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SUPPLY-CHAIN LABOR AND HUMAN RIGHTS POLICIES ARE BECOMING THE NORM FOR LARGE CAP COMPANIES

First-of-a-Kind Benchmark Study Finds 43 Percent of European Companies Have Supply-Chain Labor and Human Rights Policies, With U.S. and Asia Lagging Behind

NEW YORK, NY, November 11, 2009 – Some 28% of global companies – including nearly half of those with market capitalizations of more than \$10 billion – have labor and human rights (LHR) policies covering their global supply chains. However, materially fewer have established follow-up monitoring and enforcement procedures. Geographically, LHR supply-chain policies are close to the norm among European companies, but the United States and Asia lag behind. These findings are contained in a new study that is the first publicly available benchmarking analysis of global LR policies, and covers more than 2500 global companies. The study was conducted by the Harvard Law School Pensions Project and ASSET4, and funded by the not-for-profit IRRC Institute.

“These benchmarks offer investors, corporate officials and other interested parties a starting point for assessing company LHR policies,” said Aaron Bernstein, senior research fellow at the Pensions and Capital Stewardship Project at Harvard Law School’s Labor and Worklife Program. “The fact that 45 percent of the 657 largest companies in the sample have adopted a supply-chain LHR policy – and that 25 percent have published a specific supplier code of conduct – suggests such approaches may be an emerging best practice that is prudent to emulate. The implication is that LHR concerns are close to the norm for large global corporations, while those lacking LHR policies may come under pressure to adopt them,” Bernstein added.

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“Investors and corporate managers have few methods to compare companies’ LHR policies, nor tools for learning approaches that might reduce long-term reputational or operational risk,” said Christopher Greenwald, director of data content for ASSET4, which provided the data for the study. “Now investors have market-wide benchmarks that provide a basis to compare the investment risks posed by the varying approaches of companies to mitigate LHR risk. This allows investors to move beyond pure ‘negative screening’ of companies in violation of LHR norms, and to identify innovative companies in LHR risk management through best-in-class approaches that are sensitive to the differences in LHR supply chain reporting across various industries, geographies and market capitalizations.”

“Retail and institutional investors are increasingly concerned about the sustainability of the companies they own,” said Jon Lukomnik, program director of the IRRC Institute. “While they are looking at governance practices such as executive compensation and at environmental practices as never before, LHR practices and policies have been highly under-researched. At the same time, sweatshop and quality and safety controversies have erupted regularly for Western companies’ with overseas supply chains – Nike, Wal-Mart and Tesco to name just a few. Investors remember all too well what results when public criticism inflicts reputational damage on companies or when substandard suppliers create safety recalls – it damages the bottom line,” Lukomnik added.

The 31-page study, “*Benchmarking Corporate Policies on Labor and Human Rights In Global Supply Chains*,” analyzes corporate policies on labor and human rights as applied to global supply chains. The research made use of ASSET4’s database of more than 85 data points for 2,508 publicly listed companies, including every company comprising the S&P 500, FTSE 350, MSCI World and Dow Jones STOXX 600 stock market indices. The report key findings are as follows:

- A significant minority of all 2,508 companies—28 percent—has LHR policies. Fewer have follow up procedures; only 15 percent have issued a detailed LHR code of conduct for their suppliers.
- Some 45 percent of large companies have issued an LHR policy, and 18 percent of smaller companies. The relatively large proportion of high-market-capitalization companies may indicate that LHR supply-chain policies are starting to become an expected part of corporate behavior, at least among those with extensive supply chains or in some markets or industries.

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- About 43 percent of companies based in Europe have LHR policies, while only 23 percent of US companies and 20 percent of Asian firms have such supplier policies.
- European companies are more likely to describe monitoring, improvement targets and enforcement mechanisms for their policies and codes than U.S. and Asian companies.
- Less than six percent of companies endorse specific labor standards such as the eight core conventions of the International Labor Organization. Only six percent say they monitor suppliers for policy or code compliance or set LHR improvement targets; and only seven percent describe enforcement procedures.
- LHR policies are more likely in sectors of the economy that have been subject to the most exposures of LHR abuse. They are most prevalent in the consumer discretionary or consumer staples sectors, which include industries such as apparel and personal products. Some 49 percent of firms in these sectors have a policy and 32 percent have published a code of conduct. Such policies are found in only 15 percent of financial firms. The energy sector is the least likely to have supply-chain LHR policies, at 14 percent.
- The five industries with the highest prevalence of corporate policies have experienced relatively greater negative LHR supplier publicity. Some 65 percent of household and personal products firms have policies and 55 percent have a code. In three other industries, a majority of companies have policies as well: consumer durables and apparel; retailing; and food staples retailing.

The findings are based on public disclosures by companies in documents such as annual reports and corporate responsibility reports. They do not include any external verification or assessment of how well companies implement stated policies and procedures, or whether they adhere to their own self-described policies.

The full report is available at www.irrcinstitute.org, <http://www.law.harvard.edu/programs/lwp/index.html>, and www.asset4.com. The report also is included in the Social Science Research Network Corporate Governance Network at <http://www.ssrn.com/cgn/index.html>. The CGN is sponsored by the IRRC Institute and makes available thousands of research reports on environmental, social and corporate governance research to anyone, anywhere, anytime.

About The IRRC Institute

The IRRC Institute is a not-for-profit organization headquartered in New York, N.Y whose mission is to provide thought leadership at the intersection of corporate responsibility and the informational needs of investors. More information is available at www.irrcinstitute.org.

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About The Pensions and Capital Stewardship Project of the Labor and Worklife Program, Harvard Law School

The Pensions Project addresses issues of retirement security and pension fund governance, management, investment, and related matters.

http://www.law.harvard.edu/programs/lwp/LWPPensions_about.html.

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About ASSET4

ASSET4 AG is a leading provider of environmental, social and corporate governance information located in Zug, Switzerland. The company provides a new generation of investment research information to investors and corporations that enables investors to outperform their peers and lower their risk exposure. More information is available at www.asset4.com.

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