (2) participating in the Global Compact (GC)." It found very low percentages of companies with such policies.

MSCI Research²⁵

- For ESG indices sold to clients, the firm scores companies in major global markets on more than 100 performance indicators that address a company's ESG performance. One category of indicators is described as "Employees and Supply Chain – assess a company's record of managing employees, contractors and suppliers. Issues of relevance include labour-management relations, anti-discrimination policies and practices, employee safety, and the labour rights of workers throughout the company's supply-chain." However, these benchmarks and ratings are for the most part available only to clients.

Business and Human Rights Resource Centre²⁶

- This non-profit has created an extensive database that could be used as the raw material to create a supplier LHR benchmark.²⁷ The Centre attempts to identify and link to all corporate statements that refer to human rights, although it offers no further attempt to categorise the statements.

The variations among all these studies stem largely from their differing sample sizes and methodologies.²⁸ Alternate or imprecise definitions of LHR policies may be a factor as well. The following section outlines the definitions we developed to capture the often dissimilar descriptions companies use to report their supply-chain LHR policies. A clear understanding of corporate reporting on these issues is necessary for the development of benchmarking strategies that can be used for meaningful analyses of any investment risks they may pose across industries and markets.

Conclusion: Systematic analysis of LHR risk is not yet a significant part of mainstream investment analysis.

4. Data and Methodology

This study compares and contrasts the supply-chain labour and human rights policies of S&P/ ASX 200 companies against a broad global sample of corporations. The comparisons are meaningful ones because they are based on ten key company policies relating to setting and implementing LHR standards with respect to their suppliers.

This study employs LHR benchmarks developed in a 2009 study by the Pensions and Capital Stewardship Project called “Benchmarking Corporate Policies on Labor and Human Rights in Global Supply Chains.”²⁹ That paper was co-authored by the Director of Data Content at ASSET4, a Swiss ESG research firm now part of Thomson Reuters, and used data drawn from its database.³⁰ ASSET4 was chosen because its database was one of a very few that collects comprehensive information on corporate reporting about ESG issues for a broad range of companies in major markets around the world. The current study again used ASSET4’s data, both to update the 2009 benchmarks and to extend them to the ASX 200.

The 2009 paper examined the policies of all companies in the ASSET4 database, which at the time consisted of the 2,508 largest publicly listed companies globally. The same sample was used in the current benchmarking report.³¹ The ASSET 4 data includes most of the firms listed on the MSCI World, MSCI Europe, Standard & Poor’s 500, FTSE 350 and Dow Jones STOXX 600 Indexes, as well as several hundred from other indices.³² Thirty-five percent of these companies are based in Europe; 29 percent in the United States, 26 percent in Asia/Pacific markets (including Australia) and the remaining 10 percent are from Canada, Latin America and the Middle East.

The ASX 200 sample in this study includes 195 companies covered by ASSET4 as of July, 2011 (ASSET4 did not follow the other five firms.) Of the 195, 75 are also in the 2,058 sample.³³

ASSET4’s database contains information made public by companies through annual reports, sustainability or corporate social responsibility reports, and corporate websites. It has more than 85 individual data points on LHR and employment quality issues. Forty-two of them are related to supply-chain policies and performance. Because there are no legal or commonly accepted definitions of supply-chain LHR policies, the 2009 study defined categories designed to capture key aspects of corporate behaviour in this arena. The LHR standards examined were based on core ILO conventions as well as health and safety, which is not a core convention but is the most widely adopted LHR policy. The implementation procedures were selected to measure how companies carry out policies addressing the LHR standards they promulgate for their supply-chains. Each of these categories is associated with one or more questions that ASSET4 had previously formulated to inform its information collection effort.

A company is defined as having an LHR “policy” if it specifically claims to be committed to upholding human rights standards, broadly defined, among its suppliers. Some companies have such policies but do not specify that they apply to their supply-chains.

Some companies issue more detailed versions of LHR policies typically called codes of conduct. Firms are categorised as having a supply-chain “code” if they describe a specific code of conduct for suppliers that includes LHR factors, or if they describe a broader company code that has a section devoted to suppliers. Statements of business principles or business ethics were included as supply-chain codes of conduct, provided that they incorporated LHR policies for suppliers.³⁴

Companies are deemed to have a “policy” on individual LHR standards if they specify that they require suppliers to respect rights or norms in a particular area. While there are numerous topics covered in some corporate policies, the 2009 study focused on three covered by the core ILO conventions: child labour; forced labour; and freedom of association.³⁵ Health and safety was added because it was among the first LHR issues to be addressed in corporate supply-chain policies and is the most widely addressed by companies.

Many companies say they have set up a variety of procedures to ensure that suppliers adhere to their LHR policies. However, the extent of reporting on the specificity of these procedures varies widely. In addition, there may be even less commonality here than there is for the definition of policies and standards. As a result, different levels of policy implementation are categorised ranging from very general to more specific. At the broadest level, a company is considered to have a “process” if it characterises any program or plan for implementing its LHR policies, or if it describes the ways that its policies are applicable to suppliers. More specifically, companies are considered to have a “monitoring” program if they specifically state that audits or surveys of LHR performance occur with any regularity. Companies are considered to have LHR improvement “targets” if they provide qualitative or quantitative goals for improving performance over time. Finally, companies are considered to have “enforcement” procedures if they assert their willingness to terminate relations with their suppliers who fail to meet LHR standards.

5. Results

This part of the report is divided into two sections – Policy and Implementation. In each section the report describes the general results followed by an analysis of differences among regions and by company size and industry sector.

Policy

There are two questions in the analysis of the policy setting:

- Does the company have a supply-chain LHR policy?
- If so, what rights are covered by the policy or code?

Corporate LHR policies range from general statements to more explicit and detailed standards and expectations suppliers must meet. The more detailed ones that are codified in a code of conduct typically list a set of LHR standards the company expects its suppliers to meet. The goal is usually both greater specificity and greater reach, since codes by definition cover more than one LHR issue.

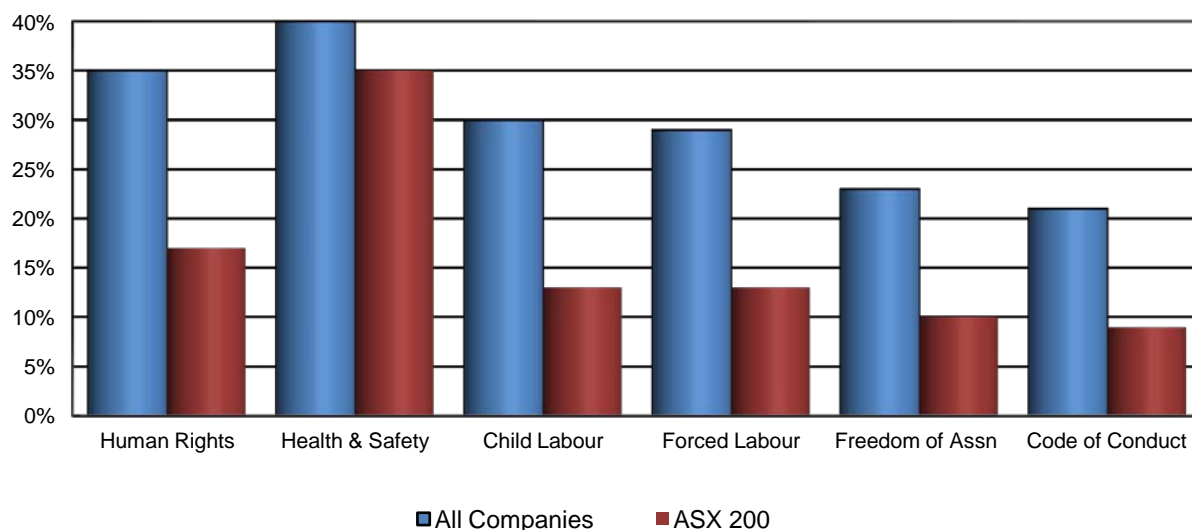
Levi Strauss & Company offers an example of a leading LHR code. It was the first corporation to codify an LHR policy, in 1991. Since then its code has been expanded numerous times to include environmental standards its suppliers are expected to meet as well as very detailed LHR criteria. These cover all of the core ILO conventions as well as a host of specific factory concerns ranging from abrasive blasting to ventilation. Levi's current code is found in its 2010 Social and Environmental Sustainability Guidebook, which runs to 289 pages.³⁶

The second question of what rights are covered by a company's policy shows that despite the absence of legal requirements or widely accepted standards, there appears to be a rough consensus that the three core ILO conventions should be covered along with health and safety.

The analysis found that 17 percent of the ASX 200 described a human rights policy that applies to the supply-chain, compared to 35 percent of the 2,508 global sample (Chart 1).³⁷ This discrepancy is surprising given characterisations of Australia as a global leader on corporate governance issues.³⁸ Some of the gap stems from the different characteristics of the companies in the two samples. For example, the ASX 200 has a greater proportion of small-cap companies, fewer of which typically have LHR policies. (We examine small-cap companies in later charts.) Another factor is the sectoral mix of the ASX 200, which has relatively fewer consumer product companies that are more likely to have LHR policies and relatively more energy firms that are less likely to have them.

Even so, Australian firms lag their global peers within sectors.

Chart 1 : Supply Chain LHR Policies



**The percent of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues.*

The same pattern holds true for the adoption of specific LHR standards covering core ILO conventions such as child labour, forced labour and freedom of association. ASX 200 firms also lag on the prevalence of formal codes of conduct covering such standards. The percentage of ASX 200 firms that commit to the standards is less than half that of their global peers. The only area in which they come close to global levels is with health and safety policies. Thirty-five percent of the ASX 200 has such a policy, close to the forty percent in the global sample. As can be seen in Chart 1, more companies in both groups have health and safety policies than basic LHR policies. This most likely occurs because some firms consider the two to be unrelated issues, even though health and safety is an ILO convention (although not one the agency designates as core). In other words, many firms do not issue an overall human rights policy but nonetheless have one concerning health and safety.

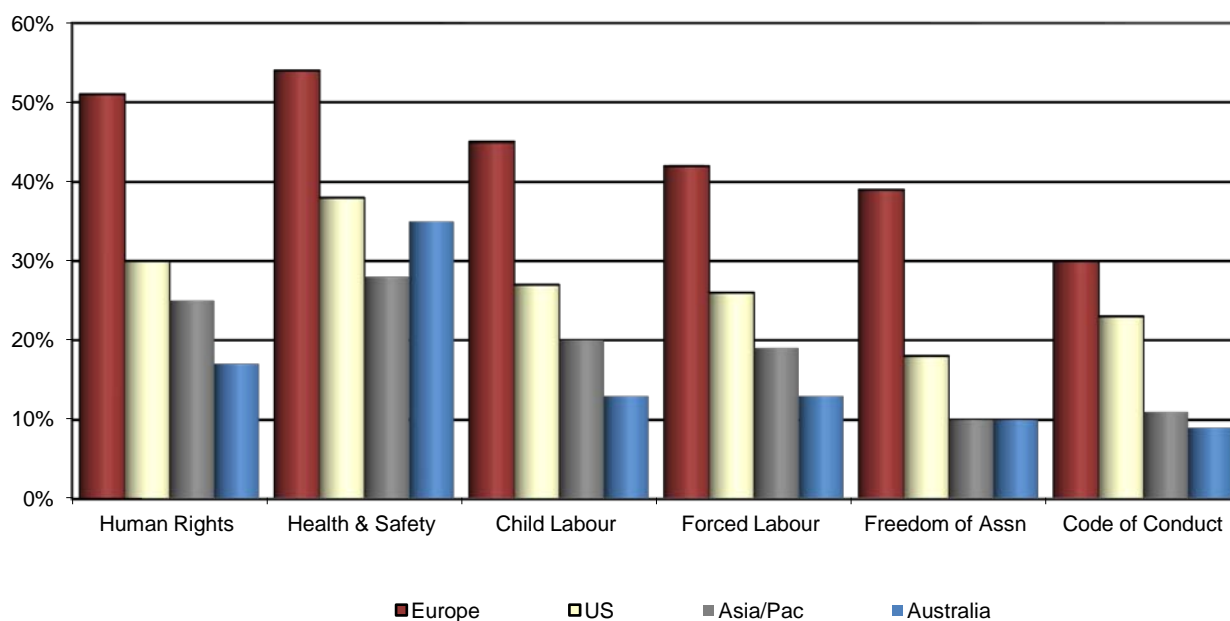
One reason more ASX 200 firms perform better with respect to health and safety standards may be because they are often the first LHR issue companies start with when they are motivated to engage on issues in their supply-chains. It may also be because it is often easier to set clear standards on the subject for problematic behaviours that are relatively easily remedied. By comparison, correcting problems relating to child labour and freedom of association often raise more challenging social and political questions. For these reasons small companies, which typically lack the resources of larger ones, are much more likely to have a health and safety policy than any other LHR standard. The disproportionate share of small firms in the ASX 200 may help to explain why it comes closer to global levels on health and safety than it does on other standards.

Another factor may be Australia’s strict standards for workplace health and safety. The Australian Parliament passed new legislation on the issue in 2005 and again in 2008, when a national agency called Safe Work Australia was established.³⁹ While the agency does not address global supply-chains, the attention it has brought to health and safety concerns may have alerted Australian firms to the operational and reputational risks in unsafe working conditions throughout their operations.

Geography

A higher percentage of European corporations have adopted LHR policies than those in other markets, the same pattern found in the 2009 study. Fifty-one percent of firms based in Europe describe an LHR policy, versus 30 percent in the United States, 25 percent in Asia but only 17 percent in Australia (Chart 2). This pattern of significant disparity holds for companies establishing codes of conduct and setting policies on specific LHR standards as well. It is particularly surprising that Australia falls behind Asia, since Asian markets in general have been slower to embrace the corporate governance standards promulgated in developed ones, including Australia.⁴⁰ Again, this may be partly due to the composition of the ASX 200 comprising a higher proportion of smaller companies, which are less likely to have strong LHR standards, and fewer companies in consumer sectors, which are more likely to have strong LHR standards. Additionally the ASX 200 has a stronger weighting in the energy sector, which tends to have weak supply-chain LHR policies. By comparison, Australian firms do relatively better with respect to health and safety policies: while they lag European ones (35 percent as compared to 54 percent), they are close to U.S. ones (38 percent) and do somewhat better than Asian companies (28 percent).

Chart 2: Supply Chain LHR Policies by Region



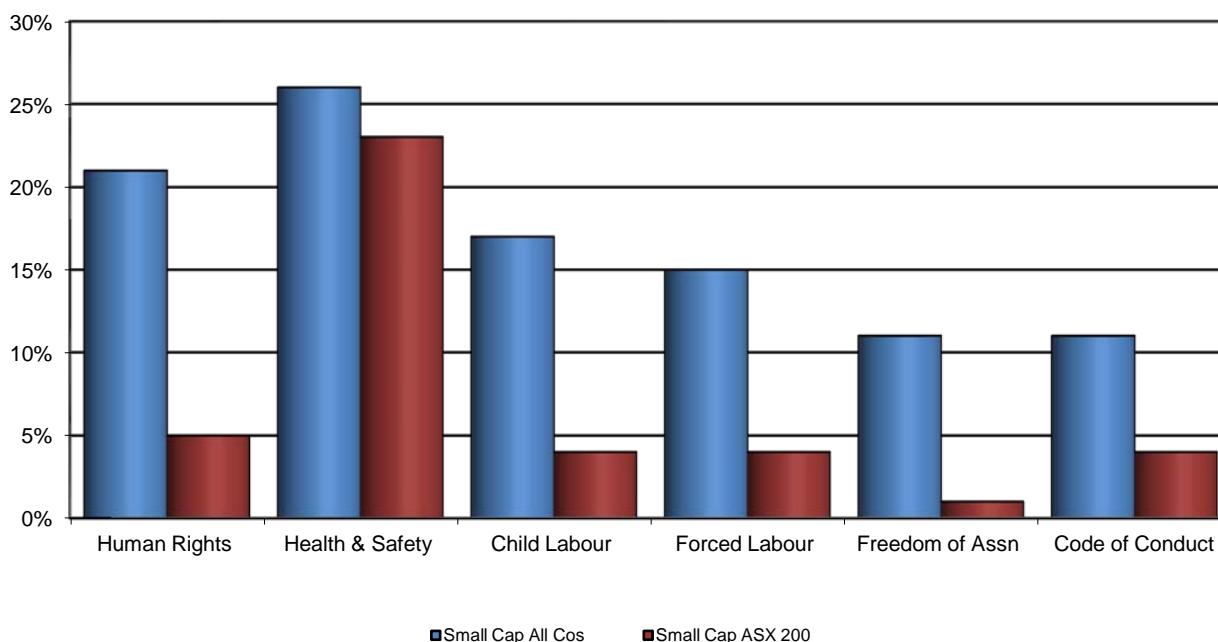
**The percent of companies with health and safety policies is higher than the overall percent of those with human rights policies because some firms consider the two to be unrelated issues.*

Company size

Broadly speaking, differences by company size within the ASX 200 are similar to those for the global sample. That is, with increasing size there is a greater likelihood of companies setting LHR policies, establishing codes, addressing specific standards, etc. At the same time, larger ASX 200 firms compare more favourably to their global peers than smaller and mid-sized ones. Three categories are used to measure company size: small-cap for those firms with under US\$2 billion in market capitalisation; mid-cap, for those with at least US\$2 billion but less than US\$10 billion in market capitalisation; and large-cap, for those with at least US\$10 billion in market capitalisation.⁴¹

Small-cap ASX 200 companies perform the worst compared to their global peers. For example, only 5 percent have a basic LHR policy, while 21 percent of small firms in the global sample have set one (Chart 3). The differences are almost as dramatic for setting a code of conduct and addressing specific labour standards. The only exception is with respect to health and safety. The figures for small ASX 200 and global firms are 23 percent and 26 percent, respectively.

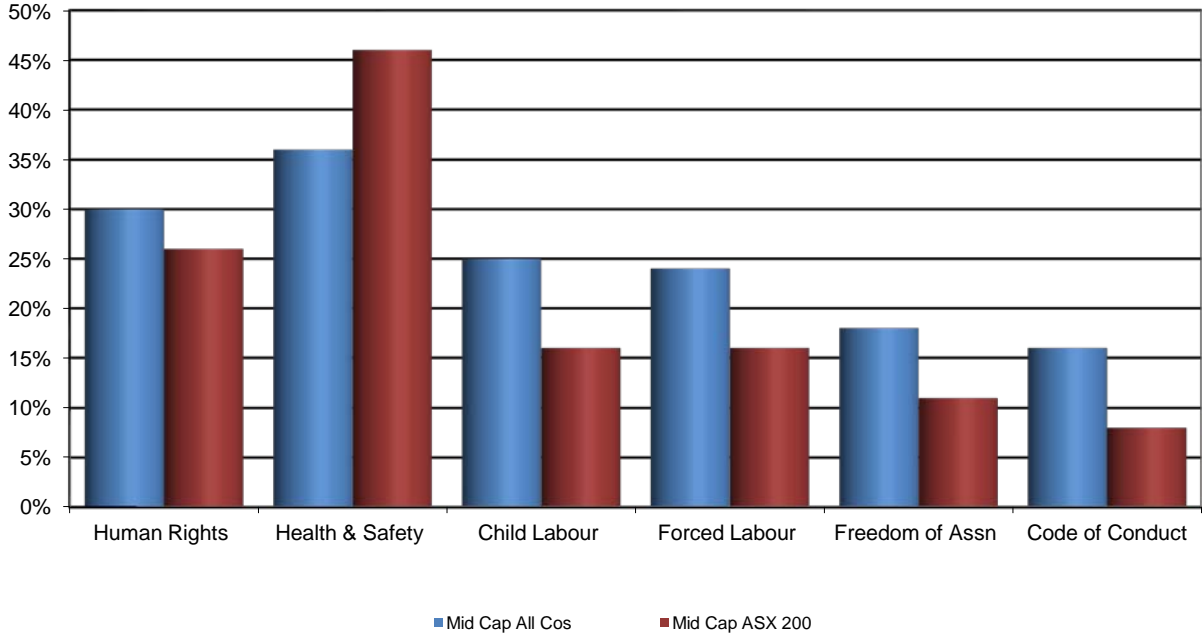
Chart 3: Supply Chain LHR Policies of Small-cap Companies



**The percent of companies with health and safety policies is higher than the overall percent of those with human rights policies because some firms consider the two to be unrelated issues.*

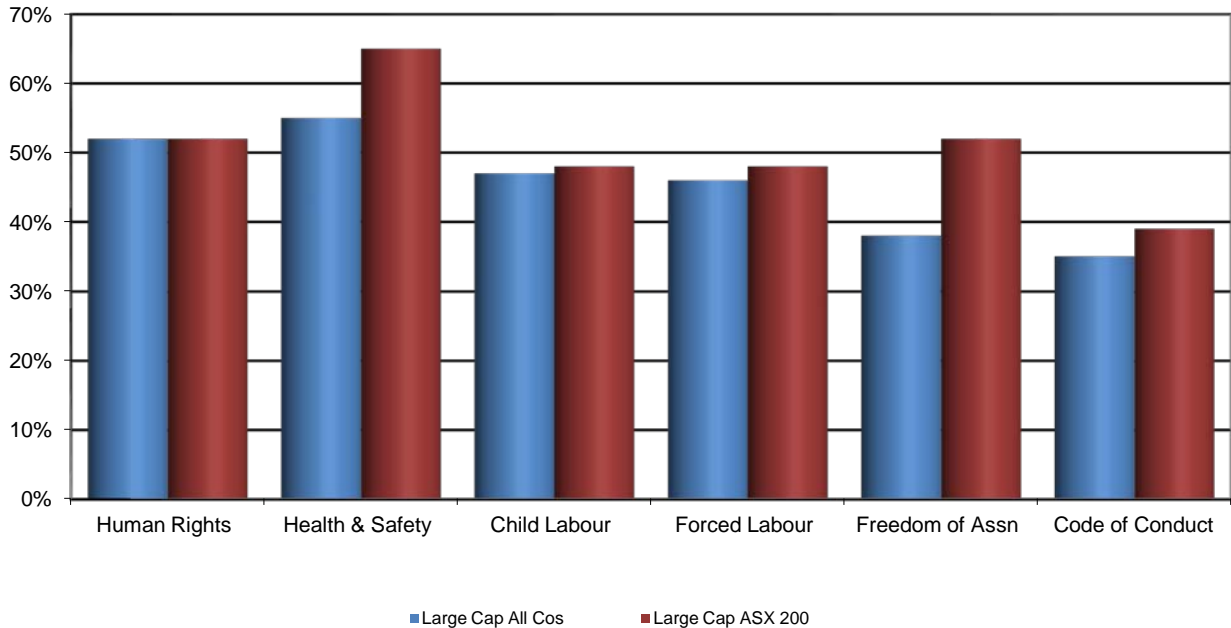
By contrast, mid cap ASX 200 companies perform slightly better than global ones in having human rights policies, 30 percent as compared to 26 percent (Chart 4). However, they still lag substantially on setting codes of conduct, 8 percent as compared to 16 percent, and on addressing specific standards, e.g., on child labour, 16 percent as compared to 25 percent. With respect to health and safety mid-cap ASX companies do much better than small-cap firms in measuring against global averages: 46 percent compared to 36 percent.

Chart 4: Supply Chain LHR Policies of Mid-cap Companies



The largest Australian firms, those with market caps of US\$10 billion or more, are by far the most likely to have a policy and actually match their global peers at 52 percent (Chart 5). The pattern holds true for all LHR standards. The prevalence of health and safety policies is particularly striking: 65 percent of the largest ASX 200 firms have one, while only 55 percent of large-cap firms among the global 2,508 do.

Chart 5: Supply Chain LHR Policies of Large-cap Companies



Differences in the distribution by company size explain a large part of the reason why the ASX 200 companies have adopted fewer LHR policies than companies in other markets. A key factor is that the Australian market has a greater percentage of small companies, which comprise 57 percent of the ASX 200. By contrast, they make up only 32 percent of European firms, 22 percent of Asian ones and just 7 percent of those in the United States. To some extent Australia's high proportion of small companies reflects the fact that the ASX 200 is a single market while the regions in the global sample contain multiple ones. Still, even small Australian firms lag far behind their global peers on LHR policies.

Large Australian companies do much better relative to their global peers. This is perhaps not surprising, since large corporations—whether Australian or otherwise—usually have extensive global supply-chains and tend to be subject to greater public scrutiny. However, there are not very many large-cap Australian firms, which comprise only 12 percent of the ASX 200 compared to 32 percent of the global sample. Still, the implication is that an LHR policy is the norm for large global corporations, in Australia as well as other markets. This suggests that large firms lacking LHR policies may come under pressure to adopt them.

Sector differences

LHR policies are more likely in sectors of the economy that rely heavily on global supply-chains and have been subject to the most criticism about LHR abuse.⁴² They are most prevalent in the consumer sector, which includes industries such as apparel and personal products. The paucity of consumer companies among the ASX 200 relative to the global sample is another reason why fewer firms have LHR policies there. Only 15 percent of the ASX 200 consists of consumer companies, versus 22 percent of global firms. Similarly, 11 percent of the ASX 200 is composed of energy firms, compared with 7 percent of global companies. Energy firms are less likely to have LHR policies since their supply-chains are smaller and less visible.

However, ASX 200's different sectoral mix only goes so far to explain fewer of its component companies having LHR policies. Even within sectors, most of the firms lag. One subsector, firms selling consumer staples like food and personal products, actually matches global firms with 57 percent having LHR policies (Table 15 in the Appendix). However, this consists of just seven firms among the ASX 200. The larger consumer discretionary subsector, which contains 23 firms in industries such as hotels and retail, falls far behind: 9 percent versus 42 percent. The same holds true for energy firms: 9 percent of those on the ASX 200 have a policy compared to 19 percent of all energy companies.

Conclusions:

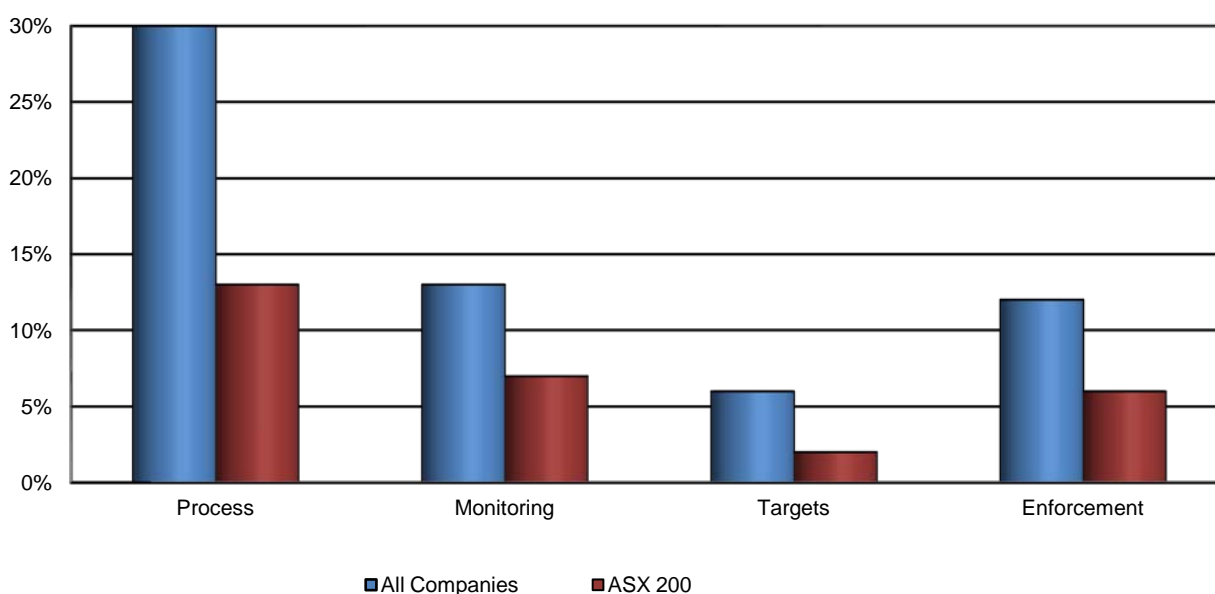
- ASX 200 firms lag their global peers on LHR policies, with the exception of health and safety.
- Part of the reason is that the ASX 200 has a greater number of smaller firms, which are less likely to adopt LHR policies, and fewer consumer ones, which are more likely to do so.
- However, the ASX 200 falls behind even within such groups. Only the largest Australian companies match their global counterparts on LHR policies.

Implementation

Although policy development is important, for investors to assess risk mitigation, they need to know if the policies actually have been implemented. Just as critics argue that policies without sufficient specifics lack efficacy, so too many say that it is unrealistic to expect suppliers to simply stop abuses just because the purchasing company says they must. Over the years, leading global corporations and multi-stakeholder organisations (MSAs) such as Social Accountability International and the Fair Labour Association have built increasingly elaborate processes and procedures to ensure compliance with their LHR codes. However, for most companies, implementation lags policy.

Only 30 percent of global companies have put in place an LHR implementation process, that is, a program or plan for implementing their policies or a description of the ways their policies are applicable to suppliers (Chart 6). The ASX 200 fares even worse, with just 13 percent. Other kinds of policy implementation are even more infrequent, with a similar discrepancy among ASX 200 firms. Just 13 percent of the global 2,508 say they monitor their suppliers for compliance, versus 7 percent of the ASX 200. Similarly, 6 percent of global firms set targets for suppliers to improve their LHR compliance, compared to a mere 2 percent of the ASX 200. Twelve percent of the global sample stated that they have an actual enforcement system, while only 6 percent of the ASX 200 did.⁴³

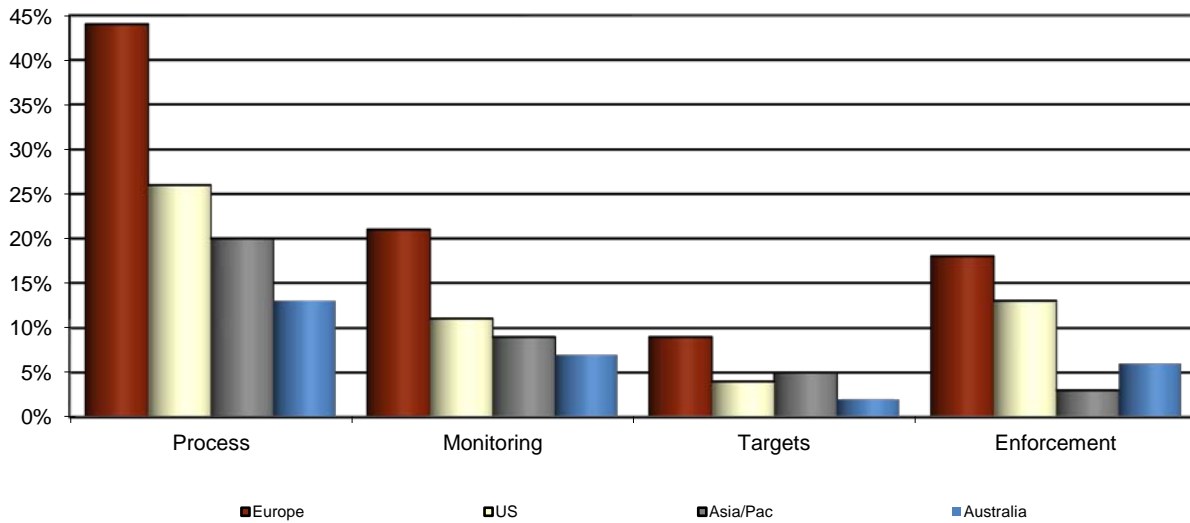
Chart 6: Supply Chain LHR Policy Implementation



Geography

The regional pattern seen for the establishment of policies and codes is also evident with respect to ways to give them effect. European companies again lead the way with 44 percent having a process by which to implement them (Chart 7). Australian firms trail badly with just 13 percent, leaving them behind the U.S. and Asia as well. (The only aberration is the particularly low share of Asian firms with enforcement policies, just 3 percent, versus 6 percent among the ASX 200.)

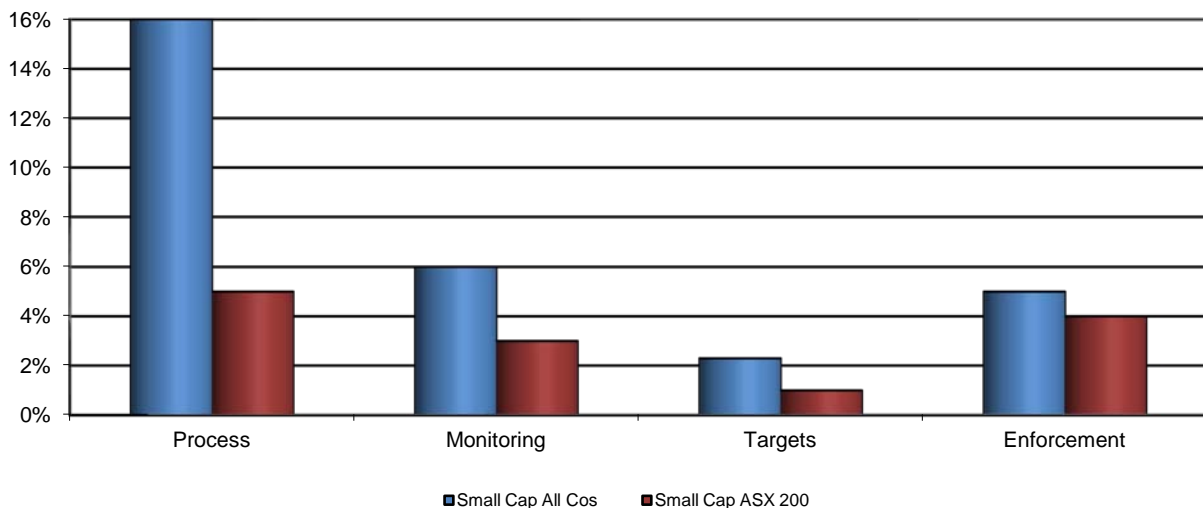
Chart 7: LHR Policy Implementation by Geography



Company size

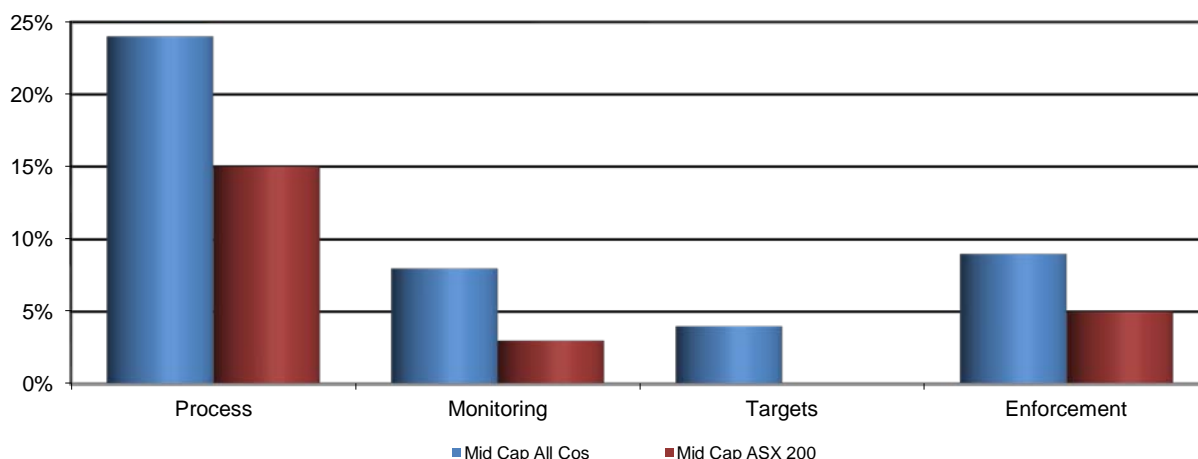
As with policies, the ASX 200 matches global peers among large companies but lags among small and mid-sized ones. Generally speaking, efforts at implementation by small-cap companies are modest and in most respects even more so among Australian ones. Only 5 percent of small Australian companies have a process to put LHR policies into operation, compared to 16 percent of global small-caps (Chart 8). They fall behind on monitoring as well, but do better on enforcement, which only a relative handful of companies embrace in any market. There is very little setting of targets, just 2 percent, among global companies and only 1 percent among ASX 200 firms. The disproportionately low levels of implementation among smaller firms may indicate that many of their policies lack substance. Follow-up processes are expensive to learn about, set up, and administer, so these low levels also may reflect the fewer resources typically available to smaller companies. MSAs designed to assist companies on LHR supply-chain issues do have small-company members, as does the Global Reporting Initiative.⁴⁴ But it may be that many smaller firms with LHR policies are not aware of their existence. It is also possible that smaller companies might be less likely to report publicly on these subjects, since that task can put a strain on limited resources as well.

Chart 8: LHR Policy Implementation of Small-cap Companies



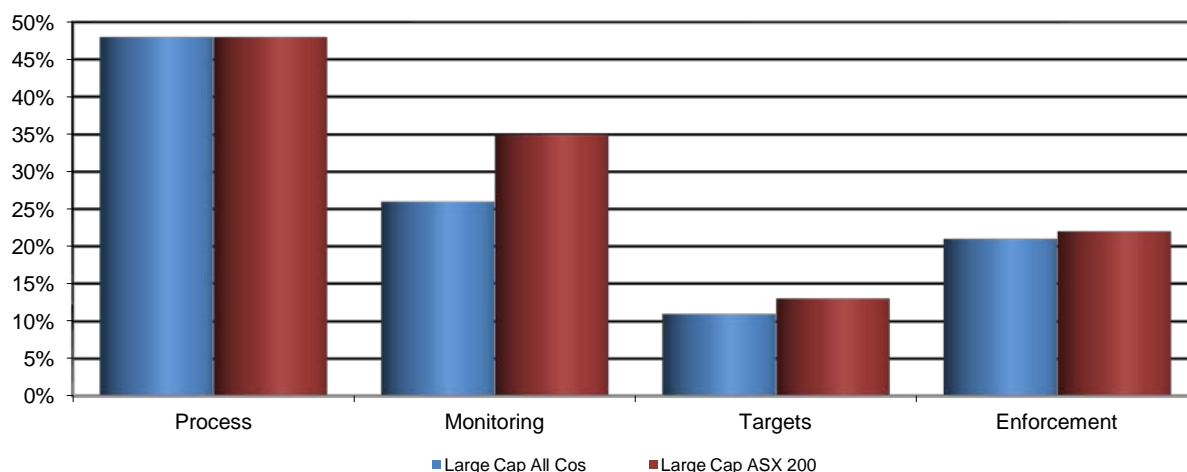
Although mid-cap ASX 200 companies do better on implementation than small-cap ones, they too, substantially lag their global peers. For example, among the mid-caps, only 15 percent of the ASX 200 has an LHR process, compared to 24 percent of global ones (Chart 9). The Australians also perform less well on monitoring, targets and enforcement. Indeed, no mid-cap ASX 200 companies at all report setting targets.

Chart 9: Policy Implementation of Mid-Cap Companies



As with policies, the largest ASX 200 firms match their global peers on implementation, with 48 percent in both groups having a process (Chart 10). They also compare well on the other follow-up practices.

Chart 10: Policy Implementation of Large-Cap Companies



Sector differences

The sectoral breakdown follows much the same pattern: ASX firms in consumer sectors are more likely to match or come close to global peers, while Australian energy firms are less likely to (Table 16 in the Appendix). One exception is financial firms, which actually exceed their global counterparts on monitoring measures (11 percent versus only 5 percent among global consumer firms).

Conclusion:

- Policy implementation is weak in all markets, but ASX 200 firms tend to be even weaker than their global peers.

Rankings

The preceding sections benchmarked ten specific LHR policies and implementation procedures. Namely:

1. Human Rights;
2. Health & Safety;
3. Child Labour;
4. Forced Labour;
5. Freedom of Association;
6. Code of Conduct;
7. Process;
8. Monitoring;
9. Targets; and
10. Enforcement.

It is also useful to assess the relative performance of companies across all the policies taken as a whole. To do so, a five-level ranking system was developed that categorises firms according to a hierarchy of best practices as defined by the extent of the policies they have adopted (Chart 11).

Level 1, the highest rank, encompasses companies which report the strongest commitment to addressing LHR risks in their supply-chains by having adopted all ten benchmarked LHR policies and procedures.

Level 2 includes those companies which have expressed an intention to ensure that suppliers conform to key standards by having a human rights policy, a health and safety policy, and a code of conduct, and assert they undertake basic actions to implement them. Unlike firms in Level 1, these companies have not adopted more sophisticated procedures to monitor their supply-chains for LHR abuse or set targets for improvement.

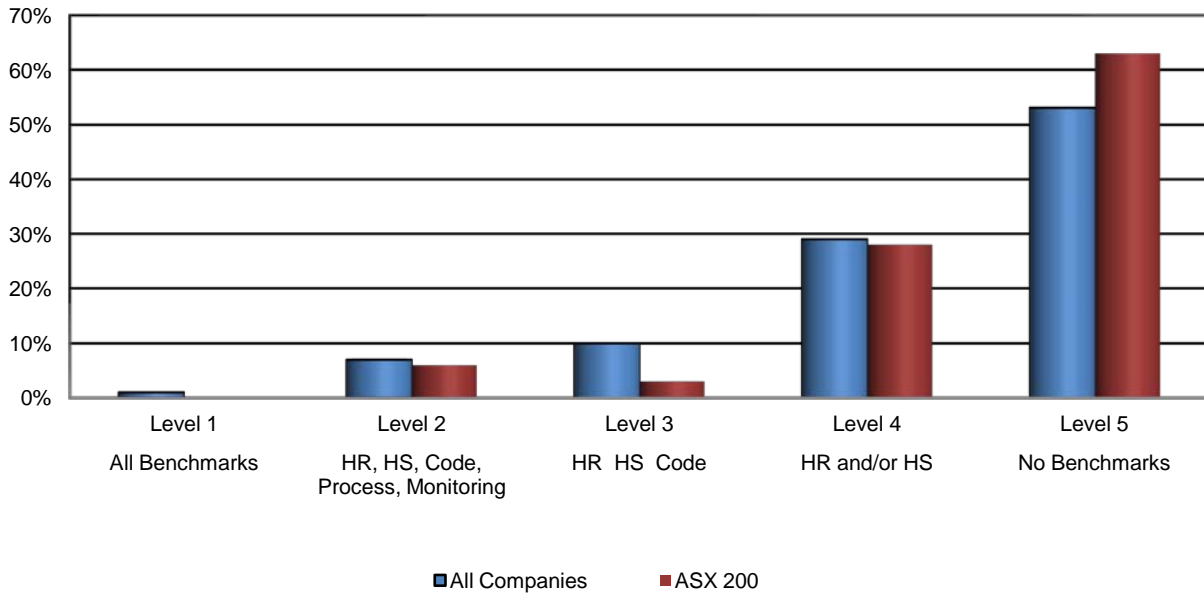
Level 3 companies have a human rights policy, a health and safety policy and a code of conduct. By doing so they warrant a positive ranking but below those of Level 2 companies, and substantially below Level 1 firms by their having taken no evident steps to actually implement the policies and codes.

Level 4 companies, those with a human rights policy and/or a health and safety one, have stated some commitment to key standards but not a more rigorous code or to implementation. Such limited but nonetheless important first steps warrant at least some positive ranking.

Level 5 captures companies that have no LHR policies or procedures. Clearly, firms which have taken none of the described steps should fall in the lowest rank.

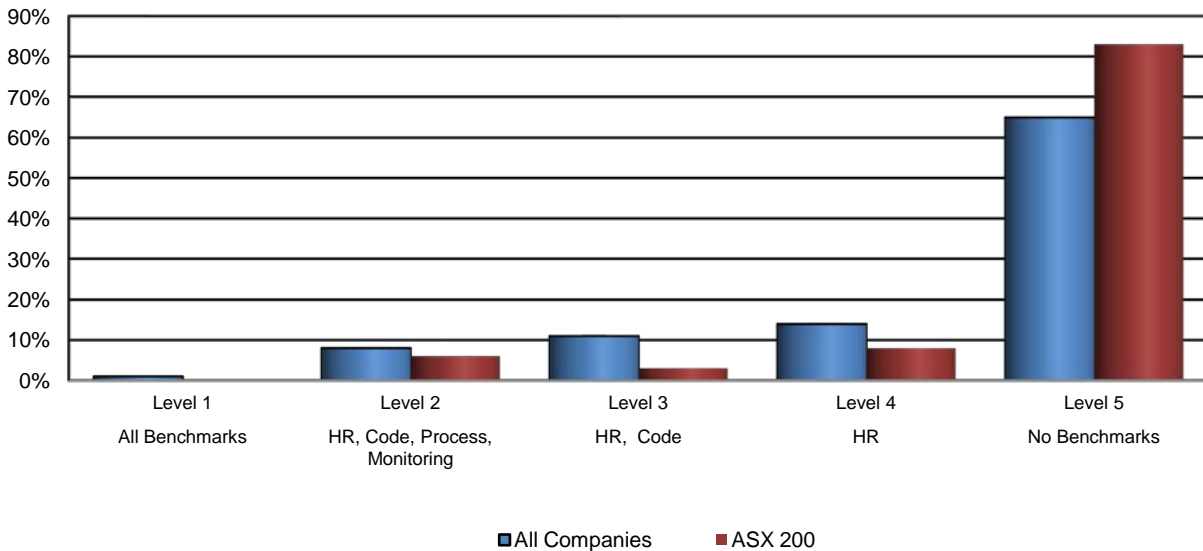
In light of the outcomes reported in the sections on benchmarking, it is not surprising to learn that the top rank includes only 1 percent of global firms and no ASX 200 ones at all. Similarly, it is comes as no surprise that 64 percent of Australian firms have adopted no LHR policies, greater than the 54 percent of global companies in the lowest rank.

Chart 11: Supply Chain LHR Rankings



The primary reason the ASX 200 rank relatively close to the global sample in the bottom two levels is that many of them have health and safety policies, even if they lack most or all of the other LHR policies. In some respects this skews the overall picture, making the ranking of ASX 200 practices look better than they might otherwise. The gap between the Australian firms and global ones is larger if the rankings exclude health and safety, as can be seen in an alternative ranking we have fashioned (Chart 12).

Chart 12: Supply Chain LHR Rankings without H&S



Conclusions:

- Only 1 percent of global companies rank in the top level with the adoption of all 10 LHR benchmarks. None of the ASX 200 has done so.
- More ASX firms rank in the bottom level by having no LHR policies at all, 63 percent compared to 53 percent among global firms.
- If health and safety policies are omitted from the analysis, the ASX 200 rank even worse, with 83 percent in the lowest ranking compared to 65 percent of global companies.

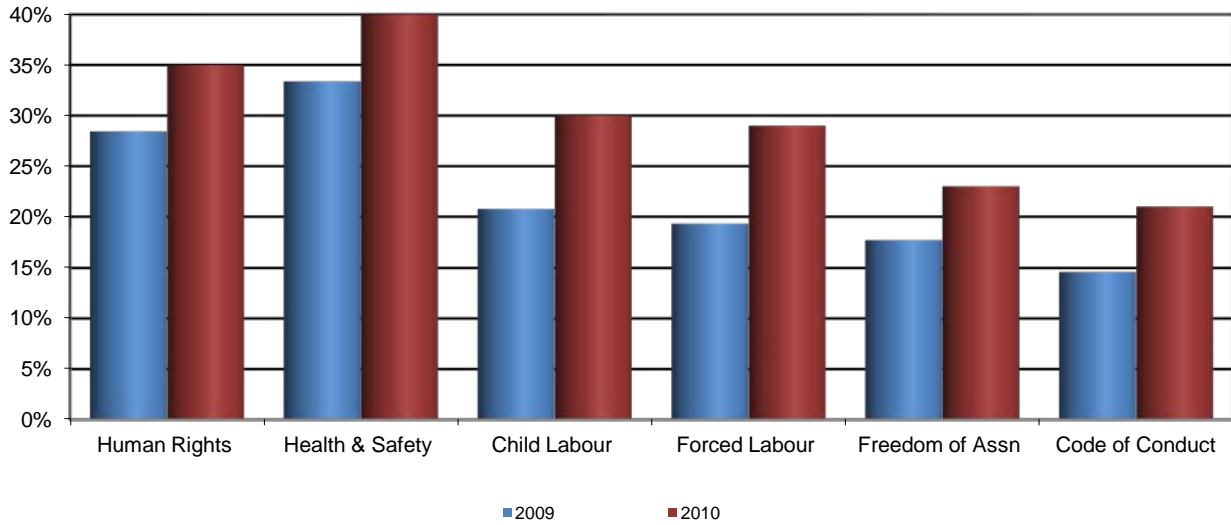
Changes in Company Practices Over Time

Companies face pressure to improve their risk management of supply-chain LHR issues. A comparison of the benchmarking results from the 2009 study and this one for the global sample of firms suggests that such pressures may have had a positive effect. (Because the 2009 study covered less than half of the ASX 200 no picture can be drawn of changes in policies and practices among its companies over the same period.) Specifically, the share of global companies with a basic LHR policy climbed from 28 percent to 35 percent over the intervening period of about 18 months between the two studies (Chart 13).⁴⁵ Similar gains were made with respect to specific policies as well as for implementation processes, except for the setting of targets (Chart 14).

The increases occurred more or less uniformly across markets. Europe gained the most, with human rights and health and safety policies increasing by eight and ten percentage points, respectively. The gains were similar for U.S. companies and slightly lower for Asian ones. For European companies, there were substantial increases in specific labour standards, with child labour policies gaining the most: 45 percent in 2001, up from 33 percent in 2009. Improvements on these standards for U.S. firms were almost as great; for Asian ones, somewhat smaller.

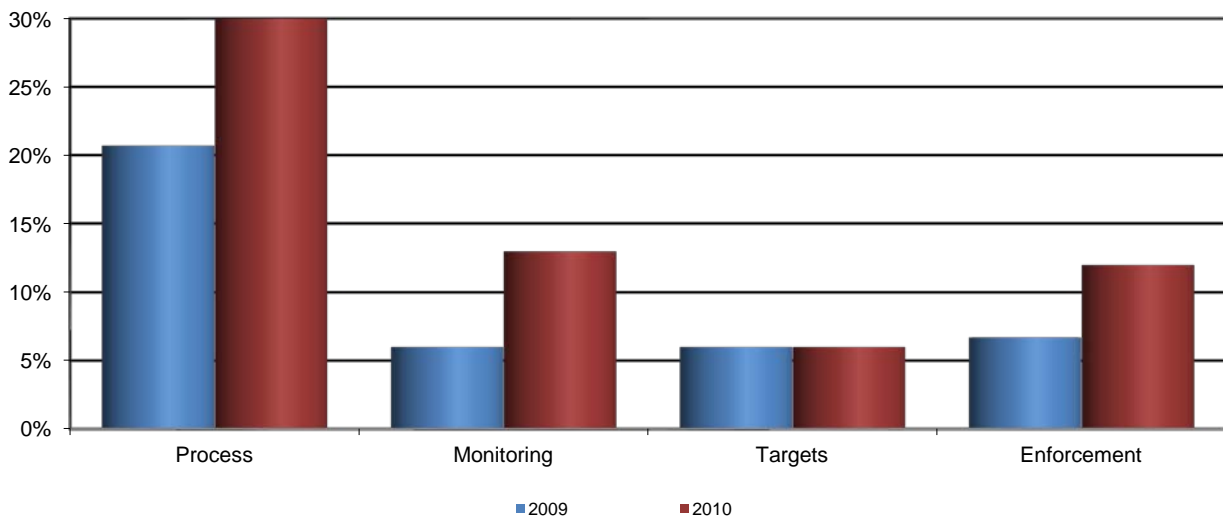
Increases by company size were tilted toward the large-cap firms. For example, the share of small-cap firms with a basic LHR policy climbed by three percentage points during this period, while mid-caps jumped by five points and large-caps by seven. A roughly similar pattern emerged with respect to establishing codes of conduct and having specific labour standards.

Chart 13: LHR Policies Time Series



Changes were more diverse at the sector and industry level. The largest increase came in the consumer staples sector, which saw an increase of eight percentage points, to 57 percent. It is now the only major sector of the economy in which LHR policies are a majority. However, it is a relatively small sector with only 162 companies in our sample. This may make it more difficult for companies without policies to resist a growing trend amongst their peers. The other major consumer sector, called non-discretionary, is much larger with 400 companies. It saw an increase of only three percentage points in LHR policies. However, such policies are now issued by 42 percent of companies in the sector, edging close to a majority. The 100-company food and beverage industry saw notable gains, increasing ten percentage points to 55 percent. One outlier was the retailing industry, which remained at 50 percent.

Chart 14: LHR Implementation Time Series



Conclusions:

- LHR policies have increased steadily in major markets in the past year and a half. Thirty-five percent of global companies had a policy in 2011, up from 28 percent in 2009.
- Similar gains occurred for implementation policies, which increased by five to ten percentage points.

6. Conclusion

A substantial and growing minority of companies in global markets have established policies and procedures to address LHR risks in their supply-chains. By contrast, Australian companies have a long way to go to match their global peers. The major exception to this pattern lies with health and safety policies, an issue on which the ASX 200 comes much closer to world standards. However, this may be less meaningful than it appears. As is the case in other markets, few Australian firms have established procedures to implement whatever LHR standards they have adopted. As a result, it would appear that most of the ASX 200 health and safety policies are expressions of policy that remain unenforced. Companies have issued standards they expect suppliers to follow, but have not set up systems to ensure that they do so.

Australia's LHR policy gaps are found primarily among small- and mid-cap firms; large Australian ones compare well with their global counterparts. The composition of the ASX 200 plays a role in the discrepancies. Compared to other markets it has a greater proportion of companies that are less likely to adopt supply-chain LHR policies, such as energy and finance companies, which have smaller and less visible supply-chains. It also has fewer companies in consumer industries, which are more likely to have such policies due to the breadth and high visibility of supply-chains in the sector. Still, ASX firms lag global ones even within these sectors, so such differences do not explain the entire lag.

The outcomes for ASX 200 firms may appear surprising in light of what some see as Australia's leading role on many ESG issues. This study could not determine whether there has been a trend toward more LHR policies in Australia which has been found to occur in other markets. But given the extent to which Australia currently lags and the relatively robust increases in global markets, it seems clear that ASX 200 companies are out of step on these issues. This is the most evident in the handful of industries in which a majority of firms have established policies, a sign that doing so is considered a best practice there. This poses a potentially significant investment risk for ASX 200 shareholders. Australian companies that lack robust policies and procedures to mitigate LHR abuse in their global supply-chains are open to the kind of reputational and operational damage that has been experienced by a growing number of companies around the world.

Acknowledgements

The authors are most grateful for the assistance of Andre Chanavat, Manager of ESG Commercial Support at ASSET4 Thomson Reuters, for the many hours he put in to help us understand his company's database and develop our methodology and findings. We also would like to thank Chris Greenwald, formerly Director of Data Content at ASSET4 and currently Head of Sustainability Application and Operations at Sustainable Asset Management.

Appendices

Data tables for charts

Table 1: Supply-Chain LHR Policies

	All Companies	S&P/ASX 200
Human Rights	35%	17%
Health & Safety*	40%	35%
Child Labour	30%	13%
Forced Labour	29%	13%
Freedom of Assn	23%	10%
Code of Conduct	21%	9%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 2: Supply-Chain Policies by Region

	Europe	United States	Asia	Australia
Human Rights	51%	30%	25%	17%
Health & Safety*	54%	38%	28%	35%
Child Labour	45%	27%	20%	13%
Forced Labour	42%	26%	19%	13%
Freedom of Ass	39%	18%	10%	10%
Code of Conduct	30%	23%	11%	9%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 3: Supply-Chain Policies of Small-cap Companies

	All Companies	S&P/ASX 200
Human Rights	21%	5%
Health & Safety*	26%	23%
Child Labour	17%	4%
Forced Labour	15%	4%
Freedom of Assn	11%	1%
Code of Conduct	11%	4%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 4: Supply-Chain Policies of Mid-cap Companies

	All Companies	S&P/ASX 200
Human Rights	30%	26%
Health & Safety*	36%	46%
Child Labour	25%	16%
Forced Labour	24%	16%
Freedom of Assn	18%	11%
Code of Conduct	16%	8%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 5: Supply-Chain Policies of Large-cap Companies

	All Companies	S&P/ASX 200
Human Rights	52%	52%
Health & Safety*	55%	65%
Child Labour	47%	48%
Forced Labour	46%	48%
Freedom of Assn	38%	52%
Code of Conduct	35%	39%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 6: Supply-Chain LHR Policy Implementation

	All Companies	S&P/ASX 200
Process	30%	13%
Monitoring	13%	7%
Targets	6%	2%
Enforcement	12%	6%

Table 7: LHR Policy Implementation by Region

	Europe	United States	Asia	Australia
Process	44%	26%	20%	13%
Monitoring	21%	11%	9%	7%
Targets	9%	4%	5%	2%
Enforcement	18%	13%	3%	6%

Table 8: LHR Policy Implementation of Small-cap Companies

	All Companies	S&P/ASX 200
Process	16%	5%
Monitoring	6%	3%
Targets	2%	1%
Enforcement	5%	4%

Table 9: LHR Policy Implementation of Mid-cap Companies

	All Companies	S&P/ASX 200
Process	24%	15%
Monitoring	8%	3%
Targets	4%	0%
Enforcement	9%	5%

Table 10: LHR Policy Implementation of Large-cap Companies

	All Companies	S&P/ASX 200
Process	48%	48%
Monitoring	26%	35%
Targets	11%	13%
Enforcement	21%	22%

Table 11: Supply-Chain LHR Rankings

	All Companies	S&P/ASX 200
Level 1		
All benchmarks	1%	0%
Level 2		
HR, HS, Code, Process & Monitoring	7%	6%
Level 3		
HR, HS, & Code	10%	3%
Level 4		
HR and/or HS	29%	28%
Level 5		
No benchmarks	53%	63%

Table 12: Supply-Chain LHR Rankings without health and safety

	All Companies	S&P/ASX 200
Level 1		
All benchmarks	1%	0%
Level 2		
HR, Code, Process & Monitoring	8%	6%
Level 3		
HR, HS, & Code	11%	3%
Level 4		
HR	14%	8%
Level 5		
No benchmarks	65%	83%

Table 13: LHR Policy Time Series

	2009	2010
Human Rights	28%	35%
Health & Safety*	33%	40%
Child Labour	21%	30%
Forced Labour	19%	29%
Freedom of Assn	18%	23%
Code of Conduct	15%	21%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 14: LHR Implementation Time Series

	2009	2010
Process	21%	30%
Monitoring	6%	13%
Targets	6%	6%
Enforcement	7%	12%

Table 15: LHR Policies by Selected Sectors

	Consumer non-disc.	Consumer disc.	Financials	Energy
Human Rights				
All companies	57%	42%	20%	19%
S&P/ASX 200	57%	9%	19%	9%
Health & Safety*				
All companies	49%	45%	17%	48%
S&P/ASX 200	71%	22%	31%	23%
Child Labour				
All companies	53%	38%	14%	18%
S&P/ASX 200	57%	9%	17%	18%
Forced Labour				
All companies	51%	37%	13%	19%
S&P/ASX 200	57%	9%	17%	18%
Freedom of Assn				
All companies	40%	23%	13%	17%
S&P/ASX 200	57%	4%	19%	18%
Code of Conduct				
All companies	40%	31%	7%	9%
S&P/ASX 200	29%	9%	8%	5%

*The number of companies with health and safety policies is higher than the overall number of those with human rights policies because some firms consider the two to be unrelated issues

Table 16: LHR Implementation by Selected Sectors

	Consumer non-disc.	Consumer disc.	Financials	Energy
Process				
All companies	52%	36%	16%	17%
S&P/ASX 200	43%	9%	14%	9%
Monitoring				
All companies	30%	19%	5%	9%
S&P/ASX 200	43%	9%	11%	5%
Targets				
All companies	14%	5%	4%	6%
S&P/ASX 200	0%	4%	3%	5%
Enforcement				
All companies	30%	20%	4%	5%
S&P/ASX 200	29%	9%	3%	0%

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² A comprehensive list of ESG benchmarks can be found at: Kane, Michael J., "Global Survey of Environmental, Social and Governance Policies of National Governments, International Organisations and Institutional Investors," revised July 1, 2010. Accessed May 27, 2011 at 198.170.85.29/Kane-global-ESG-policies-survey-1-Jul-2010.doc.

³ For a summary of investor concerns about ESG risk, see: Bernstein, Aaron, "Incorporating Labor and Human Rights Risk into Investment Decisions," Pensions and Capital Stewardship Project of the Labor and Worklife Program at Harvard Law School, Occasional Paper Series No.2, September, 2008, available at http://www.law.harvard.edu/programs/lwp/pensions/publications/occasional_paper2.pdf; and Bernstein, Aaron, "Quantifying Labor and Human Rights Portfolio Risk," Pensions and Capital Stewardship Project of the Labor and Worklife Program at Harvard Law School, Occasional Paper Series No. 4, June, 2009, available at <http://www.law.harvard.edu/programs/lwp/pensions/publications/occpapers/occasionalpapers4.pdf>.

⁴ The ILO, which was created in 1919, has over the years adopted 184 "conventions" on labor standards, which are international treaties that may be ratified by member states. The organisation, an agency of the United Nations, has designated eight conventions as fundamental or core: Freedom of Association (No. 87); Right to Organise (No. 98); Forced Labour (No. 29); Abolition of Forced Labour (No. 105); Minimum Age (No. 138); Worst Forms of Child Labour (No. 182); Equal Remuneration (No. 100); and Discrimination (No. 111). See "Conventions and Recommendations," International Labour Organisation, undated web page accessed September 1, 2009 at http://www.ilo.org/global/What_we_do/InternationalLabourStandards/Introduction/ConventionsandRecommendations/lang-en/index.htm. A description of the ILO's labor standards and its eight core conventions also can be found at <http://www.ilo.org/declaration/lang-en/index.htm>.

⁵ "One in Five Large Firms Set Labor Supplier Standards," RiskMetrics Corporate Social Issues Reporter, April, 2008. RiskMetrics is now part of MSCI Incorporated, which bought it in 2010.

⁶ "Codes of Conduct in Organisational Context: From Cascade to Lattice-work of Codes," by Lutz Preuss, *Journal of Business Ethics*, Vol. 94, 2010, pp. 471-487. According to the author, many companies had more than one code of conduct, so that in the aggregate there were 281 of them. In fact, the author includes within that catchall phrase "codes of conduct, codes of ethics, environmental policies, CSR policies, procurement policies, and ethical sourcing policies." Id. at 475.

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¹⁰ Id. at 51.

¹¹ Id. at 48.

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¹³ Id. at 29.

¹⁴ Id. at 31.

¹⁵ "Investment and Enterprise Responsibility Review, Analysis of investor and enterprise policies on corporate social responsibility," United Nations Conference on Trade and Development, 2011. Accessed May 5, 2011, at http://www.unctad.org/en/docs/diaeed20101_en.pdf.

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- ¹⁷ The Global Reporting Initiative is a nonprofit organisation whose purpose is to develop frameworks for corporate reporting on ESG issues. Its website can be found at <http://www.globalreporting.org/Home>.
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- ²⁰ Ruggie, John G. "Human Rights Policies and Management Practices of Fortune Global 500 Firms: Results of a Survey," Corporate Social Responsibility Initiative, Working Paper No. 28, John F. Kennedy School of Government, Harvard University, September 1, 2006.
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- ²² United Nations, "Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises," Addendum, Business recognition of human rights: Global patterns, regional and sectoral variations, February 8, 2007. Accessed August 25, 2011 at <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/G07/111/64/PDF/G0711164.pdf?OpenElement>.
- ²³ The Global Compact is a United Nations organisation designed to help companies improve their ESG policies and practices. Its website can be found at <http://www.unglobalcompact.org/>. Also, the second UN report says that 103 companies had responded to the initial survey, although the survey itself says 102 had done so.
- ²⁴ Ruggie, John G. "Human Rights Policies of Chinese Companies: Results From a Survey," John F. Kennedy School of Government, Harvard University, September 2007, p. 3. Accessed August 6, 2009 at <http://www.business-humanrights.org/Documents/Ruggie-China-survey-Sep-2007.pdf>. This study was taken because of the low response rate of Chinese and other emerging-market companies to the questionnaire survey, and because the companion study of reported policies was restricted to those reported in English. The study of Chinese firms included reports published in Mandarin.
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- ²⁸ A handful of other studies also look at supply-chain LHR policies, but their sample sizes are smaller than the ones summarized in this paper. They include: "Survey of Reporting on Corporate Social Responsibility (CSR) by the Largest Listed Companies in 11 Central and Eastern European (CEE) Countries, Seventh Comparison with Peers in BRIC and Ukraine," East West Management Institute, Partners for Financial Stability, and U.S. AID, September 2009. Accessed June 24, 2011 at http://www.businesswire.com/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/services/ir_and_pr/ir_resource_centre/editorials/2009/PFS_Program_-_Survey_of_Reporting_on_CSR_in_CEE_BRIC_and_Ukraine-September_2009.pdf; "Transparency Report II, Have Hong Kong Garment Companies Improved Their Reporting on Labour Standards." Oxfam Hong Kong, March 2009. Accessed June 24, 2011 at http://www.csr-asia.com/report/report_oxfam_transparency_report_ii_eng.pdf; "CSR Asia Business Barometer, The State of CSR Disclosure in Asia 2008," CSR Business Barometer, October 2008. Accessed June 24, 2011 at http://www.csr-asia.com/upload/Report_Business_Barometer_2008.pdf; "A Review of ESG Practices in Large Emerging Market Companies," Siran, Social Investment Forum, and EIRIS. March 2009. Accessed June 24,

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²⁹ See endnote 1 above.

³⁰ ASSET4 is a unit of Thomson Reuters. See http://thomsonreuters.com/products_services/financial/content_update/content_overview/content_esg/, accessed June 2, 2011.

³¹ 140 of these companies merged or went out of business since the 2009 benchmarks. For the sake of consistency these inactive firms were retained in the updated data and no change is assumed in their LHR policies. ASSET4 data reflects corporate policies regarding suppliers, which typically do not distinguish between first-tier suppliers and second- or third-tier ones.

³² Descriptions of the MSCI World and Europe indices can be found at <http://www.msicbarra.com/index.jsp>. A description of the S&P 500 Index can be found at http://www2.standardandpoors.com/portal/site/sp/en/us/page.siteselection/site_selection/0,0,0,0,1,0,0,0,0,0,0,0,0,0,0,0,0.html. A description of the FTSE 350 Index can be found at <http://www.ftse.com/index.jsp>. A description of the Dow Jones 600 can be found at http://www.stoxx.com/indices/index_information.html?symbol=SXXP.

³³ ASSET4 expanded its coverage of the Australian market in early 2011,

³⁴ This study focuses on supplier codes of conduct that deal with LHR factors. A larger number of firms issue supplier codes, with others covering subjects such as ethics. For example, a 2008 survey by KPMG found that nearly a third of the 100 largest companies in each of 22 countries published a supplier code of some sort: "KPMG International Survey of Corporate Responsibility Reporting 2008," KPMG, October, 2008, accessed August 19, 2009 at http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf.

³⁵ A fourth topic covered by the conventions, equal treatment and discrimination, was excluded because it has not been widely addressed by corporate LHR policies.

³⁶ "Social and Environmental Sustainability Guidebook, 2010, Levi Strauss & Co., accessed August 3, 2011 at <http://www.levistrauss.com/sites/default/files/librarydocument/2010/6/ses-2010-guidebook.pdf>.

³⁷ The detailed data underlying each chart is available in the Appendix. Note that in some instances, although ASSET4's information collection effort could find no assertion regarding having a human rights policy in a company's most recently, ASSET4 had found one in that company's previous fiscal year report. For the purposes of both this and the previous study, such companies were deemed to have human rights policies currently. In addition, there were some companies which reported ostensibly affirmative answers for other categories (not including having a health & safety policy) but not a positive one for the question of their having a human rights policy. Such companies were deemed to have reported negatively on all of the categories. Regardless of how else they reported, if companies stated they had health & safety policies they were counted in the analysis as having ones.

³⁸ "The Financial Development Report 2010," World Economic Forum, page 300, accessed June 8, 2011 at <http://www.weforum.org/reports/financial-development-report-2010?fo=1>.

³⁹ "About occupational health and safety regulation in Australia," National Research Centre for OHS Regulation, undated web page accessed August 23, 2001 at <http://ohs.anu.edu.au/ohs/index.php>. Also see a government summary of related laws and policies at <http://australia.gov.au/topics/health-and-safety/occupational-health-and-safety>.

⁴⁰ "The Financial Development Report 2010," World Economic Forum, accessed June 8, 2011 at <http://www.weforum.org/reports/financial-development-report-2010?fo=1>.

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⁴¹ The market capitalisation numbers here and in the charts and tables exclude the inactive firms among the 2,508 as well as three others for which ASSET4 had no market-cap data. They also exclude seven companies among the 195 ASX 200 companies in our sample for which ASSET4 had no market-cap data.

⁴² We define sectors and industries according to the Global Industry Classification Standard (GICS) developed by Standard and Poor's Corporation and MSCI. See <http://www.msccibarra.com/products/indices/gics/>, accessed June 9, 2011.

⁴³ Although it seems logical that enforcement procedures would be dependent on monitoring and/or improvement targets, some companies describe the former but not the latter.

⁴⁴ The Global Reporting Initiative has a program aimed at small and medium enterprise, available on its website at <http://www.globalreporting.org/WhoAreYou/SME/>, accessed October 20, 2009.

⁴⁵ The 2009 study covered company reports available in ASSET4's database as of October of that year, which included a roughly 50/50 mix of reports from 2008 and 2009 fiscal years. Similarly, the current study includes fiscal report from 2009 and 2010. The majority of the ASX firms (175) had issued reports in 2010, while the other 20 only had done so for 2009 as of July, 2011. The global sample was more mixed, with 62 percent having 2010 data in the current analysis and the others 2009. One company, a small German retailer, had published nothing about its LHR policies since 2008. For each global sample, two fiscal years of data were used given the relatively slower and irregular nature of company sustainability/corporate responsibility reporting compared to financial reporting. Note, also, that corporate fiscal years can vary widely. Some use a calendar year while others use different time frames, such as the period from July 1st of one year to June 30th of the next.

