Sectoral Studies on Decent Work in Global Supply Chains

Comparative Analysis of Good Practices by Multinational Enterprises in Promoting Decent Work in Global Supply Chains

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Foreword

The International Labour Organization (ILO) is the United Nations specialized agency devoted to advancing opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. The ILO Sectoral Policies Department (SECTOR) promotes decent work by supporting the Organization's tripartite constituents to address social and labour issues in different economic sectors at the global, regional and national levels. The purpose of these studies on multinational enterprises' good practice in promoting decent work in global supply chains is to encourage the exchange of ideas and to provide supplementary inputs to the general discussion on Decent Work in Global Supply Chains scheduled to take place during the 2016 Session of the International Labour Conference.

The individual global supply chain studies were prepared for the ILO by the following external consultants: Chris Wright (chemicals); Jacqui Boardman, Amber Johns and Drogos Petre (tourism); Huw Thomas (tea); and Alan McClay, Claudine Musitelli and Fanny Garcia (logistics).

These SECTOR colleagues provided valuable reviews of and technical contributions to these background studies: El'vis Beytullayev, Sabine de Bruijn, Alejandra Cruz Ross, Sara Elder, Mariangels Fortuny, Julia Lear, Yasuhiko Kamakura, Youbin Kang, Lucy Reimers, David Seligson, and Wolfgang Weinz. Ricarda McFalls, an external consultant, proofread and edited the material.

The responsibility for opinions expressed in these studies rests solely with their authors, and their publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

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Alette van Leur,
Director Sectoral Policies Department

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Good Practices by Multinational Enterprises in Promoting Decent Work in Global Supply Chains: A Comparative Analysis of the Chemical, Tourism, Tea and Logistics Sectors

Sectoral Policies Department (SECTOR)

Introduction

Many governments, employers' and workers' organizations (the ILO's tripartite constituents) want to know how engagement with global supply chains (GSCs) can help national and local economies and communities grow in a sustainable and inclusive manner, promote jobs and contribute to realizing decent work for all. In June 2016, the three constituents will come together at the International Labour Conference (ILC) to have a general discussion about decent work in GSCs.

As input into the ILC discussion in 2016, the ILO conducted studies of good practices by multinational enterprises (MNEs) for the promotion of decent work in four different sectors of the economy: chemicals, logistics, tourism and tea. This report comprises a comparative analysis of good practices by MNEs in the four sectors to help understand constituents' capacity-building needs and identify potential areas for future work. The analysis carried out under this project will help inform the 2016 discussion and feed into the preparations and possible follow-up to the ILC discussion.

Cross-sectoral trends in global supply chains

Over the past few decades, supply chains in the chemical, logistics, tourism and tea sectors have grown and become more global in reach, often with market share concentrated among a small number of MNEs. Whereas large firms once owned their own plantations and factories, the liberalization of trade and decreased costs of communication and transport has made it possible for them to source an increasing share of their manufacturing and service activities abroad from specialized suppliers. Now, MNEs use their size and market share to coordinate increasingly global and complex supply chains without having to own all, or in some cases, any stages of the supply chain. Activities previously considered core to the business are now commonly sub-contracted or outsourced. For example, manufacturers hold inventory and ship products from third party logistics service providers (3PLs) rather than warehouse and truck themselves, while in the hotel sector, large MNEs have moved from owning and managing hotel properties to franchising their brand name to private hotel owners.

Global supply chains in the chemicals, logistics, tourism, and tea sectors are linking developing countries to the global economy, contributing to enterprise and employment creation. Asian countries – especially China – are now a major source of production, sales and employment in the chemical industry; and, the majority of commodity services in the logistics sector are now supplied by firms in developing countries. While still substantial sources of export revenues, the largest markets for

tea production and consumption are in emerging markets. Tourism destinations in emerging markets are growing in popularity, attracting increasing numbers of foreign and domestic tourists, and accounting for almost half of the global tourism market. With the exception of the chemicals sector globally, employment appears to have increased in the tea, tourism, and logistics sectors.

At the same time, complex supply chains spanning the globe introduce new challenges to achieving decent work. In all four sectors, the trend towards outsourcing means many workers are sourced from specialized contractors rather than being employed directly. The majority of these workers are in developing countries, where labour regulation may be weak and the resources or capacity to enforce the law limited. Many jobs in the tourism industry are part-time, temporary, casual or seasonal, with long working hours and low pay. In the tea sector, there is a trend toward companies reducing costs by employing temporary or casual workers on their plantations and outsourcing work to smallholders where it is difficult to ensure decent working conditions. There is growing recognition of the need to pay attention to the quality of jobs linked to GSCs in addition to the quantity to ensure decent work for workers in GSCs.

Good practices by MNEs for promoting decent work in global supply chains

In each of the four sectors there are cases of MNEs making efforts to promote decent work in their global supply chains. The growing number of voluntary initiatives undertaken by MNEs includes company codes of conduct and industry-wide standards, third party certification schemes, multi-stakeholder initiatives (MSIs) and global framework agreements (GFAs). There are notable differences in the type of practices used in each sector. Whereas the logistics and tourism sectors mainly use company codes of conduct to address labour standards in their supply chains, MNEs in the tea sector have moved to using third party certification of the tea they purchase. The chemical sector is more advanced in promoting decent work in global supply chains, using industry-wide initiatives and global framework agreements to improve labour conditions. Of course, there are also variations within each sector. For example, overall there is little adoption of initiatives in the logistics sector, however, IKEA and Tesco provide examples of how large buyers of logistic services are starting to address decent work challenges within their logistic service providers.

Though empirical evidence of the actual impact of these initiatives on workers tends to be scarce, the limited available evidence suggests that some of these initiatives are more likely to be effective at promoting decent work than others. Even when provisions for international labour standards (ILS) are included, very few voluntary initiatives are found to directly involve workers or their representatives in the design or monitoring, and therefore rarely include more substantive ILS related to wages or social dialogue. Therefore, adopting a code of conduct can lead to changes in the way a company or industry does business, but as companies often monitor their own practices against their own code, the adoption of such codes does not necessarily lead to substantial improvements in conditions for workers. Third party certification systems address some concerns related to codes of conduct by having an external party monitor production conditions against independent standards; however, workers are generally not involved in developing the standards. By contrast, initiatives such as GFAs that allow for independent verification of supplier activities and the input of workers and their representatives are considered to be more comprehensive and effective at addressing decent work.

Given that some practices are expected to be more effective than others, it is important to understand the factors that influence the different practices across sectors. A comparison of the chemicals, logistics, tourism, and tea sectors reveals four factors that appear to influence the uptake of different initiatives across sectors: (1) consumer awareness of labour issues; (2) visible brand identities in the sector; (3) pressure from civil society; (4) and internal collaboration among different supply chain actors.

Sectors with more visible labour issues have a longer history of promoting decent work in their supply chains. In order to manage the social and environmental impact associated with the production, use and transportation of potentially hazardous chemicals, the chemical industry has been at the forefront of corporate social responsibility (CSR) initiatives since the 1980s, particularly initiatives driven by industry associations and MNEs. A 2012 survey of more than 700 chemical companies found that 54 per cent had a sustainability strategy or policy.[1] On the other hand, consumers have only started to become aware of the impact of the logistics sector, particularly as a result of increased awareness of climate change and greenhouse gas emissions from transportation.[2] Therefore, initiatives in the logistics sector primarily focus on environmental concerns.[3] Only eight MNEs were found to have a code of conduct related to labour, and these tended to have a focus limited to basic workplace safety and producing a company corporate social responsibility report. Similarly, it is only recently that consumers have considered the impact of tourism in communities. Most of the hotel chains interviewed were at the early stages and concentrating on first tier suppliers from their owned and managed properties.

The visibility of strong company brand identities in a sector also affects both the uptake and the type of initiative adopted to promote decent work. For example, IKEA and Tesco, both highly branded consumer-facing companies, through their initiatives to address decent work in their transport and logistics sourcing (IKEA's IWAY program and Tesco's involvement in the Ethical Trading Initiative), can be drivers of good practice by their suppliers in the logistics sector, a sector otherwise considered late-adopters. Similarly, highly visible tea brands, such as Lipton and Tetley (Tata Group), are among a growing number of MNEs committing to sourcing only third-party certified tea (Rainforest Alliance, Fairtrade, UTZ, Ethical Tea Partnership) in a bid to protect brand reputation and value. Certification schemes are also seen to add brand value to other sectors, including a number of hotels and hotel chains in the tourism sector, seeking to distinguish their brands.

Interestingly, the chemical sector has more industry-wide initiatives than other sectors (e.g. Responsible Care, Together for Sustainability) because awareness of chemical safety issues in the sector is high, but the ability of consumers to distinguish between chemicals from different companies is low and therefore the entire sector's reputation is at stake if just one company is found with deficits in this area. Because awareness

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1 ILO: "Promoting decent work in the chemical industry: Innovative initiatives", Issues paper for discussion at the Global Dialogue Forum on Initiatives to Promote Decent and Productive Work in the Chemical Industry (Geneva, International Labour Organization), 2013, pp. 4-5.

2 M. Piecyk and M. Bjorklund: "Green logistics, sustainable development and corporate social responsibility", in A. McKinnon et al. (eds.) Green Logistics: Improving the Environmental Sustainability of Logistics (London, Kogan Page Limited, 2015).

3 C. Carter and J. Jennings: "Logistics social responsibility: An integrative framework", in Journal of Business and Logistics (Vol. 23, No. 1). Note: Other activities might include customer service, order processing and warehouse selection process.

is highest regarding chemical safety as opposed to all aspects of decent work, safety is the focus of these initiatives and they do not address decent work comprehensively. However, even in this sector, some companies promote good labour practice as a brand differentiator. For example, Dr. Bronner's Magic Soaps markets organic and Fairtrade soap products sourced directly from palm oil producers using third-party certification (certified organic and Fairtrade).

The above two factors, visibility and consumer awareness, are linked to and help illustrate the role of civil society in pressuring companies and industry sectors to promote decent work in their supply chains. The greater the visibility of the company brand or the labour issue, the more likely the MNE or industry sector will be pressured by civil society to ensure decent work in its supply chains. When consumer awareness is high, the good practices of one company can influence others in the same sector to follow suit. For example, when Unilever committed to sourcing all Lipton branded tea from Rainforest Alliance certified plantations by 2015, Associated British Foods followed Unilever's commitment and Tata Global Beverages soon committed to sourcing all tea from certified plantations by 2016.

Internal collaboration among different supply chain actors, particularly workers, also influences the content and uptake of an initiative. For example, GFAs established between MNEs and the global union federation 'IndustriALL' representing inter alia chemical industry workers have been used to monitor ILS in the supply chain. In the chemical sector, IndustriALL has signed GFAs with Belgian chemical company Solvay and German plastics company Röchling. The GFA with Solvay covers the ILO's eight fundamental Conventions as well as Conventions No. 135 and No. 156, and includes measures for promoting decent work among the company's suppliers and subcontractors. The segments of the logistics sector with higher levels of trade union activity are found to have good practices related to decent work: Logistics and Transport Corporate Citizenship Initiative (L&TCCI), Clean Cargo Working Group, Railsponsible, The Sustainable Shipping Initiative (SSI). By contrast, tourism traditionally has a very low rate of trade union membership, resulting from a number of characteristics of the sector and its labour force.[4]

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[4]   ILO: 2011. "Hotels, catering and tourism: social dialogue", in: Sectoral Brief, (Geneva).

Conclusion

In all four sectors – chemicals, logistics, tourism and tea – there are a growing number of good practices by MNEs to promote decent work in their supply chains. An analysis of the four sectors found that, with a few exceptions, the types of practice tends to vary across sectors as a result of consumer awareness of labour issues in the sector, the visibility of company brand identities in the sector, pressure from civil society, and internal collaboration between actors. Among the good practices, those with collaboration among trade unions and MNEs, namely GFAs in the chemical sector, appear the most promising for achieving real change for workers.

These examples of good practices, in every sector, remain the niche not the norm. Certified teas made up just 12 per cent of the global tea market in 2012, and there are only a limited number of GFAs in the chemicals sector. Further effort could focus on expanding activities to promote decent work in global supply chains, by MNEs as well as by governments, employers' and workers' organizations. The changing structure of all four sectors, toward increased outsourcing of labour, means that many decent work deficits in supply chains are occurring further along the supply chain, at the level of the sub-contracted suppliers. An area for future initiative could be addressing outsourced and casual workers in SMEs, including those linked to MNE-led supply chains.

To facilitate such efforts, there is a need for further research on the effectiveness of different practices to achieve decent work in global supply chains. Current evidence is scarce regarding the impacts of voluntary initiatives on decent work. Moving forward, this is an important gap to fill so that MNEs and other supply chain actors can make evidence-based decisions on how they might effectively promote decent work in global supply chains.

Good Practices by Multinational Enterprises in the Promotion of Decent Work in the Chemical Global Supply Chain

Chris F. Wright

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Executive summary

The chemical industry is a major source of economic activity and employment globally. The industry is increasingly characterized by segmented and geographically dispersed global supply chains (GSCs). Despite the adoption of corporate social responsibility (CSR) policies by chemical multinational enterprises (MNEs), increased negotiating power of retailers and large first tier producers has become a major source of pressure for suppliers and smaller and less commercially powerful chemical companies. Without sufficient regulation and monitoring, there is a risk that companies will increasingly transfer supply chain pressures onto their chemical suppliers and workers in order to remain competitive, which has the potential to undermine decent work. This risk is compounded by the shift in chemical production from advanced economies with strong social dialogue and employment protections to emerging economies with limited resources to rigorously enforce international labour standards.

In this context, this report examines good practices and voluntary initiatives to promote decent work. These initiatives vary in their scope and governance, particularly regarding social dialogue and worker representation, which affects their potential to promote decent work within the chemical GSC. The report uses a methodological approach based on a review of voluntary initiatives and an analysis of primary and secondary documentation including media reports and academic literature. Section 1 of the report provides definitions and clarifications of core concepts and outlines recent production and employment trends in the chemical industry.

Section 2 provides context for the development of the voluntary initiatives and examines the implications for promoting decent work in the chemical global supply chain. The 'governance deficit' relating to the incapacity or unwillingness of governments to regulate commercial pressures across national boundaries is important for understanding the challenges of enforcing international labour standards in the chemical industry. However, the reputational benefits of socially responsible practices and the value of maintaining collaborative relationships with stakeholders including suppliers, employees and their representatives is spurring chemical MNEs to implement voluntary initiatives. This is particularly important in the chemical industry, given the large number of small and medium enterprises (SMEs) and the risks that the indiscretions of one irresponsible company could taint the reputation of the entire industry. Continued progress in addressing governance gaps, including through voluntary initiatives, has the potential to promote decent work in chemical GSCs.

Section 3 examines good practices for promoting decent work in the chemical global supply chain through an analysis of various international institutions and initiatives promoting ILO's core Conventions, as expressed in the ILO Declaration on Fundamental Principles and Rights at Work (1998). These include: company-level initiatives such as private codes of conduct created and monitored unilaterally by lead firms; sector-wide initiatives established by national industry associations; global industry-led initiatives such as Responsible Care (RC) and Together for Sustainability (TfS) that aim to encourage higher standards across the chemical GSC; and, collective bargaining and global framework agreements (GFAs) established with Global Union Federations (GUFs) such as IndustiALL that facilitate social dialogue and provide baseline minimum conditions across chemical MNEs' global operations. Among the different types of voluntary initiatives, GFAs that allow for independent verification of supplier activities and the input of workers and their representatives are found to be more effective than business-led initiatives for promoting decent work, but only a small

number of these agreements have been signed by chemical companies. None of the different initiatives operating in the chemical industry therefore provide comprehensive solutions for promoting decent work in the chemical GSC.

As a conclusion, Section 4 considers what the social partners can do to promote decent work in the chemical supply chain. At the national level, governments can encourage social dialogue and adopt and enforce laws underpinned by international labour standards. Greater coordination among governments can safeguard against a 'race to the bottom' through offshoring to countries where international labour standards are not properly implemented. The ILO can play a critical role in this coordination effort by continuing to encourage governments to incorporate international labour standards into their national regulatory systems and ensure that these are enforced. Chemical companies should be encouraged to incorporate decent work principles into their codes of conduct and industry-led initiatives and exercise due diligence by working closely with their suppliers, especially with SMEs that often lack resources. Unions should continue to promote the adoption of GFAs and work with the chemical industry to identify ways that company-level and industry-led initiatives can incorporate more robust measures for implementing decent work in their operations and products for promoting decent work within their supply chains.

Abbreviations and acronyms

ACC	American Chemistry Council
BAVC	German Federation of Chemical Employers' Associations
CEFIC	European Chemical Industry Council
CSR	Corporate social responsibility
ECPA	European Petrochemical Association
Eurofound	European Foundation for the Improvement of Living and Working Conditions
FECC	European Association of Chemical Distributors
GFA	Global framework agreement
GSC	Global supply chain
GUF	Global Union Federation
HSE	Health and Safety Executive (Government of the United Kingdom)
ICCA	International Council of Chemical Associations
ICEM	International Federation of Chemical, Energy, Mine and General Workers' Unions (now part of IndustriALL Global Union)
IG BCE	IG Bergbau, Chemie, Energie (German Chemicals Industry Trade Union)
ILO	International Labour Organization
ILO–OSH	ILO guidelines on occupational safety and health management systems
IMF	International Metalworkers' Federation (now part of IndustriALL Global Union)
MNE	Multinational enterprise
MNE Declaration	Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO)
OECD	Organization for Economic Cooperation and Development
OSH	Occupational safety and health
NGO	Non-governmental organization
RC	Responsible Care
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
Ruggie Principles	UN Guiding Principles on Business and Human Rights (authored by Professor John G. Ruggie)
SME	Small and medium enterprise
TfS	Together for Sustainability
UN	United Nations
UNIDO	United Nations Industrial Development Organization
VNCI	Association of the Dutch Chemical Industry

1. Introduction

1.1 Overview

The chemical industry is a major source of economic activity and employs an estimated 20 million people worldwide, according to United Nations Industrial Development Organization (UNIDO) industrial statistics (ILO, 2011). While European and North American countries have traditionally dominated the industry, Asian countries – especially China – are now a major and growing source of production, sales and employment. This shift in the main sites of chemical production has contributed to greater segmentation and geographical dispersion of the industry. Like many other industries characterized by fragmented production processes (ILO 2015a; Ruggie, 2013), the chemical industry is organized through "complex and uncertain" global supply chains (GSCs), according to the European Petrochemical Association (ECPA) (ECPA, 2013). The same is true for associated industries such as pharmaceutical chemicals, where large MNEs source specialized products from a proliferation of small and medium enterprises (SMEs) resulting in a fragmented supply chain (ICIS Chemical Business, 2006). The chemical industry comprises the producers and distributors of a very large range of industrial commodities, plastics, polymers, petrochemicals and consumer chemicals. The industry supplies chemicals and finished products to large industrial customers in agriculture, construction, health, manufacturing and services industries and to household consumers via retailers. **Figure 1.1** provides a basic illustration of the various processes involved in the chemical supply chain.

Figure 1.1: **A basic illustration of the chemical product lifecycle and supply chain flow**
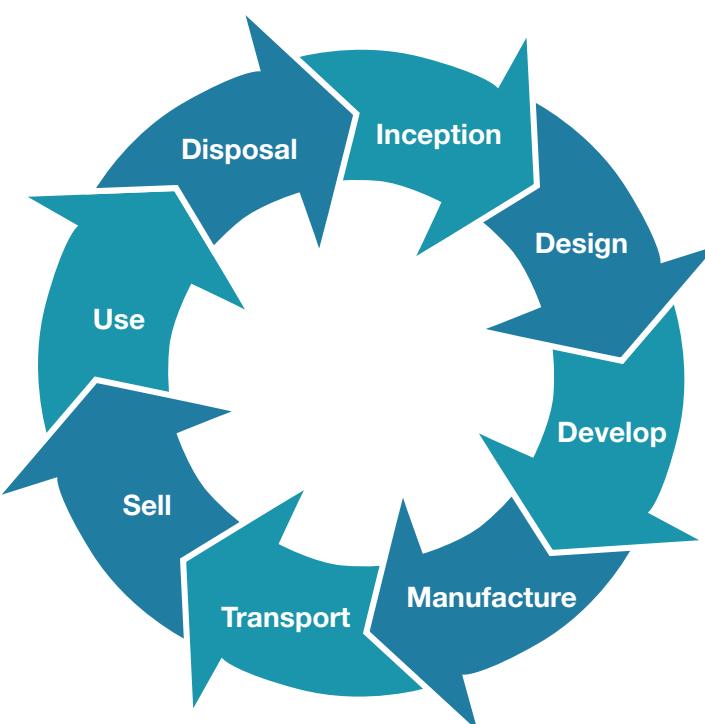
Source: USDOL, 2015.

In order to manage the social and environmental impact associated with the production, use and transportation of potentially hazardous chemicals, the chemical industry has been considered at the forefront of corporate social responsibility (CSR) initiatives since the 1980s, particularly initiatives driven by industry associations and multinational enterprises (MNEs). A 2012 survey of more than 700 chemical companies found that 54 per cent had a sustainability strategy or policy (ILO, 2013).

Despite the adoption of CSR initiatives and sustainability policies, increased negotiating power of retailers and large first tier producers has become a major source of pressure for suppliers and smaller and less powerful chemical companies. In some market segments, this development is forcing companies situated further down the chemical supply chain to absorb the increases of raw material costs that cannot be passed onto their large commercial clients (ILO, 2011). Unless properly monitored and regulated, the experience of other industries suggests that less commercially powerful chemical companies will seek to transfer these costs onto their workers and suppliers in order to remain competitive (Locke et al., 2013), as Section 2.1 of this report explains. This risk is compounded by the shift in chemical production from advanced economies with strong social dialogue and employment protections to emerging economies lacking in resources to rigorously enforce international labour standards. These pressures create additional challenges for ensuring that the fundamental rights at work are promoted in the chemical GSCs.

Global framework agreements (GFAs) established between MNEs and global union federations (GUFs) representing chemical industry workers – particularly the IndustriALL Global Union ('IndustriALL') – have been used to ensure that international labour standards are observed across the supply chain. However, the degree to which CSR initiatives and GFAs enable decent work for the employees of chemical companies and other workers in the chemical global supply chain is unclear and requires closer attention.

At the International Labour Organization (ILO) Global Dialogue Forum on Initiatives to Promote Decent and Productive Work in the Chemical Industry (Geneva, 26-28 November 2013), the social partners expressed support for initiatives in the chemical supply chain that improve decent work, industry reputation, compliance with laws and regulations and the promotion of best practice. Notwithstanding the challenges to promoting decent work in the chemical supply chain and the possible limitations of voluntary initiatives, the social partners acknowledge the potential for such initiatives to improve access to vocational education and training, sustainable management practices, occupational safety and health and other issues of critical important to the industry (ILO, 2014). Participants at the Global Forum agreed that:

> " The ILO should include a perspective on the promotion of decent work in the chemical industry supply chain in the preparations and background reports for the general discussion at the 2016 [International Labour Conference] on the promotion of decent work in global supply chains with the guidance of international labour standards and the Ruggie Principles and existing documents such as the ILO MNE Declaration, the UN Guiding Principles on Business and Human Rights, and the revised OECD Guidelines for Multinational Enterprises. "
>
> *(ILO 2014, p.2)*

This report aims to provide such a perspective, by examining good practices and initiatives to promote decent work in the chemical global supply chain in order to guide

policymaking in this area. In particular, it examines company-level initiatives such as private codes of conduct created and monitored unilaterally by lead firms, sector-wide initiatives established by national industry associations such as Responsible Care, and Together for Sustainability that aim to encourage higher standards across the chemical GSC, and collective bargaining and GFAs that facilitate social dialogue and provide baseline minimum conditions across chemical MNEs' global operations. With respect to the treatment of labour standards in these initiatives, international governance mechanisms such as the ILO Declaration on the Fundamental Principles and Rights at Work, the United Nations (UN) Global Compact, the UN Guiding Principles on Business and Human Rights and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises are commonly used as reference points. The different initiatives used in the chemical industry vary in their scope and governance, particularly regarding social dialogue and worker representation, which affects their potential to promote decent work and sustainability within GSCs (Wright and Brown, 2013).

The report uses a methodological approach based on a review of voluntary initiatives and an analysis of primary and secondary documentation including media reports and academic literature. The rest of this section provides definitions and clarifications of core concepts and outlines recent production and employment trends in the chemical industry. Section 2 gives context for the development of the voluntary initiatives and considers the implications for promoting decent work in the chemical global supply chain. Section 3 analyses the scope and substance of the different types of voluntary initiatives operating in the chemical industry and provides an assessment of their impact in relation to decent work. By way of conclusion, Section 4 identifies the implications of the findings for governments, chemical industry and chemical trade unions.

1.2 Definitions and core concepts

This report focuses on voluntary initiatives that are defined as "codes of conduct or other enterprise initiatives not required by law, which address the performance of enterprises in respect of occupational health, safety, the environment and other issues" (ILO 1998, p.3). Given that many voluntary initiatives include multi-stakeholder arrangements, such as GFAs negotiated with unions, and government programmes encouraging companies to adopt good practices, its scope is broader than CSR, which often focuses more specifically on the unilateral activities of companies. According to the ILO, CSR is a mechanism for companies to give:

> " Consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law… [However] CSR cannot substitute for the role of government. "
>
> *(ILO 2013, p.30)*

Product stewardship plays an important part in voluntary initiatives in the chemical industry and supply chain. This process involves the ways that chemical companies work with other companies and stakeholders in their supply chains – such as suppliers, customers, distributors, governments, trade unions and non-governmental organizations (NGOs) – to develop and implement activities and programs aimed

at managing the sustainability of production and employment during all stages of the production process and throughout the product life cycle. Essentially, product stewardship "requires companies to take responsibility for others' use and handling of their products" (ILO 1998, p.61). Cooperation between organizations in the supply chain with other key stakeholders is therefore crucial if product stewardship and sustainable outcomes in supply chains including decent work are to be achieved.

A supply chain can be defined as "the series of companies, including suppliers, customers, and logistics providers that work together to deliver a value package of goods and services to the end customer" (Maloni and Brown 2006, p.36). Exchanges within supply chains may consist of two or more companies engaging in routine business-to-business trade (e.g. a chemical supplier selling products to a manufacturer or retailer) or when a firm outsources or offshores its internal activities or acquires products from suppliers or subsidiaries, who may in turn procure goods or services from other specialized suppliers. Supply chains consist of 'lead firms' that take responsibility for coordinating production and distributing activities among 'supplier firms', which are often (though not always) situated in a different country to the lead firm (Gereffi et al., 2005). In the chemical industry, some large first-tier suppliers (e.g. BASF, Dow Chemical, DuPont) may have the competencies to influence the activities of suppliers and the capacity to operate independently of their commercial clients and the retailers that sell their products to the consumer market and other end users. Retailers and intermediary organizations – such as transport and logistics companies – typically play important roles in the chemical supply chain.

1.3 Chemical industry production and employment trends

Despite the large size of the global chemical industry, there has been a decline in industry employment since the early 2000s (ILO, 2011). Female workforce participation in the industry remains low, but there have been initiatives to improve work-life balance, skills and employability and opportunities for decent work in SMEs (ILO, 2014). The quality of work in the chemical industry is discussed in more detail in Section 2.1.

In 2013, world chemical sales were valued at €3,156 billion, a 2.4 per cent growth compared to the previous year. This represented a much smaller growth rate than the previous decade, when sales increased by an average of 10.3 per cent each year between 2003 and 2012. China was the largest contributor to chemicals sales in 2013, accounting for more than double the sales of the United States, the second largest contributor, followed by Japan, Germany and the Republic of Korea. While China has risen to be the largest consumer of chemical products in terms of sales volume, the contributions of the European Union, North America and Japan have declined sharply in proportional terms over the past decade (see **Table 1.1**).

In terms of production, the United States remained the largest producer of chemicals and chemicals products in 2013, with Chinese output growing markedly since 2005 (see **Table 1.2**). These developments signify a broad shift in chemical production from Europe to Asia, however new investments in shale gas have been a boon for petrochemical companies particularly in North America. These recent developments are serving to realign "global supply and demand balances, altering the volume and direction of material flows, and significantly increasing supply chain complexity and uncertainty" (ECPA 2013, p.6).

In addition to global competition, recent environmental and safety legislation in some jurisdictions has been considered a further source of price pressure for chemical producers. Of particular note is the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) system for industrial and consumer chemicals, which aims to improve the early identification of chemical substances in order to ensure human and environmental protection from potential hazards over the product life cycle. REACH requires manufacturers and importers to submit a registration dossier for identifying and managing the risks related to each substance they are involved in producing. The European Chemical Industry Council (CEFIC) estimates the average cost of preparing a dossier for substances over 1,000 tons per year at € 2-3 million (ILO, 2011).

Notwithstanding business concerns over the compliance costs associated with REACH and criticisms of its administrative complexity (Bergkamp and Herbatschek, 2014), the emphasis placed on parties to take greater responsibility for their handling of chemicals and communicating information related to potential risks to other parties in the supply chain "is raising the bar in terms of the industry's adoption of product stewardship" (Baker, 2009). The Chair of the UK Health and Safety Executive (HSE) says "enforcing the safe use of chemicals throughout the supply chain should become a much more effective process with REACH in place" (Hackitt, 2008). Rather than seeing regulations such as REACH as simply imposing costs and administrative pressures, its emphasis on sustainability potentially expands the opportunity for new business models and initiatives that encourage decent work (ILO, 2014). The following section examines the issue of supply chain responsibility in the chemical industry more closely, focusing in particular on the implications for decent work.

Table 1.1: **World chemicals sales by region, share percentage, 2003 and 2013**

Region/country	2003	Region/country	2013
European Union	31.2	China	33.2
North American Free Trade Agreement	25.9	European Union	16.7
Japan	9.4	North American Free Trade Agreement	16.7
Rest of Asia	9.2	Rest of Asia	12.9
China	8.7	Japan	4.8
Latin America	4.4	Latin America	4.6
Republic of Korea	3.5	Republic of Korea	4.2
Rest of Europe	3.5	Rest of Europe	3.3
Rest of the world	2.2	India	2.3
India	2.0	Rest of the world	N/A

Note: Rest of Europe includes Switzerland, Norway, Turkey, Russia and Ukraine; Rest of Asia does not include China, India, Japan and Republic of Korea
Source: CEFIC, 2014.

Table 1.2: **Top 10 producers of chemicals and chemical products (ISIC 24), share percentage, 2005 and 2013**

Country	2005	Country	2013
United States of America	29.4	United States of America	23.2
Japan	12.0	China	21.5
China	9.2	Japan	8.8
Germany	6.7	Germany	5.8
France	3.6	France	3.1
United Kingdom	3.5	Mexico	2.4
Mexico	3.0	India	2.4
Italy	2.7	Republic of Korea	2.3
India	2.2	United Kingdom	2.3
Republic of Korea	2.1	Italy	2.0

Note: Figures calculated at world added value at constant 2005 prices
Source: UNIDO, 2015, p. 99.

2. Implications for promoting decent work in the chemical global supply chain (GSC)

According to the ILO's *World Employment and Social Outlook 2015*, GSCs can create job opportunities, but not necessarily opportunities for jobs with good conditions. Achieving decent work in the chemical GSC therefore requires institutional support, particularly from governments but also from unions and employers (ILO 2015a). As the following section explains, the ability of MNEs to relocate production to countries with weak employment regulation can be used to inflict pressure on suppliers, potentially constraining their ability to develop high performance management practices and degrading conditions for workers labouring at the bottom of the chemical GSC. The 'governance deficit' relating to incapacity or unwillingness of governments to regulate these commercial pressures across national boundaries is important for understanding the challenges of enforcing international labour standards. However, the reputational benefits of socially responsible practices and the value of maintaining collaborative relationships with stakeholders including suppliers, employees and their representatives is spurring chemical MNEs to implement voluntary initiatives with the potential to promote decent work in their GSCs.

2.1 Outsourcing, offshoring and the segmentation of the chemical GSC

There is broad consensus within academic research that outsourcing, offshoring and GSC pressures pose significant challenges for promoting decent work. The use of 'arms-length' or 'market' forms of contracting with minimal cooperation between supply chain partners and especially of 'captive' arrangements characterized by a high degree of supplier dependence on the lead firm is likely to intensify these problems (Gereffi et al. 2015; ILO 2015b). This is particularly the case among SMEs with limited resources and bargaining power and in countries with weak institutional arrangements for encouraging social dialogue and enforcing international labour standards. In these scenarios, studies of other industries indicate that workers engaged by supplier firms have reduced capacity to maintain employment security, access skilled training, gain adequate occupational safety and health protection, and access collective voice mechanisms such as union representation and collective bargaining (Barrientos, 2013; Carswell and De Neve, 2013; Raworth and Kidder, 2009; Wright and Brown, 2013). In contrast to market and captive forms of supply chain governance that aim primarily to minimise costs, 'relational' arrangements characterized by trust between lead firms and suppliers can serve to enhance the value of the goods and services involved. Studies of global electronics and footwear supply chains also find that relational contracting is more likely to facilitate opportunities for decent work (Frenkel and Scott, 2002; Locke et al., 2013).

Outsourcing arrangements are used widely in the chemical industry. This is not surprising given the complexity of chemical production and the general trend of organizations to concentrate on specialized activities and outsource peripheral activities to suppliers (Davis-Blake and Broschak, 2009). Competitive pressures may explain the increased use of outsourcing arrangements in recent years. According to a 2011 ILO report on the chemical industry:

> " The traditional and straightforward contracting-out of jobs onsite and/or outsourcing offsite is moving towards more specialized and sophisticated contracting…. Many [unions] have stated that these specialist contractors are not a problem, because they are established companies whose contracts with the principal company last for many years. They often employ skilled staff on a longterm basis, with relatively decent terms and conditions. However, unions have found a problem with a new breed of 'service suppliers'; and a wide range of services that were once an integral part of a big firm are now being contracted to service suppliers. "
>
> *(ILO 2011, pp.74-75)*

The segmentation of the chemical supply chain is found to directly impact upon the employment relationship, with many workers sourced from specialized contractors rather than being employed directly. The impact of this development appears to be less problematic in Europe where over 90 per cent of chemical industry employees are reported as employed on permanent contracts, with less than five per cent of workers engaged on a self-employed basis (Eurofound, 2014). Aside from issues relating to occupational safety and health (particularly exposure to biological and chemical risks), the European chemical industry is reported to rank better than most other industries in relation to indictors of job quality such as earnings, the quality of the work and its environment, employment prospects and working time quality (Eurofound, 2014).

By contrast, the employment status of chemical industry workers is more precarious in countries where government laws and other forms of institutionalised employment protection are weaker. For example, contract labour accounted for 48 per cent of the Brazilian chemical industry workforce in 2009. An estimated 25-60 per cent of chemical workers in India are engaged as contract labour with wages at less than half the living wage (ILO, 2013). Many workers hired through labour agencies in the Chinese chemical industry reportedly do not receive the same benefits as permanent workers, even if they have been working on a contract basis for long periods (Zeng et al., 2012). Contract workers tend to have less job security and opportunities for training and career development. The growing incidence of contract workers in the chemical industry is also producing pressure for permanent and directly employed workers to be more flexible (ILO, 2011).

For the chemical industry, the growth of outsourcing and contract labour poses a risk to stable employment relations. In several countries, unions representing chemical industry workers have engaged in industrial action and public protest to appeal for improved rights and conditions for contract labour (ILO, 2011).

2.2 The governance deficit in GSCs

To mitigate against the adverse impacts of outsourcing and supply chain pressures on the employment relationship, government can help by providing institutional support for the implementation of fundamental international labour standards, including freedom of association and collective bargaining. Additionally, chemical industry unions are using collective bargaining and GFAs as tools for ensuring that outsourcing and contractor labour do not create disparities and undermine conditions (as explained in Section 3.4). MNEs can also assume greater responsibility to minimize adverse outcomes by evaluating the impact of their commercial practices on their supply chains. With

this objective in mind, the UN Guiding Principles on Business and Human Rights (see Section 3.1) proposes that lead firms undertake due diligence to ensure that fundamental human rights and international labour standards are upheld within their GSCs (UN General Assembly, 2011). However, "the core questions of precisely who is responsible for what, and how much of it, and the most effective ways to respond remain unresolved as a matter of policy and law", according to John G. Ruggie, the author of the Guiding Principles (Ruggie, 2013, p.6).

There are three main reasons for this ambiguity about responsibility. First, as IndustriALL claims, "the size and complexity of the chains make it impossible for [MNEs] to know what is really going on within them" (IndustriALL 2013, pp.3-4). Second, governments have limited capacity to regulate these pressures given that chemical production can often be relocated easily to other countries where governments may be willing to maintain weaker employment laws. And third, despite widely held assumptions that lead firms should assume responsibility for working conditions within their GSCs, in many countries there are legal barriers that prevent one organization being held accountable for the practices of another organization (Amaeshi et al., 2009).

These forces combine to produce a 'governance deficit' in international labour standards among national institutions that notionally have the power to regulate the behaviour of organizations responsible for undermining decent work, but which often struggle to do so due to the globalized nature of chemical production (Bamber et al. [eds], 2015). In this respect, the chemical industry is not alone. As Gereffi explains, this governance deficit that exists among industries characterized by globalized production is exacerbated by a lack of coordination between national governments and regulatory bodies in advanced and emerging countries and at the international level:

> " As national borders have become increasingly porous and larger portions of the global economy are located in the developing world, the old governance structures, organized on the unit of the nation-state, have lost some of their capacity to effectively shape the market. One obvious implication is that much global production is simply beyond the reach of national institutions in the developed world… Developing countries generally lacked the kind of robust regulatory and distributive institutions that characterized the advanced industrial nations… [And] intergovernmental organizations dealing with labour, the environment, and other social issues remain relatively weak. "
>
> *(Gereffi 2005, pp.47-49)*

These barriers pose a significant challenge for promoting and enforcing international labour standards. However, there is growing recognition among the social partners in the chemical industry that voluntary initiatives for promoting decent work in the chemical industry can play a valuable role. At the 2013 ILO Global Dialogue Forum on Initiatives to Promote Decent and Productive Work in the Chemical Industry, there was widespread acknowledgement that such initiatives could help to improve the reputation of the chemical industry and address structural barriers to decent work (ILO, 2014).

2.3 Promoting decent work in the chemical GSC

The potential risks associated with the manufacture and distribution of chemical substances makes it especially important to identify mechanisms to improve public, environmental and workplace health and safety. According to the ILO, an estimated 440,000 people globally died in 2006 following contact with hazardous chemicals at the workplace (ILO, 2013). Prominent events drawing attention to the safety and health risks of chemical production have contributed to negative public perceptions of the chemical industry. Notable examples include: the 1984 Bhopal disaster when a leak of methyl isocyanate at a then Union Carbide India Ltd. (now Dow Chemical) pesticide plant killed several thousand people; and, the deaths of 81 people in the United States from contaminated heparin produced in China and marketed by pharmaceutical chemical MNEs (Givel, 2007; Mullin, 2009; Ruggie, 2013).

Negative public opinion does not necessarily distinguish between the actions of individual companies directly implicated in these incidents and the chemical industry as a whole (King and Lenox, 2000). This realization has prompted demands for chemical companies to take greater responsibility for their production processes and supplier activities, including through collective, industry-wide initiatives (see Section 3.3). In 1991, then Chief Executive of Union Carbide Robert Kennedy observed "we [the chemical industry] operate in a situation where we have an almost total lack of trust. People want to know what we're doing now. They want to see our goals, understand them, comment on them, maybe change them" (Munn, 1997, p.1).

Despite the significant improvements realized in recent years following the adoption of initiatives to improve safety and sustainability, "the chemical industry continues to face public mistrust" (Coons, 2014). In his analysis of public complaints against companies across different industries between 2005 and 2007 using the inventory of the Business and Human Rights Resource Centre, Ruggie found that the pharmaceutical and chemical industry received the third highest rate of allegations (Ruggie, 2013). Similarly, the Edelman Trust Barometer Annual Global Study 2015, which surveyed 33,000 people across 27 countries about the how much trust they place in businesses in 15 industries, found that chemicals ranked fourth last (Edelman, 2015).

To build and maintain public trust, there are several strategies that the social partners can use to address these environmental, health, and safety (EHS) concerns across the chemical GSC. Some industry leaders claim that fostering relational, long-term relationships between lead firms and suppliers can improve risk management and enable greater productivity and cost savings through cooperation and joint development (Braithwaite (ed.), 2005; ECPA, 2011). However, relational arrangements are not entirely sufficient to prevent fragmented supply chain structures producing poor management practices and unfair or unsafe working conditions, which may arise from various factors including opportunistic supplier behaviour and ineffective employment relations institutions (Wright and Kaine, 2015). Consequently, studies have highlighted the importance of regulation and involvement by stakeholders including unions for ensuring that the competitive interactions between lead firms and suppliers do not produce risks and degrade international labour standards (Wright and Brown, 2013). As discussed in Section 3 below, the involvement of governments, employers and unions is a key factor that can determine whether supply chain initiatives designed to promote sustainability and decent work in supply chains achieve their goals.

While pressures from lead firms potentially pose a challenge for the promotion of decent work and sustainable practices, they can also be a source for positive

change. For instance, demands from consumers and NGOs has led retailers and brands averse to reputational damage to ask their suppliers to ensure that chemical products are produced in a socially responsible manner (Westervelt, 2014). While chemical distributors have traditionally been more insulated from these demands than producers, this scenario appears to be changing. According to one report:

> " The growing prominence of CSR for the chemicals distribution industry is driven by its place in the supply chain between chemicals production and retail sales … While chemical distributors may operate predominantly in a business-to-business setting, producers and end users of chemicals – the links either side of distributors in the supply chain – do have to face public pressures. Companies are taking steps to increase environmental sustainability and increase transparency to meet public requirements, and inevitably chemicals distributors are beginning to face pressure from their suppliers and end customers. "

(Brown 2015a)

However, there are structural constraints on the capacity of companies in certain chemical market segments to adopt socially responsible business practices. Although voluntary industry-wide initiatives have been created to raise standards and improve the public reputation of the chemical industry (see Section 3.3), convincing SMEs to join can be difficult. In the past, such inaction was attributed to 'laggards' that gave the industry a bad name despite improvements in the practices of other companies, especially MNEs (ILO, 1998). While this still may be true, there appears to be growing recognition that the supply chain pressures and resource constraints that many SMEs face may be inhibiting their capacity to adopt management practices supportive of decent work through social dialogue (ILO, 2014). SMEs represent a significant component of the chemical industry. For example, companies with fewer than 250 employees accounted for 96 per cent of all companies, 30 per cent of sales and 37 per cent of jobs in the chemical industry across the European Union in 2009 (ILO, 2013). Identifying ways that MNEs can work with SMEs to promote decent work across the chemical GSC is therefore imperative. The next section will examine the nature and impact of different types of voluntary initiatives in order to identify good practices.

3. Good practices for promoting decent work in the chemical global supply chain

In considering voluntary initiatives to promote decent work in GSCs, scholars distinguish 'private' or business-driven mechanisms such as codes of conduct, on one hand, from multi-stakeholder initiatives and other mechanisms that involve engagement or collaboration with unions, NGOs or other independent organizations, on the other. Before examining the use and impact of these initiatives in the chemical industry, it is necessary to briefly consider how they interact with traditional forms of labour regulation, such as collective bargaining, national employment laws and international labour standards, and how voluntary initiatives can be expected to influence outcomes relating to decent work.

A common criticism of voluntary initiatives, particularly business-driven initiatives, is that they can undermine labour standards created by the governments and unions. The voluntary nature of these initiatives means that they are only applicable to those companies that choose to adopt them, which may be for self-interested reasons, and therefore cannot be relied upon to protect rights or promote decent work systematically (O'Rourke, 2003; Vogel, 2008). However, other scholars argue that voluntary initiatives can potentially enhance supplier compliance with traditional forms of regulation and provide protections that did not exist previously (Ruggie, 2004). In particular, Professor John G. Ruggie – who developed the UN Guiding Principles on Business and Human Rights ('Guiding Principles', often referred to as 'the Ruggie Principles'), argues that the debate between the merits of voluntary approaches versus traditional 'mandatory' approaches based on national laws and binding collective agreements fails to recognize that neither of these alone is feasible for regulating labour standards in the context of the governance deficit created by elaborate GSCs that transcend national systems of regulation. Rather, "a new regulatory dynamic" is required that recognizes that "each come to add distinct value, compensate for one another's weaknesses, and play mutually reinforcing roles" (Ruggie, 2013, p.78).

Professor Ruggie's position essentially supports the ILO's argument that "voluntary initiatives should be seen not as an alternative but as a supplement to the promotion of the principles of fundamental rights at work through collective bargaining" (ILO, 2013, p.31; Locke et al., 2013). Indeed, as the following section highlights, voluntary initiatives adopted by the chemical GSC do commonly reference fundamental international labour standards as set out in the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998) as a baseline for promoting decent work.

3.1 International institutions promoting core labour standards in GSCs

There are several ILO Conventions, Recommendations and Declarations that are relevant to initiatives promoting decent work in the chemical GSC (ILO, 2013). These include, inter alia:

- ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up
- Declaration on Social Justice for a Fair Globalization

- ☐ Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)

- ☐ Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187)

- ☐ Promotional Framework for Occupational Safety and Health Recommendation, 2006 (No. 197)

- ☐ Chemicals Convention, 1990 (No. 170)

- ☐ Chemicals Recommendation, 1990 (No. 177)

- ☐ Prevention of Major Industrial Accidents Convention, 1993 (No. 174)

- ☐ Prevention of Major Industrial Accidents Recommendation, 1993 (No. 181)

- ☐ Guidelines on Occupational Safety and Health Management Systems (ILO-OSH, 2001)

At a minimum, the international labour standards contained in the ILO Declaration on Fundamental Principles and Rights at Work provide a set of universal principles for all firms to follow. International initiatives that incorporate these principles, such as the UN Guiding Principles on Business and Human Rights, the UN Global Compact and the OECD Guidelines for Multinational Enterprises, call upon MNEs to use their position to encourage the adoption of core labour standards among suppliers and other entities in their GSCs. The extent to which these initiatives have been directly adopted by the chemical industry is not clear. However, two initiatives which have received significant attention by industry in recent years are highlighted here: The UN Guiding Principles on Business and Human Rights ('Guiding Principles'), and the UN Global Compact.

The Guiding Principles are significant here as they identify risks inherent to GSCs and give prominence to responsibility of all parties in the GSC, including the state. Unanimously endorsed by the UN Human Rights Council in 2011, the Guiding Principles are based on a three pillar, "protect, respect, remedy" framework outlining how states and businesses should prevent and address activities that may pose a risk to human rights: states have a duty to protect human rights; companies have a responsibility to respect human rights; and victims of business-related abuses should have access to appropriate remedy. Within these parameters, the Guiding Principles require companies to comply with internationally recognized human rights – including those set out in the ILO Declaration on Fundamental Principles and Rights at Work. It further calls for enterprises to minimize adverse impacts on workers who are connected through business relationships including supply chain relationships, even if a company has not directly contributed to these impacts.

In order to comply with the requirements set out in the Guiding Principles, companies must have policies and processes in place "appropriate to their size and circumstances" including due diligence procedures to ensure that their activities do not infringe upon human rights (UN General Assembly, 2011). The Guiding Principles emphasize the need for companies to engage in "meaningful consultation" with stakeholders as part of policies and processes for identifying and assessing the human rights impacts of their activities. It also sets out due diligence principles for companies with elaborate supply chains:

" Where business enterprises have large numbers of entities in their value chains it may be unreasonably difficult to conduct due diligence for adverse human rights impacts across them all. If so, business enterprises should identify general areas where the risk of adverse human rights impacts is most significant, whether due to certain suppliers' or clients' operating context, the particular operations, products or services involved, or other relevant considerations, and prioritize these for human rights due diligence. "

(UN General Assembly 2011, p.16)

The principles also state that companies should seek to use whatever leverage they have to ensure that their suppliers maintain responsibility for human rights, or if they lack such leverage, to find ways of increasing it by collaborating with other organizations (UN General Assembly, 2011).

The UN Global Compact is another widely-recognized inter-governmental initiative that addresses the social, labour and environmental impacts of business operations and their supply chains in a globalized economy. This voluntary initiative expects participating companies to integrate 10 principles relating to human rights, labour (derived from the ILO fundamental Conventions), anti-corruption, and the environment into their business operations, publicly disclose how the principles are implemented, and promote the principles to other companies and stakeholders, especially those within "their sphere of influence" (UN Global Compact, 2013). Although more than 8,000 companies in 145 countries have signed up to the UN Global Compact including several large chemical producers, (Baker, 2010) participants at a recent workshop of the ECPA claimed that the Compact is "not so well known" among chemical industry companies (ECPA, 2014). However, as the following section explains, several MNEs have incorporated the Compact into their codes of conduct.

3.2 Company-level initiatives

Business-driven voluntary initiatives come in the form of codes of conduct established by individual firms to monitor supplier practices and collective industry-wide initiatives supported by industry groups (or less commonly by governments) to raise standards or improve the reputation of the industry as a whole. Companies or industry groups generally formulate these initiatives alone although occasionally in consultation with non-governmental organizations (NGOs) or independent experts. While collective initiatives are likely to contain provisions specific to the relevant industry (as discussed in Section 3.3), the contents of codes of conduct vary: they may contain provisions relating to the ILO's fundamental Conventions, but rarely cover more substantive issues such as wages, conditions and social dialogue. Lead firms may formally expect suppliers to comply with codes of conduct, but monitoring and enforcement mechanisms tend to be weak in practice, particularly with respect to indirect suppliers situated several steps further down the chain. They also often fail to actively encourage input and participation from workers and their representatives. Consequently, scholars have criticized MNEs that use codes of conduct for being interested primarily in protecting their reputations rather promoting decent work (Donaghey et al. 2014; O'Rourke, 2003; Vogel, 2008).

With respect to the chemical industry, there is substantial variation in the nature and scope of codes of conduct. The codes of some chemical MNEs refer explicitly

to international labour standards and other initiatives that promote decent work in supply chains. This is typically the case among the largest companies in the chemical industry. For example, the Dow Chemical Company's Code of Business Conduct for Suppliers expects that suppliers will commit to the provisions outlined in the ILO fundamental Conventions, comply with all applicable laws on wages, benefits, working hours and overtime, ensure that workers are not harassed and abused, and provide a safe and healthy workplace. Since Dow is a signatory of the UN Global Compact, its code of conduct also states that it adheres to the underlying principles and expects its suppliers "to respect the human rights of their employees and treat them fairly, in accordance with all applicable laws" (Dow Chemical Company, 2015). In its Supplier Code of Conduct, DuPont also notes its membership in the UN Global Compact as a sign of its commitment to the "protection and advancement of Human Rights wherever we operate and have similar expectations of our suppliers" (Du Pont, 2014). The Supplier Code of Conduct of BASF, a signatory of the UN Global Compact, also outlines requirements for suppliers to recognize collective bargaining, support freedom of association and uphold other international labour standards (BASF, 2015). These three companies also express support for ensuring that their suppliers comply with the occupational safety and health requirements of the Responsible Care programme (examined in Section 3.3.1 below).

Among the codes of conduct of smaller companies in the chemical industry, references to international labour standards are more difficult to find. For example, the codes of conduct of Eastman, PTT Global Chemicals, Momentive and PPG Industries refer to their support for adherence to human rights, international labour standards and local laws among suppliers, but without explicit reference to the UN Global Compact or ILO Conventions (Eastman Chemical Company, 2015; PTT Global Chemical Public Company, 2013; Momentive Performance Materials, 2013; PPG Industries, 2014). Many other chemical companies do not have codes of conduct or do not make these publicly available on their websites. This lack of public disclosure makes it uncertain whether these companies have any measures for promoting decent work in their supply chains.

In some cases, a company may use public disclosure, however, to indicate that it does not meet certain GCS monitoring standards. For example, shortly after the enactment of the California Transparency in Supply Chains Act, which requires retailers and manufacturers to disclose their efforts to eradicate the risks of human trafficking and slavery in their supply chains, Kraton Polymers issued a statement acknowledging that they did not:

> " Verify product supply chains to evaluate and address these risks; conduct audits of suppliers to evaluate supplier compliance with company standards regarding these risks; require all of our direct suppliers to certify that the materials incorporated in our products comply with laws regarding slavery and human trafficking in countries where they do business; maintain internal standards and processes for employees and contractors who fail to meet company standards regarding these risks; provide training for employees who have direct responsibility for supply chain management on this subject matter. "

> *(Kraton Polymers, 2015)*

Although Kraton Polymers expressed commitment "to conducting business in an ethical and responsible manner, which includes complying with applicable slavery and human trafficking laws", the absence of mechanisms for monitoring and improving the

practices of suppliers suggests that its current practices are unlikely to guarantee the promotion of decent work in its supply chain.

While business-driven initiatives have been criticized for failing to encourage worker participation and lacking adequate monitoring mechanisms, there are good practice examples of Fair Trade programmes created by individual companies that seek to promote decent work in their GSCs. An example within the chemical industry is Dr Bronner's Magic Soaps. The company uses relational supply chain arrangements to maintain its commitment to sourcing organic materials from palm oil producers that comply with Fair Trade requirements. The palm oil industry has been beset with problems of child labour, forced labour and worker mistreatment in recent years. Despite being a relatively small buyer with limited commercial power compared to major soap brands and manufacturers, Dr Bronner's has managed to increase its leverage by avoiding the use of brokers, sourcing directly from reliable farmers and using third-party certification to ensure that workers in the supply chain are being treated properly. According to the company's chief operating officer, "since the basis of our business there was to be organic and fair trade, we had to recruit farmers, get them certified organic, make sure they treat the workers right, pay them the fair-trade premium, and work on community development projects". Growing recognition of Dr Bronner's sustainable business model has allowed the company to increase sales and market exposure and create more jobs in the developing countries from where its products are sourced (Voith, 2010).

Through its Safety Matrix programme, the world's leading chemical company BASF, systematically assesses the performance of suppliers according to labour, safety, health and environmental standards as part of its objectives to improve supply chain sustainability and its commitment to the Responsible Care (RC) (examined in Section 3.3.1). The BASF programme is reported to provide a basis for selecting suppliers and identifying and evaluating those deemed to be high risk. The program involves working with SME suppliers in China and India, delivering training to these suppliers regarding sustainable business practices, including international labour standards, human rights and safety and health, provides education regarding BASF's requirements in terms of adherence to social and environmental standards (ICIS Chemical Business, 2009). To this end, BASF and local education institutions specializing in CSR such as the East China University of Science and Technology in Shanghai have collaborated to develop a five-year sustainability training programme for the company's 2,000 suppliers in China. This training programme has been developed as part of BASF's involvement in the Together for Sustainability initiative (see Section 3.3.2) (Tremblay, 2014). However, BASF acknowledges that there is still room for improvement. While the company's audits conducted in 2014 did not reveal any cases of child labour, forced labour and human rights violations, "our audits have revealed some reservations with respect to working hours, payment of the minimum wage, and payment of overtime, especially in China. Here, we have called for improvements on the part of our suppliers" (BASF 2014, p.94).

3.3 Industry-wide initiatives

The chemical industry has several prominent industry-wide initiatives launched by industry associations and governments relating to the promotion of decent work in the supply chain. At the national level, the Association of the Dutch Chemical Industry (VNCI) aims to support decent work in chemical supply chains through a Safety Checklist Contractors scheme, initiated in response to increased outsourcing.

The programme was launched more than 20 years ago following the realization that accident rates were much higher among contractors than directly employed workers. It provides a uniform system of contractor safety auditing certification under which companies are obligated to train contractor managers and workers as one of the conditions of certification. It has also developed into a 'contractor passport' system that grants certificates to individual contractors rather companies, thus enabling workers to move between companies that are certified with the knowledge that safety benchmarks have been met (ILO, 1998).

Without overlooking the importance of company-level and national industry-level initiatives for promoting decent work, their scope is necessarily limited given the globalized nature of the chemical industry and supply chain. It is therefore important to consider sector-wide initiatives promoted by industry associations that seek to encourage affiliated companies to extend good practices down their GSCs.

3.3.1 Responsible Care (RC)

Responsible Care (RC) is the most prominent industry-led initiative operating in the chemical industry. It is designed to monitor chemical companies' processes regarding workplace safety, transportation, product stewardship and environmental protection and to communicate this information to various stakeholders (Givel, 2007). According to King and Lenox, the program "represents a leading example of self-regulation in the world" and is one of the first CSR initiatives designed to collectively improve standards across an entire industry (King and Lenox, 2000). Since its original inception in Canada in 1985, RC has grown in influence following its adoption by industry associations in several large chemical-producing countries and regions such as the United States and Europe. RC is one of several schemes (alongside Responsible Distribution and Coatings Care) that aim to mitigate the environmental, safety and health risks of chemical production, use and distribution and to raise standards across the industry through continuous improvement in product safety and stewardship (ACC, 2012).

RC was created following the 1984 Bhopal disaster and other widely publicized events in the early 1980s that led to increased public and government pressure for the chemical industry to take greater responsibility for its social and environmental impact (Munn, 1997). According to several studies, RC was introduced as a form of business self-regulation by industry leaders concerned with the possibility that government regulation designed to improve sustainability in the wake of the Bhopal disaster would also impose costs and rigidities on chemical companies. From this perspective, RC has therefore been used to raise industry standards in a manner that enables business rather than government to maintain regulatory control (Prakash, 2000; Vogel, 2008). Other studies argue that a central purpose of RC is to improve public perceptions of the industry as a precondition for ensuring its longevity (Givel, 2007; Howard et al., 2000; King and Lenox, 2000).

Whatever its motivations, changes to RC since its inception appear to have made it a more comprehensive mechanism for regulating industry standards. In the early 1990s, membership of the scheme was extended beyond chemical manufacturing companies to include distributors and other companies in the chemical supply chain. According to one report, this reform enabled "the adoption of common practices through the supply chain and allowed chemical producers and their partners to interface on a common basis" (Chemical Week, 2009, pp.36-37). The emphasis on product stewardship throughout the chemical supply chain was strengthened in 2006 with the adoption of the Responsible Care Global Charter and the Global Product

Strategy aimed at improving the consistency of RC programmes across the world (Hogue, 2006). The objective of these initiatives is to promote continuous improvement in product stewardship through sharing of best practices between companies, improve risk management strategies and promote dialogue, communication and partnerships with NGOs and other stakeholders (ILO, 2007). Reforms introduced during this period also shifted RC from self-certification to an independent verification process to ensure that companies comply with their obligations to adhere with RC's safety, health and environmental standards (Hogue, 2006). However, it is questionable whether this process is fully transparent, given that it is possible for another company or an industry association to conduct verification.

The specific requirements of RC differ between countries and regions. In the United States, codes of conduct existed previously that covered 100 specific management practices under the categories of community awareness and emergency response, pollution prevention, process safety, distribution, employee health and safety, and product stewardship. The last three of these codes are most relevant to decent work and supply chain issues. The distribution code required firms to evaluate risks associated with transporting chemical products, evaluate the performance of distributors and train employees and contractors on the regulations. The employee health and safety code required firms to develop and audit workplace safety systems, provide training to employees, communicate with employees on health and safety issues and select contractors and suppliers that comply with these requirements. The product stewardship code required companies to properly manage and promote safe handling during the design, manufacturing, distribution, sale, use and disposal of chemical products and to communicate with other actors in the supply chain accordingly (Munn, 1997; Prakash, 2000). A comprehensive Responsible Care Management System has since replaced these codes of conduct but incorporates their underlying concepts as well as US federal regulatory requirements and best practices of member companies (Chemical Week, 2009). Under the RC Product Code used by the American Chemistry Council (ACC), which will be phased in between 2013 and 2016, member companies are required to take commensurate corrective action for suppliers that engage in improper practices, ranging from resolving these practices to terminating commercial relationships (ACC, 2012; Westervelt, 2014).

In 2012, CEFIC and the European Association of Chemical Distributors (FECC) jointly issued a document on product stewardship designed to ensure that the European RC program encouraged compliance with the EU REACH legislation regarding the handling and distribution of chemicals over the product life cycle. CEFIC and FECC hoped that the product stewardship document would help to promote RC down the supply chain to SMEs with limited management capacity. According to one industry leader, "the supply chain still displays a certain lack of information and occasionally downright ignorance towards the targets being followed by REACH… The Responsible Care concept can and will become an important starting point for jointly achieving the REACH targets" (ICIS Chemical Business, 2013). In some companies, however, RC has already helped to improve safety within its internal operations and supply chains. For example, at Bayer Corporation, the scheme has facilitated the implementation of a common health and safety standard across the workforce, including among smaller plants and subsidiaries that previously found it difficult to meet the standards of the company's larger plants (ILO, 1998).

RC had been implemented in more than 50 countries including key sources of industry growth such as China (Chemical Week, 2013), but the extent of its implementation varies within and between countries. In North America, all members of the ACC –

whose membership accounted for more than 90 per cent of chemical production in the United States and Canada in 2000 (Howard, 2000) – are required to adopt RC as a condition of membership. The picture in Europe is more varied. National associations of chemical distributors in Belgium, the Netherlands and the United Kingdom also require their members to sign up to RC. This is not the case among associations in Czech Republic, France, Germany and Italy, which allow voluntary adoption of RC, but over 60 per cent of members participate in these countries. However, in Denmark only 20 per cent of distributors have adopted RC and there are low rates of involvement in Austria and much of Eastern Europe. Overall, 72 per cent of chemical distributors in Europe had adopted RC in 2011, compared to 50 per cent in 2005 (ICIS Chemical Business, 2013). The varied rate of implementation of RC is indicative of the different way that national associations have interpreted the guiding principles, suggesting greater harmonization is an area for potential improvement (ILO, 2013).

RC's limited explicit promotion of decent work in the chemicals supply chain is the main shortcoming of the scheme. While member companies commit to "promoting the Responsible Care ethic, principles, and practices along their own value chains" (ICCA, 2006), it is not clear how companies are compelled or encouraged to comply with this commitment. Another problem relates to the lack of involvement and knowledge of RC among workers and unions, which has been identified as an issue in previous ILO reports (ILO, 1998). Around 35 per cent of union members surveyed across 21 countries were not aware of RC (Prakash, 2000), and the majority of firms in another study had weak or non-existent measures regarding employee training and engagement relating to RC (Howard et al., 2000). However, these findings are from older studies that predate recent reforms encouraging more extensive engagement with stakeholders that may have positively impacted outcomes relating to decent work such as occupational safety and health. According to the ACC, its members have reduced safety related incidents by 55 per cent since 2006 and have a worker safety rate almost three times better than chemical companies not covered by RC (Coons, 2014). Nevertheless, industry leaders acknowledge that more could be done to improve communication of RC to the current and future chemical industry workforce, particularly given its potential appeal for recruiting and retaining younger workers inclined to work in industries perceived as sustainable (ECPA, 2014; McTiffin, 2008).

3.3.2 Together for Sustainability

Together for Sustainability (TfS) is another industry-led initiative, launched in 2011 by BASF, Bayer, Evonik, Henkel, Lanxess and Solvay. Several other large chemical MNEs have since joined including AzkoNobel, Arkema, Clariant, DSM, Merck and Wacker. The stated objective of TfS is to "develop and implement a global audit programme to assess and improve sustainability practices within the supply chains of the chemical industry". To this end, member companies commit to supporting the ILO's fundamental Conventions, the UN Global Compact, the Responsible Care Charter and other international standards in their global operations and within "the sphere of their influence for their supply chains".

Member companies agree to undertake a sustainability assessment and an independent audit by EcoVadis against pre-defined criteria covering international labour standards, human rights, occupational safety and health, management, governance and the environment. The assessment results are then shared with other members, who also agree to exchange information to promote best practices and manage risks. Suppliers of member companies are also required to submit to an audit, the results of which are distributed among other members in order to reduce duplication.

Members pledge to engage in constructive dialogue with suppliers "and other relevant stakeholders" in order to raise labour and environmental standards within their GSCs. Suppliers that do not fulfil the audit and assessment criteria are expect to demonstrate improvements over time in accordance with a corrective action plan (Together for Sustainability, 2014).

The logic of TfS is to use supply chain dynamics and the collective actions of a critical mass of chemical producers and brands to improve conditions among companies that are less exposed to public pressure or that lack capacity, such as distributors and SMEs, thereby raising standards across the entire chemical GSC. According to this logic, as more lead firms become members of TfS, "pressure will increase for distributors to match their operating goals to those principles" (Brown, 2015b).

TfS meets many of the criteria identified in scholarship for ensuring that labour standards within supply chains are upheld, such as independent auditing. However, the audits used under the scheme are announced to suppliers prior to being conducted, which is problematic given that this feature can potentially allow suppliers to conceal breaches of the TfS criteria in order to meet requirements. Moreover, while the scheme claims to encourage member companies to engage in dialogue with stakeholders, the extent to which this includes workers and their representatives is unclear.

3.4 Multi-stakeholder initiatives and global framework agreements (GFAs)

Compared to business-driven initiatives, scholars generally consider multi-stakeholder initiatives to be more reliable for promoting decent work in supply chains. These initiatives come in several varieties, including collective agreements with unions and labelling and standards systems such as Social Accountability International and the Fairtrade Certification Mark, whereby MNEs seeking certification agree to be independently audited to verify that specified standards are maintained. Independent auditing or 'third party verification' is a tool for ensuring that the conditions that voluntary initiatives require of member companies are implemented and monitored in a transparent manner. As some chemical industry leaders acknowledge, this makes independent auditing an important factor in determining whether voluntary initiatives are tokenistic instruments or effective means of maintaining standards in GSCs (Burridge, 2014). While there are few notable multi-stakeholder labelling and certification system relating to decent work in the chemical GSC, collective bargaining and GFAs are more common.

3.4.1 Collective bargaining and GFAs

If a notable shortcoming of company-level and industry-led initiatives for promoting decent work in supply chains is their weak and inconsistent commitment to worker involvement and lack of third-party verification, collective bargaining and GFAs explicitly seek to address this limitation through formalized agreements with unions. Chemical industry unions have used collective bargaining to ensure that outsourcing does not erode international labour standards and working conditions. For example, a 2010 collective bargaining agreement between BASF and chemical workers in Guaratinguetá, Brazil regulates the use of outsourcing and requires the employer to provide contract workers with equal wages and benefits to those of directly employed workers. Collective bargaining has also been used to effectively manage exceptional arrangements during periods of economic uncertainty: During a period of economic

contraction in Germany, the IG Bergbau, Chemie, Energie (IG BCE) union representing workers in chemicals and other heavy industries and the German Federation of Chemical Employers' Associations (BAVC) reached an agreement to allow increased use of agency workers. The agreement required employers to take existing collective bargaining agreements into account but specified that agency workers did not have to be paid the same benefits as permanent workers. By allowing an increased degree of employment flexibility, the agreement was designed to protect existing employment in a difficult economic environment (ILO, 2011).

While these examples show that collective bargaining can help to regulate employment and working conditions at the national and local levels, it has been seen as less effective in response to challenges at the global and transnational levels. Consequently, since 1999 chemical workers represented by IndustriALL and its predecessor – the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) – have placed greater priority on negotiating GFAs with MNEs in the chemical industry (ILO, 2007). GFAs negotiated between MNEs and Global Union Federations (GUFs) are a type of multi-stakeholder initiative that enables workers and their representatives to discuss employment and business issues with management at a transnational level (ILO, 2011). They potentially "allow trade unions a grip on the global supply chain, thereby extending labour rights beyond national borders" (Hammer, 2005, p.525). GFAs provide baseline international labour standards and conditions across an MNE's global operations. Depending on the coverage of the particular GFA, these agreements may apply to suppliers, subsidiaries and other companies further down the GSC of the signatory company. GFAs typically incorporate ILO fundamental Conventions and allow affiliates of the GUF to monitor compliance across the MNE's global operations, with some agreements containing more substantial provisions. Studies have found that strong local unions and institutions are necessary to ensure that GFAs are properly enforced (Davies et al., 2011; Niforou, 2012).

IndustriALL has signed 46 GFAs with MNEs covering a range of industries, with the vast majority of these agreements established with European companies. Several of IndustriALL's GFAs are with companies that own chemicals subsidiaries or that use chemical products as integral components of the production process, meaning that these agreements are potentially applicable to chemical suppliers. The agreements differ quite considerably with respect to the commitments made by the signatory company to supply chain responsibility, labour rights, training, safety and other issues relevant to decent work.

Virtually all of the GFAs signed by IndustriALL make reference to the eight core ILO conventions set out in the Declaration on Fundamental Principles and Rights at Work, namely those related to forced labour (Convention No. 29), freedom of association (Convention No. 87), collective bargaining (Convention No. 98), equal remuneration (Convention No. 100), abolition of forced labour (Convention No. 105), discrimination (Convention No. 111), minimum age (Convention No. 138) and child labour (Convention No. 182).

Less commonly, GFAs may provide commitments to other ILO conventions. Among the agreements signed by IndustriALL across all industries, several contain clauses referring to Convention No. 94 covering labour clauses in public contracts, Convention No. 102 relating to social security minimum standards, Convention No. 135 on workplace access and non-discrimination for workers' representatives, Convention No. 155 relating to occupational health and safety, and Convention No. 156 relating to personnel with family duties.

For GFAs to be effective initiatives for promoting decent work in GSCs, they must contain explicit obligations for the suppliers and subcontractors of the signatory MNE. However, among IndustriALL's agreements, there is substantial variation in the extent to which they extend to other companies in the supply chain. At one extreme, several GFAs make no explicit mention of suppliers and contractors. By contrast, other GFAs may require compliance by other companies in the supply chain or require that the lead firm commit on behalf of its suppliers to achieving contractual outcomes. More commonly, IndustriALL's GFAs tend to fall somewhere in between and apply only to the entities over which the signatory company has direct control (e.g. wholly-owned subsidiaries), with suppliers and contractors encouraged but not compelled to comply with the provisions.

Most GFAs make no mention of the incentives (or penalties) for suppliers and contractors for adherence to agreement provisions. However, a minority of agreements state that the signatory company may terminate contractual relations if parties in the supply chain are non-compliant, or will favour suppliers and contractors on the basis of their ability to comply with the terms of the GFA.

3.4.2 GFAs in the chemical industry

Only three of IndustriALL's GFAs have been signed with companies in the chemical industry: Solvay (a Belgian chemical company); Röchling (a German plastics company) and Evonik (a German speciality chemicals company). The Evonik GFA, signed in 2012 aims to reinforce social dialogue and a mutual exchange of information; to further the business success of the company; and to assure good working conditions and their continued improvement. Solvay's agreement, signed with IndustriALL in 2013, covers the company's 29,000 employees working at 111 production sites in 55 countries. It is very comprehensive by the standards of the other agreements signed by IndustriALL, including those relating to other industries, particularly in relation to intention to positively influence decent work throughout Solvay's GSC beyond its own operations. The agreement refers to Solvay's membership in the UN Global Compact and covers the ILO's eight fundamental Conventions as well as Conventions 135 and 156. It outlines the various ways that the parties are committed to promoting decent work, including through a preference for direct employment and permanent contracts and their commitment to social dialogue. The agreement also contains clauses relating to occupational safety and health, mobility and employability, employee benefits, anti-discrimination, responsible relations with suppliers and subcontractors, risk management, social dialogue, and the application, monitoring and annual review of the agreement.

Importantly, Solvay's GFA outlines various measures for promoting decent work among the company's suppliers and subcontractors. For example, the agreement's provisions apply to all companies "over which Solvay group exercises direct control", such as subsidiaries and any other company acquired including through mergers or corporate restructuring. The company also specifies its commitment to "improve safety performance and regularly monitor assessment indicators" for the employees of subcontractors as well as its own employees, the provision of training, skills development and job placement services to the employees of its subsidiaries, and the termination of relations with suppliers and subcontractors that seriously violate "employee health and safety legislation, environmental protection or basic human rights". This last provision is especially significant since the penalty of termination for non-compliance, if properly enforced, should encourage suppliers and subcontractors to adhere to measures aimed at promoting decent work. Additionally, the GFA outlines

Solvay's annual assessments of its supplier selection policy, which is based partly on suppliers' CSR performance (Solvay and IndustriALL, 2013).

The Solvay agreement is a good example of how commitment to social dialogue can help the parties to manage challenges equitably in difficult economic circumstances. In the wake of the global economic downturn in 2009, the GFA between Rhodia (now part of Solvay) provided ICEM with a platform for protecting workers in China threatened with redundancy as a consequence of corporate restructuring. Rhodia management agreed to temporary closures and temporary layoffs as alternative to compulsory closures and redundancies and to provide compensation for the workers affected (ILO, 2011).

The Röchling GFA, signed in 2004 applies to all of Röchling's 8,000 employees across 65 operations located in 21 countries. While the agreement is less comprehensive than the Solvay agreement, it contains provisions for promoting its principles including those relating to decent work down its GSC. Röchling's agreement states that the company "declares its willingness to adhere to and secure generally accepted working standards of the International Labour Organization and human rights" and makes direct reference to its commitment to the ILO's fundamental Conventions, as well as Convention 100 recognising the right of all employees to reasonable remuneration. Röchling's GFA also contains clauses relating to working time, occupational safety and health, training, freedom of association, the role of employee representatives and union rights. The agreement is binding on all company operations and those where the company has "industrial leadership". It says that Röchling "expressly supports and encourages its business partners to apply and take into account the agreed-upon principles" contained in GFA when formulating to their own policies and practices. The managers of each business unit and the relevant employee representatives are responsible for ensuring that the agreement is complied with (Gebr. Röchling KG, IMF and European Metalworkers Federation, 2004).

3.5 Assessment of the effectiveness of voluntary initiatives for promoting decent work in the chemical GSC

This section considers the advantages and disadvantages of the various voluntary initiatives outlined and the potential impact they may have on the chemical GSC. While voluntary initiatives have been criticized for their weakness and lack of enforceability compared to traditional forms of mandatory regulation, they can offer a meaningful alternative to promote decent work in GSCs when other opportunities may not exist. Among the different types of voluntary initiatives, multi-stakeholder forms and GFAs that allow for independent verification of supplier activities and the input of workers and their representatives are considered to be more effective than business-led initiatives for promoting decent work. However, the evidence presented suggests that none of the different initiatives operating in the chemical industry provide comprehensive solutions.

Where implemented, chemical industry GFAs are found to contain stronger protections for regulating labour standards and promoting decent work than business-led and industry-wide initiatives. While only three GFAs currently exist in the chemical industry, these agreements make commitments to ILO Conventions beyond the eight fundamental Conventions, they contain additional provisions to promote decent work such as preference for direct and permanent employment, they provide explicit support

for constructive industrial relations and social dialogue and they contain mechanisms for encouraging suppliers to comply with these conditions.

By contrast, RC and TfS, the industry-wide initiatives, make no explicit mention of social dialogue and lack measures relating to the engagement of workers and their representatives. This may explain, for example, why such a high proportion of union members surveyed were reportedly not aware of RC. The extent to which the auditing of international labour standards within supply chains provided under RC is fully independent and transparent also appears to be questionable.

In relation to company-level initiatives, several large chemical MNEs express support for the ILO fundamental Conventions and the provisions of the UN Global Compact. However, these initiatives are largely silent on the question of which tools are used to ensure that international labour standards are promoted and enforced within MNEs' supply chains. This problem is even more apparent among the many chemical companies that do not publicly disclose their policies relating to the conduct of their suppliers and those openly acknowledging their failure to ensure that employment conditions in their suppliers are monitored. On this basis, industry-level and company-level initiatives may contain fundamental weaknesses that limit their capacity to promote decent work throughout the chemical GSC.

In spite of their limitations, business and industry-led initiatives contain several advantages, foremost their penetration and rate of implementation across the chemical industry. While seen as weak on monitoring labour standards specifically, RC and other business-led initiatives do aim to improve sustainability and social responsibility across a broad range of business activities. TfS requires its members to promote the principles of the ILO in their global supply chains, and RC contains measures relating to employee training and safety and health. Furthermore, recent reforms to RC contain provisions for chemical companies to improve their product stewardship and management of risks within their supply chains. While coverage of RC is still far from universal, the scheme has been implemented in over 50 countries including the majority of chemical producers in North America and chemical distributors in Europe. In the short time that TfS has operated, it has recruited members more quickly among chemical industry companies than those who have signed have signed GFAs. Given the rate of adoption of RC and TfS, there is an opportunity for social partners to engage with these initiatives to add and strengthen the provisions related to decent work.

GFAs and company or industry-level initiatives are not mutually exclusive, and there are benefits to deploying multiple initiatives in the promotion of decent work in the chemical GSC. In addition to having a comprehensive GFA, Solvay is a member of RC and TfS, which indicates that these initiatives are not necessarily, substitutes for each other but rather can be complementary. The measures contained in both industry-wide initiatives and GFAs for encouraging more socially responsible business practices among lead firms and suppliers alike are supportive of 'relational' supply chain arrangements that can help to offset the corrosive commercial pressures that inhibit the promotion of decent work.

4. Conclusions

This report has examined the scope and substance of different types of initiatives for promoting decent work in the chemical global supply chain. As explained in Section 2, the growth of outsourcing and offshoring and the attendant segmentation of production systems in the chemical industry pose challenges for decent work, particularly among SMEs and other companies situated further down the GSC. The 'governance deficit' relating to the limitations of mandatory forms of national-level regulation in controlling supply chain pressures that transcend national boundaries compounds these challenges. In this context, voluntary initiatives created by MNEs either unilaterally or jointly with other stakeholders have become more important for promoting decent work in the chemical GSC.

Aside from a very small number of exceptions such as the California Transparency Supply Chains Act, there is minimal legal foundation for holding MNEs accountable for working conditions in their GSCs, given that their suppliers are independent commercial entities responsible for their own actions. What can the social partners therefore do to promote decent work in the chemical supply chain?

At the national level, governments can encourage social dialogue and adopt and enforce laws underpinned by international labour standards. The strong performance of the European chemical industry compared to most other industries in relation to job quality indicators (Eurofound, 2014) shows the positive impact of strong systems of national-level employment and labour regulation on decent work. However, the share of chemical sales and production among European countries is declining, with Asian countries accounting for much of the growth over the past decade. To ensure that the segmentation and geographical dispersion of the chemical GSC do not produce negative outcomes for decent work, governments in the countries where the chemical industry is growing, need to ensure that social dialogue and international labour standards are respected and promoted. Additionally, there needs to be greater coordination among governments – particularly in countries involved in chemical production, distribution and sales – to ensure that there is no 'race to the bottom' through outsourcing and offshoring to countries where international labour standards are not properly enforced. The ILO can play a critical role in this coordination effort by continuing to encourage governments to incorporate international labour standards into their national regulatory systems and ensure that these are properly enforced.

Chemical companies can also do more to promote decent work in their global supply chains. While the chemical industry should be applauded for the extensive adoption of industry-led initiatives such as Responsible Care, the use of stronger tools to promote and enforce international labour standards and social dialogue would greatly improve their capacity to encourage decent work. The ILO's principles should also be incorporated more comprehensively into chemical MNEs' codes of conduct, which aside from a few exceptions are absent or included in a 'tokenistic' manner. MNEs are called upon to exercise due diligence and work closely with their suppliers, especially with SMEs that often have limited resources and human resource management capacity, to encourage social dialogue and ensure that their practices comply with international labour standards. This is particularly important in the chemical industry, where the reputational risk is high, and given the large number of small and medium sized enterprises, the indiscretions of one irresponsible company can taint the reputation of the entire industry.

The GFAs operating in the chemical industry, as highlighted by Global Union Federations (GUFs) – particularly IndustriALL and chemical MNEs cases mentioned, represent best practice examples for how decent work can be promoted across supply chains through social dialogue. These GFAs are stronger and more comprehensive in their provisions relating to decent work in the chemical GSC compared to other types of voluntary initiatives, such as business-led and industry-driven initiatives. However, the number of GFAs signed by chemical companies remains limited, suggesting that finalizing GFAs with MNEs may be difficult. In addition to finding ways to increase the adoption of GFAs, GUFs may wish to explore diversifying their strategies for promoting decent work in the chemical GSC, including working with the chemical industry more closely to strengthen international labour standards in existing industry-led initiatives such as RC and TfS. These should include more robust measures for fostering social dialogue, encouraging worker engagement and ensuring independent verification of supplier practices.

While this report assessed various initiatives to promote decent work in the chemical global supply chain, a number of questions remain about the effectiveness of these initiatives for solving specific problems among suppliers and subcontractors, the extent to which mechanisms for enforcement have been enacted, and the resulting impact they may have on decent work outcomes. These questions could be addressed in future research through interviews with the representatives of governments, chemical employers, GUFs and local unions, and through further detailed case studies.

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Opportunities and Challenges in the Promotion of Decent Work in Hotel Global Supply Chains

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Executive summary

The travel and tourism (T&T) industry has grown and diversified over the past few decades and as a result has become one of the largest and most dynamic economic sectors in the world. Tourism is a particularly important driving force for socio-economic development, increasingly in emerging markets: enhancing export revenues; stimulating enterprise, investment, and job creation; facilitating the development of infrastructure and public services; and, promoting social cohesion.

Within the T&T industry, the hotel and catering sector is highly diversified. There are estimated to be over 250 hotel chains. The largest companies include portfolios that contain more than 6,000 hotels each and employ more than 150,000 employees in up to 100 countries. However, only 20 per cent of the workforce is located within multinational enterprises, the remaining 80 per cent are in SMEs (Stacey, 2015).

For many years the International Labour Organization (ILO), has focused on the promotion of decent work within this sector. However, in spite of the collaborative approach taken by the ILO, and many other international Organizations and tourism bodies, the fragmented nature of the tourism industry and the complexity of its supply chains mean that it is impossible to reach directly all employment providers in the market.

An individual operator can usually only effect change within its own 'sphere of influence'. Systemic change, however, needs all members of the industry to play their part through their multiple spheres of influence, a wider 'chain of influence' involving all tourism suppliers. This 'chain of influence' is a concept used by the authors to describe a number of hotel and tourism operators and their suppliers, working across the whole value chain and exerting their collective influence on the industry to effect change.

Multinational chains have evolved since the early days of the 1950s. Many of them now operate their businesses via numerous brand identities, representing various product offerings to the customer. Compared to the 1950s, there are now fewer owner operators, with many multinational hotel companies moving from a real estate-based business model (owned and leased) to fee-based business models, through management contracts and more importantly franchising models. Today, among the largest hotel chains, less than 10 per cent are owner-operated, having significant implications for the supply chain procurement structures.

Drawing on case studies and interviews, this study explores efforts made by selected large multinational hotel chains and tourism operators to promote good practice in their supply chains through various initiatives and supplier codes of conduct. The report highlights the complexity of the multinational hotel supply chain and the resulting challenges that individual companies face in managing the performance of the diverse suppliers within their 'sphere of influence'. While the travel and tourism (T&T) sector is identified as a late adopter of ethical or sustainable supply chain management programs, when compared with other sectors, such as retail and high street brands, there is an opportunity for the industry to learn from other sectors, as well as, from guidance provided by recently updated public initiatives.

Among the key findings, the research indicates that hotel ownership models have a strong influence on the ability of a multinational chain to maintain standards and effect change throughout their supply chain. The approaches to maintaining standards through franchising agreements, informal agreements and through outsourcing and agency labour contracts, including the business opportunities and risks associated

with these diverse arrangements are explored. In particular, franchising and outsourcing have attracted public scrutiny and these themes call for an industry-wide debate on the cross-cutting issues that are associated with these business models.

In spite of the support of national and international governments and tourism industry Organizations, the promotion of decent working conditions across the tourism sector can only truly be effected through a substantial 'chain of influence' involving all tourism suppliers. Collective action through multi-stakeholder initiatives, where possible, supported by productive social dialogue, is found to be the most effective for implementing and monitoring good practice. When effective, these measures are found to result in enhanced competitiveness, productivity, and company or industry-wide reputation, as well as, reduced poverty and improved socio-economic development for affected individuals and communities. There is a role for the ILO and other global Organizations in working with multinationals to help build capacity in the tourism supply chain, through guidance and tools, facilitation of social dialogue, and continued research to measure and monitor good practice and social outcomes.

The report is intended as a basis for future discussion and while primarily focused on hotels, just one segment of the T&T sector, also provides a brief overview of activities across the industry.

Abbreviations and acronyms

AFD	Associated Food Distributors
ETI	Ethical Trading Initiative
GSTC	Global Sustainable Tourism Council
HAN	Haiti Action Network
IHG	Intercontinental Hotel Group
ID	Identity Document
ILO	International Labour Organization
IT	Information Technology
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association
NGO	Non-Governmental Organization
O&L	Owned & Leased Properties
OECD	Organization for Economic Cooperation and Development
SAQ	Self-Assesment Questionnaire
SLIM	Shangri-La International Hotel Management Limited's
T & T	Travel and Tourism
UK	United Kingdom
UNTWO	United Nations World Tourism Organization

1. Introduction

1.1 Overview

Over the past few decades, the travel and tourism (T&T) industry has experienced continued growth and diversification, becoming one of the largest, most dynamic and resilient sectors of the global economy. Tourism is recognized as an important driving force for socio-economic development: enhancing export revenues; stimulating enterprise, investment, and job creation; facilitating the development of infrastructure and public services; and, promoting social cohesion.[5]

The T&T industry is a major source of employment because of its labour-intensive nature and the significant multiplier effect on employment in related sectors. It is estimated that one job in the core tourism sector creates about one and a half additional or indirect jobs in the tourism-related economy and overall accounts for one in 11 jobs in the world.[6] The tourism sector is not only relatively labour intensive but it also significantly employs those with difficulties accessing the labour market such as women, young people, migrant workers and rural populations. Tourism can strongly contribute to social and economic development and to poverty reduction.

Tourism is firmly positioned in the post-2015 development agenda. The sector's contribution to job creation is recognized in Goal 8, target 8.9 "By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products".

However, the sector faces important decent work deficits and has a reputation of poor working conditions due to a number of factors. It is a fragmented industry with a majority of small and medium sized enterprises with low union density, and work characterized by low wages and low levels of skill requirements, shift and night work and seasonality.[7] Temporary and part time employment and other non-standard forms of employment are important features of the sector. Aside from seasonal fluctuations, the main reasons are competition, flexibility and technological change. These forms of employment can be beneficial to both employers and employees if they can accommodate the needs of enterprises for flexibility, while at the same time providing decent employment that enables workers to balance work and personal responsibilities. But they can also lead to decent work deficits including inadequate social security coverage, low wages and income inequality and poor working conditions.[8] Ambiguous working relationships and informal working arrangements are other important challenges in promoting decent work in tourism. The ILO Working Conditions (Hotels and Restaurants) Convention, 1991 (No. 172) requires Member States to "adopt and apply a policy designed to improve the working conditions of the workers concerned".

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5 See also UN General Assembly A/69/223 on Promotion of sustainable tourism, including ecotourism, for poverty reduction and environment protection (December 2014)

6 6th T.20 MEETING Antalya, Republic of Turkey, 30 September 2015 Policy Note "Tourism, SMEs and Employment – Policies to Stimulate Job Creation and Inclusiveness" ILO and UNWTO

7 http://www.ilo.org/global/industries-and-sectors/hotels-catering-tourism/lang--en/index.htm [accessed 14.10.15]

8 Non-standard forms of employment Report for discussion at the Meeting of Experts on Non-Standard Forms of Employment (Geneva, 16–19 February 2015)

Despite the collaborative approach taken by governments, the ILO and other international Organizations, and tourism industry bodies, the fragmented nature of the tourism industry and the complexity of its supply chains are important challenges that need to be addressed. An individual operator usually can only affect change within its own 'sphere of influence'. Systemic change, however, needs all members of the industry to play their part through their multiple spheres of influence. This 'chain of influence' is a concept used by the authors to describe a number of hotel and tourism operators and their suppliers, working across the whole value chain and exerting their collective influence on the industry to effect change.

While 'chain of influence' is a concept applicable across the entire T&Tindustry, the scope of this report is limited to the hotels and catering sector, and in particular large, multinational hotel chains. The report surveys the supply chain management practices of some of the largest multi-national hotel chains and through a number of case studies, highlights good practices and challenges.

The report is intended as a basis for future discussion and provides a brief high-level overview of activities across the industry.

1.2 Study methodology

This review was based largely on desk research, supplemented by 25 interviews and discussions with individuals from across the hotel industry, within tourism related bodies, academia, experts in the field of responsible tourism, related NGOs and trade unions.

There are more than 250 hotel chains globally and this study focusses on the largest of these, plus a few additional hotel chains known to the authors. In total 27 multinational hotel companies were reviewed, as listed in Appendix 1. A further 15 Organizations, including tour operators, academia and consultancies were also contacted, some of whom provided additional information in support of our work.

The intent of the study is to provide a high level overview of some of the ways in which multinational hotel companies promote labour standards in their supply chains and the challenges they face in doing so. The report is not intended as an in-depth academic study, but rather provides a basis for further discussion and possible research.

2. The global travel and tourism industry

Since the 1950s, the global travel and tourism industry has experienced continued expansion and diversification to become one of the largest and fastest-growing economic sectors in the world. According to the World Tourism Organization (UNWTO), as illustrated in **Figure 2.1** below, international tourist arrivals have shown virtually uninterrupted growth – from 25 million in 1950 to 278 million in 1980, 528 million in 1995, and 1133 million in 2014, and are predicted to grow by 3.3 per cent per year, reaching 1.8 billion by 2030 (UNWTO, 2014).

Over the past few decades, several new tourist destinations have emerged in other regions, in addition to the traditional locations of Europe and North America. In 1950, the top 15 destinations absorbed 98 per cent of all international tourist arrivals. By

1970 the proportion had reduced to 75 per cent, falling to 57 per cent in 2007 (WTO, 2009). Emerging economies are therefore becoming increasingly important to the global tourism industry. The total market share of emerging economies has increased from 30 per cent in 1980 to 47 per cent in 2013, and according to the UNWTO, it is expected to reach 57 per cent by 2030, equivalent to over 1 billion international tourist arrivals. These new destinations can be in areas of extreme poverty, and environmental stress, that face important decent work deficits (UNWTO, 2014).

Figure 2.1: **Tourism towards 2040: Actual trend and forecast 1950-2030**
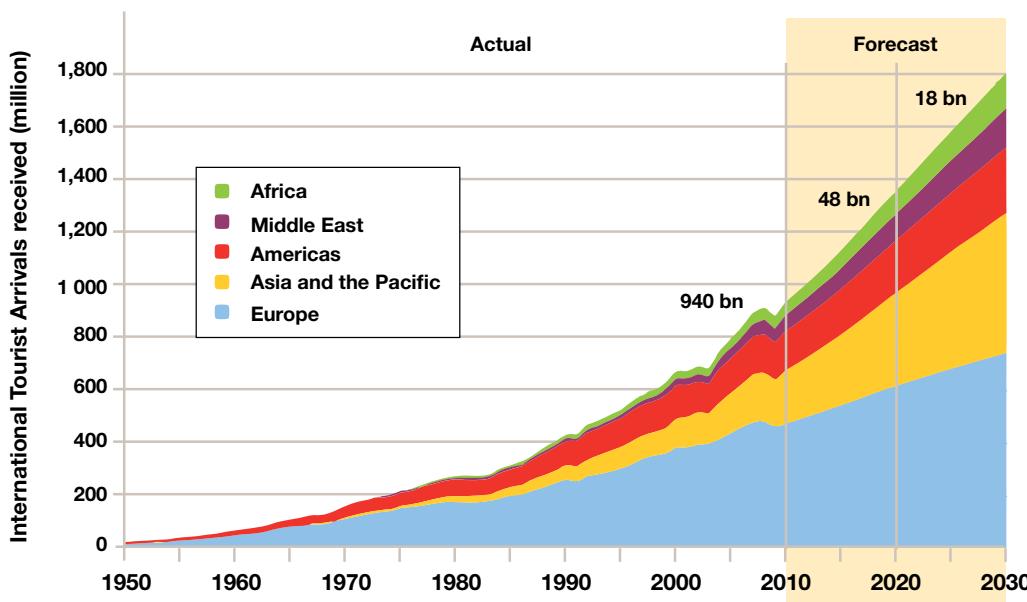
Source: UNTWO: Tourism Highlights, 2014 edition, p. 14

2.1 Economic contribution

The travel and tourism (T&T) industry and its related supply chain is complex and has an extended global reach. As illustrated in **Figure 2.2**, T&T includes services from a broad range of activities and supply, not just those provided by transport companies, hotels and restaurants, travel agencies and tour operators. As a result the industry makes direct, indirect, and induced contributions to global GDP.

Figure 2.2: Travel and tourism related industries

As defined by the World Travel and Tourism Council (WTTC), the 'direct' contribution of travel and tourism to GDP reflects the 'internal' spending (total T&T spending within a particular country by residents and non-residents for business and leisure purposes) as well as government spending on T&T services directly linked to visitors, such as providing cultural or recreational amenities.

The 'indirect' contribution, estimated to be approximately 60 per cent larger than the 'direct' contribution, includes the GDP and jobs supported by:

☐ The wider tourism supply chain;

☐ Investment spending, such as the purchase of new aircraft and construction of new hotels;

☐ Indirect government spending, such as tourism marketing and promotion;

The 'induced' contribution measures the GDP and jobs supported by the spending of those who are directly or indirectly employed by the T&T industry.

In absolute terms, in 2014 the direct contribution of global travel and tourism was over US$ 2.3 trillion, while the indirect impact exceeded US$ 3.8 trillion and the induced impact exceeded US$ 1.3 trillion. This amount accounted for 9.8 per cent of global GDP and the total T&T sector is expected to grow, from US$ 7.5 trillion in 2014 (9.8 per cent) to over US$ 11.3 trillion by 2025 (10.5 per cent).

Table 2.1: Travel and tourism contribution (per cent of global GDP)

	2014	2015 forecast	2025 forecast
Direct	3.1%	3.1%	3.3%
Indirect	4.9%	5.0%	5.3%
Induced	1.8%	1.8%	1.9%
Total	9.8%	9.9%	10.5%

Source: WTTC, 2015.

Figure 2.3: Travel and tourism (T&T) direct, indirect and induced contributions to GDP and employment
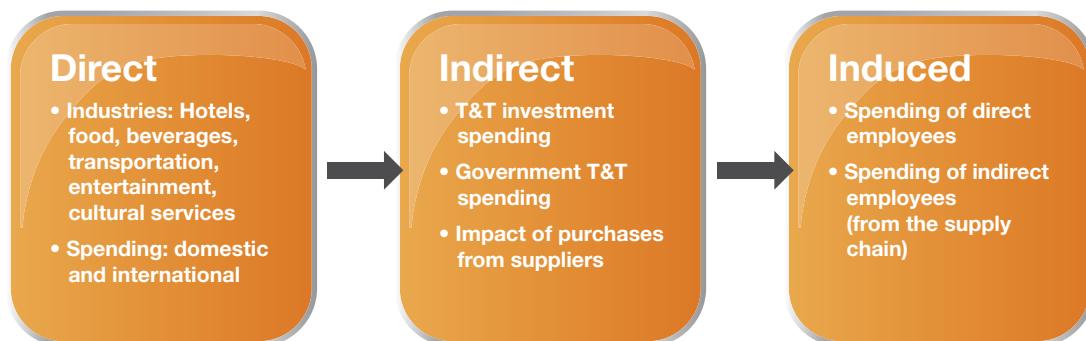
2.2 Employment trends

In addition to direct employment in the T&T industry (e.g. hotel and restaurant employees), there are many jobs that are indirectly linked to sector activities (e.g. taxi or bus drivers, restaurant suppliers, tourist guides). Various forms of employment, part-time, temporary, casual or seasonal, are common in the tourism industry and this has important implications for maintaining high labour standards. Many of these jobs are often characterized by decent work challenges, including long working hours and comparatively low pay; while the boundaries between formal and informal economies within this sector, too, are often fluid (ILO, 2010a).

It is estimated that one job in the core tourism industry creates about one and a half additional or indirect jobs in the tourism-related economy e.g. food processing and transport (Bolwell and Weinz, 2010).

Table 2.2: Travel and tourism contribution (per cent of global employment)

	2005	2010	2014	2015 forecast	2025 forecast
Direct	3.7%	3.5%	3.6%	3.6%	3.9%
Total	Data not available		9.4%	9.5%	10.7%

Source: WTTC, 2015.

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The indirect and induced employment contribution of tourism is approximately 150 per cent larger than the direct contribution, although this does vary year on year. In absolute terms, travel and tourism's direct contribution in 2014 was over 105 million jobs (3.6 per cent of global employment), while the indirect impact exceeded 121 million people employed and the induced impact was over 49 million people employed. Travel and tourism's total contribution was 276 million jobs in 2014, up from 254 million in 2010. Moreover, the sector is expected to support over 283 million jobs in 2015 and over 356 million jobs in 2025.

Women have consistently represented between 50 and 70 per cent of workers in this growing sector over time. Low-skilled and unskilled women often find themselves in the most vulnerable jobs, where they are more likely to experience poor working conditions, inequality of opportunity and treatment, and at its most extreme violence, exploitation, stress and sexual harassment. They also suffer segregation in terms of access to education and training and are on average paid 20-25 per cent less than male workers for comparable skills (Baum, 2012).

The nature of employment in the tourism sector, e.g. part-time, seasonal, casual, has tended to attract younger adult workers and increasingly migrant workers. For example in the United Kingdom in 2014, 45 per cent of employees in the tourism businesses were under 30, compared to an average across all sectors of 24 per cent. In Spain in 2010, over 43 per cent of hotel workers were aged between 25 and 34 and 14.7 per cent of all migrant workers in Spain were working in hotels and restaurants in 2009 (Stacey, 2015; Baum, 2012).

Research from the World Travel and Tourism Council (WTTC) finds that the sector faces a problem in attracting talented graduates due to misconceptions and lack of information about career opportunities:

> " Travel & Tourism appeals most for offering international opportunities, work life balance and the chance to speak languages, however, these are generally less important factors when choosing a job compared to job security, competitive starting salary and career progression. Travel & Tourism compares poorly on these decisive factors in career choice. "
>
> *(WTTC, 2015)*

3. The Hotel Industry Landscape

The hotel and restaurant subsector of the T&T is highly diversified. There are estimated to be over 250 hotel chains. The largest companies include portfolios that contain more than 6,000 hotels each and employ more than 150,000 employees in up to 100 countries. Having said that, only 20 per cent of the workforce is located within multinational enterprises, the remaining 80 per cent are in SMEs (ILO, n.d.).

According to Smith Travel Research, the global hotel industry comprises approximately 15.5 million rooms and is broadly segmented into branded (multiple hotels under the same brand name) and independent (non-branded) hotels (IHG, 2007). As illustrated in **Table 2.3**, the top 10 global players account for approximately 4.7 million rooms, only 30 per cent of the industry, which underlines that the industry is highly fragmented and has a very large number of small and medium-sized players.

Table 2.3: **Largest ten hotel chains worldwide (ranked by number of hotels in 2014)**

Name of company	Hotels 2008[1]	Rooms 2008[1]	Hotels 2014[2]	Rooms 2014[2]	Change Hotels 2008-14	Change Rooms 2008-14
Wyndham Worldwide	6,544	550,576	7,485	645,423	+14.4%	+17.2%
Choice	5,516	445,254	6,303	502,663	+14.3%	+12.9%
Intercontinental	3,949	585,094	4,697	686,873	+18.9%	+17.4%
Hilton	2,959	497,365	4,115	678,630	+39.1%	+36.4%
Best Western	4,035	308,636	4,046	314,318	+0.3%	+1.8%
Marriott	2,901	517,909	3,783	653,719	+30.4%	+26.2%
Accor	3,857	459,494	3,576	461,719	-7.3%	+0.5%
Home Inns	…	…	2,180	256,555	…	…
Starwood	897	274,535	1,161	339,243	+29.4%	+23.6%
Carlson Rezidor*	971	148,551	1,079	168,927	+11.1%	+13.7%

… = data not available
*2008 data taken as Carlson Hospitality
Sources: [1]MKG Hospitality, 2008.
[2]MKG Hospitality, 2014.

3.1 Multinational hotel chains

Multinational chains have evolved since the early days of the 1950s. Many of them now operate their businesses via numerous brand identities, representing various product offerings to the customer. Intercontinental Hotel Group (IHG), for example, operates via eight brands, not just the familiar InterContinental, Crowne Plaza and Holiday Inn9.

Compared to the 1950s, there are now fewer owner operators, with many multinational hotel companies moving from a real estate-based business model (owned or leased) to fee-based business models, through management contracts, and more importantly, franchising models. There are four main types of hotel ownership models:

- ☐ Owned and operated properties - This type of hotel ownership gives the multinational the greatest level of freedom and the most control over the business, but also the biggest risk. The brand owner is free to make all decisions on staff, operational structure and growth. Supplier agreements and contracts are negotiated by the multinational directly.

- ☐ Leased properties - Leased hotels are similar in levels of control and risk to the Owned properties, but the physical hotel building belongs to someone else. These types of arrangements are generally on long-term leases. The lessor will stipulate a minimum rent for the premises, and may also include a sliding scale based on total revenue for ongoing rent. As with owned properties, supplier contracts rest with the multinational.

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9   A full list is attached in Appendix 2.

❑ Managed properties - This is where an existing privately owned hotel partners with a recognized multinational brand. The hotel continues to be privately owned, but the multinational lends its brand name to the hotel and takes over the day-to-day operations of the business (becoming the management company). The agreements with suppliers are usually negotiated by the management company, but the contracts rest with the owner of the property. In some cases, the owner may get involved themselves in contract negotiation.

❑ Franchised properties – A franchise operation is privately owned and usually operated by the hotel owner or their representative. The hotel owner pays an upfront fee to purchase the brand franchise (through a franchise agreement) and pays ongoing royalties to the multinational brand owner. The brand owner has least control over this type of operation and unless something is specified in the franchise agreement, they will have no direct control over the hotel supply chain.

By far the most widespread business model among the leading players is the franchise model, which accounts for over 80 per cent of hotels within the top 10 multinationals (**Table 2.4**). The trend began in October 1992 when then-Marriott Corporation split its ownership and management platforms, creating Marriott International to operate and franchise hotels and Host Marriott to retain ownership of all properties. Most other major hotel brand companies have since followed suit. The popularity of the franchise model among global hotel companies has continued to grow after the 2008 global financial crisis. For example, Intercontinental reduced the number of owned and leased hotels from 18 in 2007 to 9 in 2014, while increasing the number of franchised hotels from 3,380 in 2007 to 4,096 in 2014 (IHG, 2007; IHG, 2014). Hilton also saw a reduction of owned and leased hotels from 316 in 2006 to 144 in 2014; the number of Hilton franchised hotels grew from 2,242 in 2006 to 3,608 in 2014 (Hilton Hotels Corporation, 2006; Hilton Worldwide Holdings Inc., 2014).

Based on current data, among the leading brand operations today, less than 10 per cent are owner operated. As shown in **Table 2.4**, nine of the world's 10 largest hotel chains own and lease only 2,665 out of the 35,107 properties in their combined portfolios. The remaining 92.4 per cent of hotels are franchised and managed. With the multinational hotel companies running fewer and fewer hotels themselves, there is an argument that large brand owners increasingly are 'marketing companies' rather than 'hotel operating companies', and are increasingly further distanced from the wider hotel supply chain.

Smaller hotel chains such as Hong Kong and Shanghai Hotels (HSH), Soneva, Premier Inn (owned by Whitbread), Taj Hotels, Shangri-La tend to be less reliant on franchised and managed hotels and have largely remained in control. For example, Hong Kong and Shanghai Hotels has a significant ownership stake in all 10 luxury hotels that it operates internationally under the Peninsula brand (The Hongkong and Shanghai Hotels, Ltd. 2013).

As the hotel industry is divided between companies of all sizes, all three hotel ownership models (owned and leased, managed, franchised) are widespread and important on a global level.

Table 2.4: **Largest ten hotel chains worldwide by business models in 2014**

Name of company	Franchised Hotels	Managed Hotels	Owned and Leased Hotels
Wyndham Worldwide[1]*	7,290	45	2
Choice[2]	6,303	0	0
Intercontinental[3]	4,096	735	9
Hilton[4]	3,608	526	144
Best Western	…		
Marriott[5]	2,156	1,551	76
Accor[6]	1,506	857	1,354
Home Inns[7]	1,695 franchised and managed		914
Starwood[8]	551	563	47
Carlson Rezidor[9]	626	334	119

… = data not available
* as of December 31, 2012
Sources: [1] Wyndham Worldwide Corporation, 2012; [2] Choice Hotels, 2015; [3] IHG, 2014; [4] Hilton Worldwide Holdings Inc., 2014; [5] Marriott International, Inc., 2014; [6] AccorHotels S.A., 2014; [7] Homeinns Hotel Group, 2014; [8] Starwood Hotels and Resorts Worldwide, Inc., 2014; [9] The Rezidor Hotel Group, 2015.

4. A closer look at multinational hotel supply chains

As previously established, the multinational hotel subsector is particularly diverse in terms of the numbers of brands, hotel size and ownership models in operation. When defining the supply chains associated with each of these businesses, the landscape becomes even more complex.

4.1 Procurement structures

Many large multinationals have transformed their buying processes in order to streamline their purchasing and to maintain quality and price for high volume goods purchased. Most multinationals have centralised procurement functions to negotiate global agreements for those products fundamental to their various brand standards. Suppliers and distributers are then contracted to service all the markets in which the chain operates through a central purchase agreement. Hotels then have the option of purchasing goods through these global agreements, or negotiating their own arrangements locally, provided that they meet the required standards. Central agreements are also negotiated for other non-brand related products, such as cleaning products. The individual hotels have the option to purchase under these agreements (where the price is often favourable) or purchase elsewhere. Some chains replicate this centralised structure at a regional level, where region specific goods are negotiated and

made available to all hotels in that location. This structure is illustrated in **Figure 2.4** below.

Global and regional agreements are accessed, in varying degrees, by the different property types. Owned and leased properties tend to make all their purchases through global agreements unless there is an economic reason not to. Managed properties will often follow this trend, unless the property owner has alternative contracts in place. Franchised properties have a much looser connection with the brand owning company, and so rarely access central agreements unless they are mandated through the franchise contract.

It is important to note that centralised purchasing agreements focus on products that have long shelf lives, can be shipped (or manufactured) worldwide and are generally high volume and hence provide an economy of scale. Regional or local arrangements are made for all perishable goods and low volume or one off items. In addition, outsourced services, such as cleaning, housekeeping, agency labour, are usually negotiated locally. There will be exceptions to this, such as in regions where there is a high density of properties and therefore the region has additional buying power, or for some of the smaller chains or one-off hotels in remote localities where it is not feasible to negotiate or access centralised purchasing.

Figure 2.4: Multinational hotel chain procurement structures
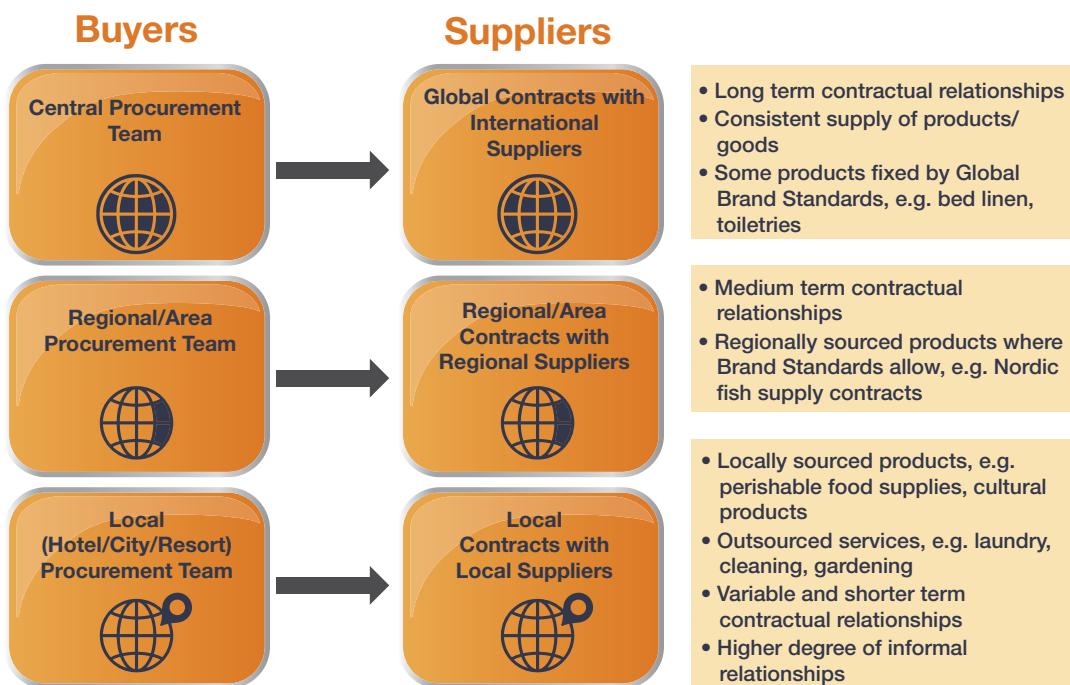
Figure 2.5 illustrates in a simplified form the supply chain for a large multinational hotel chain. Two key characteristics are (i) that there are varying strengths of relationship (and hence influence) between the multinational hotel chain, the different property ownership models and their suppliers and (ii) that not all supply is through formal contracts and agreements. Regardless of the model, there will always be informal relationships between hotels and suppliers at the local level. These may not be subject to formal contracts, and may be ad hoc, temporary or seasonal. For example, hotels may

source from local food producers, or provide local cultural activities, hotel services and temporary labour.

Figure 2.5: Supply chain map showing different ownership models
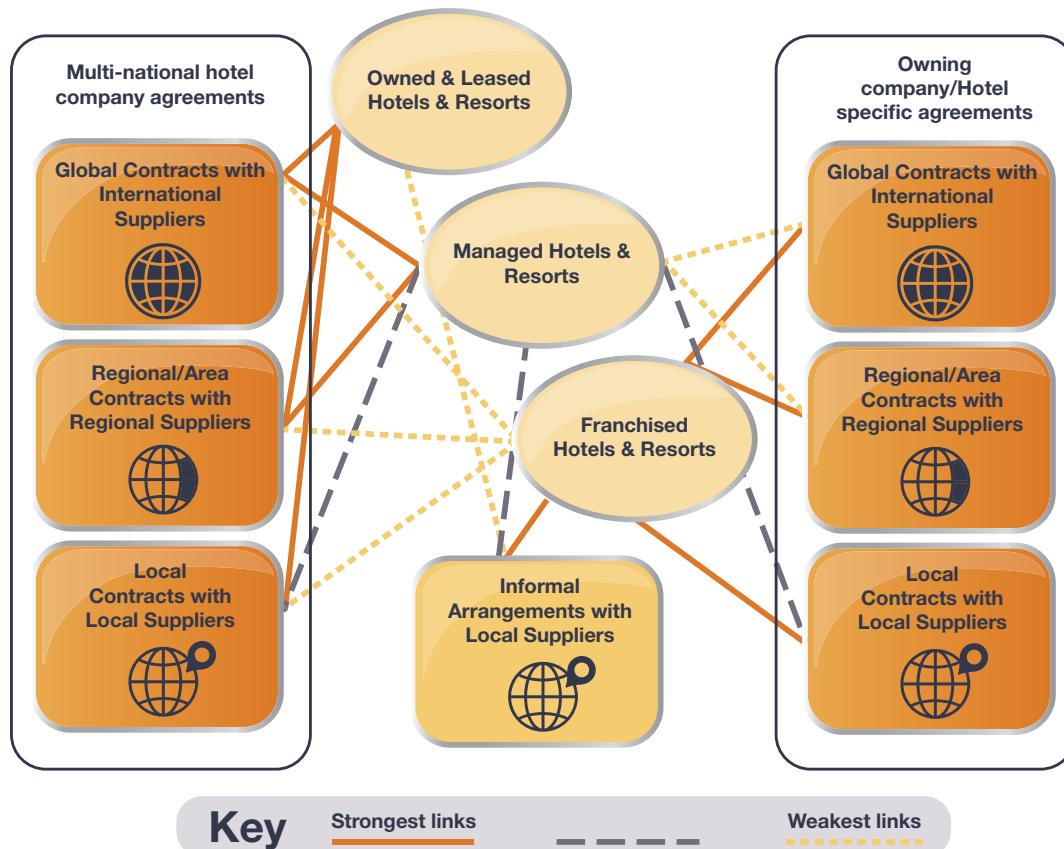
4.2 Chain of influence

Overlaying the supply chain map in **Figure 2.5** with the range of goods and services that every hotel or resort needs to procure, means the number of supplier inter-relationships becomes immeasurable. Against the backdrop of such a complex picture, how can a multinational hotel company ensure and promote high labour standards throughout its supply chain?

For guidance, the hotel sector can look to other sectors: Retailers and high street brands have been grappling with these issues for decades (OECD Roundtable on Corporate Responsibility, 2010; Ethical Trading Initiative, 2015). The 'ethical trade movement' began in the 1990s when campaigns and media exposés brought attention to the harsh conditions of workers producing clothes, shoes, toys, food and other consumables for multinational companies. Since then global brands such as Nike and Gap have made efforts to collaborate with NGOs such as the Fair Labor Association and to become more open and transparent in their dealings with their suppliers. Nike's website states that it's "greatest responsibility as a global company is to play a role in bringing about positive, systemic change for workers within our supply chain and in the industry…. We're looking end-to-end, from the first phase of our product creation

process to the impacts of our decisions on the lives of workers in the factories that bring our product to life" (Nike, 2015).

The approach taken by other sectors to manage supply chain labour standards is typically carried out through multiple 'spheres of influence', beginning with the multinational company to their first tier suppliers, with whom they usually have contractual relationships and then cascade down the supply chain. The greatest outcomes can be realized when all companies within a sector work together with their suppliers to effectively create a 'chain of influence' reaching the greatest number across the value chain.

The Ethical Trading Initiative (ETI) is one initiative that has taken this approach. Established in 1998, ETI brought together a group of UK high street brands and retail companies, NGOs and trade union organizations to jointly protect workers' rights in global supply chains. Today, the ETI has over 70 member companies with a collective turnover of £179bn and more than 10 million workers are affected by member companies' activities each year (Ethical Trading Initiative, 2015).

There are many other examples of collective action on supply chain standards from the retail and garment sectors. For instance, the Rana Plaza collapse, and the resulting "Accord on Fire and Building Safety in Bangladesh"[10] ('Accord') that quickly followed in 2013, has been seen as a game-changing initiative for partnership and collaboration in the garment sector. Although the Accord's focus was initially on building safety, it now includes provisions for fair prices as well as worker participation (Busquets et al., 2014). As a result, trade unions in Bangladesh are beginning to negotiate wages and new collective bargaining agreements are being finalised (Kuhlman, 2015).

The launch of the UN Guiding Principles on Business and Human Rights (UNGP) in 2011 set the clear expectation that businesses should know their human rights impacts across the whole value chain, and be able to demonstrate how they are managing those impacts. UNGP encourages companies to consider possible human rights infringement to the outer limits of their sphere of influence and this has focussed action further (United Nations and OHCHR, 2012).

The travel and tourism industry is a recent entrant to the 'ethical trade' and sustainable supply chain discourse, but they can learn from the early adopters. Leading players, such as Kuoni, Carlson Rezidor and Accor, are already on the journey, but the industry has yet to harness the power of the collective action that will be needed to effect systemic change in such a complex and fragmented sector.

4.3 General approach to ethical supply chain management

Although specific policies and procedures concerning responsible business standards in the supply chain vary between companies and sectors, the general approach to 'ethical supply chain management'[11] has been similar (Insight Investment and Acona, 2004). The approach can be summarized as:

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10 http://bangladeshaccord.org/

11 'Ethical supply chain management' is used here as shorthand for a number of naming convention's, eg responsible procurement, responsible purchasing, sustainable supply chain management etc

1. **Devise a code of conduct:** Codes of conduct set out what the company believes are acceptable minimum standards for the supplier to adhere to. A company may devise its own codes or may implement a code that has been developed by an external Organization, such as a trade association or the ETI[12]. Most codes are based on the set of internationally recognized labour standards enshrined in the International Labour Organization's core conventions.

2. **Communicate the code to all first tier suppliers:** This may be a general communication asking suppliers to confirm that they adhere to the standards, when the code is written or updated, or the code is included in all future supplier pre-qualification exercises and contract negotiations. Sometimes both.

3. **Gather information on suppliers and carry out a risk assessment:** This is generally a desk-based assessment to determine what the key ethical, social and environmental issues are in the supply chain and identify which suppliers are most at risk of contravention of the standards in the code of conduct. Some companies issue a self-assessment questionnaire (SAQ) to gather information directly from the suppliers on the various aspects in their code. The outcome of the risk assessment is used to inform future engagement and action.

4. **Train staff:** Training programmes are offered to ensure that buyers are familiar with the issues in the code, that employees directly involved in the buying process have the skills they need and that the relevant managers in supplier companies understand the requirements.

5. **Carry out ethical audits:** This involves visiting suppliers' premises, interviewing management and workers and assessing their compliance with the code of conduct. Audits can either be done by internal staff (Corporate Responsibility or quality representatives, and occasionally buyers) or by external specialists.

6. **Draw up improvement plans:** On the basis of the audit results, a list of suggested improvements is drawn up for the supplier to implement in order to meet the required ethical standard. Ideally the buying company works with the suppliers to help them achieve the required standards.

7. **Report/disclose:** Companies tend to place their supply chain policies and general information about the progress of their compliance programme into the public domain.

8. **Beyond the audit cycle:** After a decade of the audit and improvement plan cycle, many companies in the leading sectors (retail and consumer brands) are realising that progress is slow and they are looking at other more innovative ways of reaching out to their supply chains and to effect change. This has led them to look beyond the audit cycle. Many leading companies are now working harder at supplier engagement, focussing on key issues, such as child protection, and capacity building in areas where they want to encourage change. The most innovative programmes involve partnerships with government bodies, trade bodies and NGOs.

Leading companies are also looking at their own purchasing practices, since there is growing evidence that the way in which companies buy can undermine their ability to enforce international labour standards in their supply chains (Ethical Trading Initiative, 2005). Gap's experience, for example, has shown that inefficient purchasing practices can cause problems not only for workers, but also for product quality.

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12 http://www.ethicaltrade.org/

When manufacturers try to meet tight production schedules by subcontracting to unauthorized factories or forcing workers to put in long hours, product quality often suffers.

Although the leaders in the hotel and catering sector are following a similar journey, this study has shown that out of the 27 large hotel chains reviewed, less than half have stated publicly that they are looking at ethical supply chain management and less than 40 per cent have published their supply chain standards on their websites. With the larger chains representing only 30 per cent of the overall hospitality industry, the sector has significant work ahead. The following section highlights some of the positive achievements to date.

5. Good practices for promoting decent work in multinational hotel chains

Despite the hospitality sector being a late entrant to the ethical supply chain discourse, there are a number of examples of good practice amongst the large hotel chains. These are explored below and have been broken down by the typical evolution of an ethical supplier programme.

5.1 Developing a management framework

The first stage of any ethical supplier programme is to establish a management framework. This is useful for defining lines of accountability and focussing on who is responsible for approving, developing and implementing the ethical standards, and how it will be done. Examples of how two large hotel companies approach managing their responsible procurement programmes are provided below. In the first case, Carlson Rezidor has established a Global Sourcing Council to specifically focus on this area, and in the second, Whitbread, has aligned its responsibilities with the company's operational management line.

The complexity of a hotel company supply chain makes it impossible to address all supplier relationships at once. **Figure 2.6** illustrates the spheres of influence for a typical multinational hotel chain. All of the 13 largest hotel and tourism companies with established supplier programmes reviewed in this report have started with the relationships over which they have the greatest influence, i.e. their first tier suppliers. A few companies, Carlson Rezidor, IHG, and Kuoni, have gone beyond the first tier, in particular expecting their own suppliers to include equivalent standards in the next tier down, or by including the standards in their franchise agreements. Carlson Rezidor (**Box 2.1**) provides a good example of a company beginning to extend its responsibility to include a wider sphere of influence.

Figure 2.6: Multinational hotel supply chain – spheres of influence
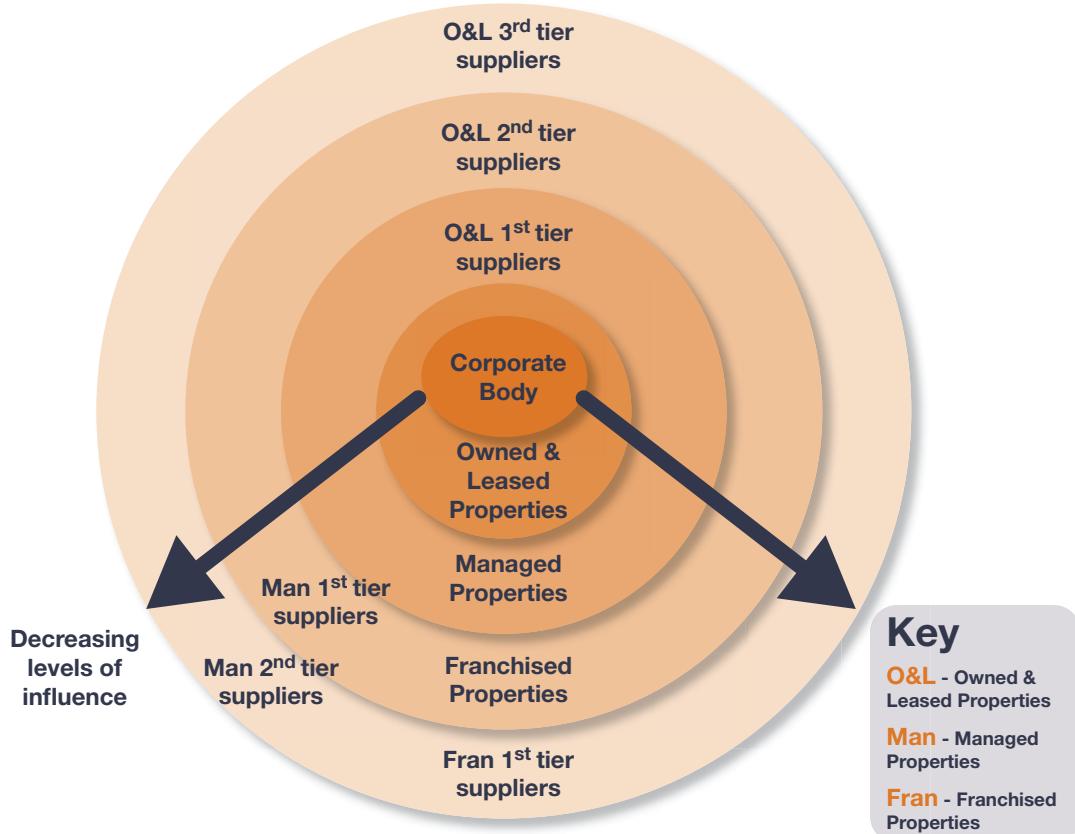
Box 2.1:
Carlson Rezidor overall approach to supplier management

Social responsibility at Carlson Rezidor is driven by Carlson's Global Sourcing Council. The council is formed of leaders from Carlson Rezidor Hotel Group, Carlson Wagonlit Travel and other Carlson business affiliates. The Global Sourcing Council collaborates to create, leverage and share best practices. The benefit of having representatives from across all Carlson businesses on the Council is that they can develop joint strategies to help streamline the business. The Global Sourcing Council helps deliver 'one voice' within Carlson to suppliers to drive greater responsible business behaviours.

All first tier supplier agreements at Carlson Rezidor are supplemented with the supplier code of conduct as an appendix which needs to be signed off by the supplier. The supplier code of conduct covers all aspects of being a responsible business including the areas of human rights, labour, environment and anti-corruption, and supports Carlson's responsible business values. It outlines standards that suppliers to Carlson Rezidor are expected to achieve. Carlson Rezidor suppliers are responsible for communicating the content of the Supplier Code of Conduct to employees and subcontractors.

The Carlson Rezidor management framework expects all first tier suppliers to engage with their own subcontractors (second tier) on matters included in the code. The Supplier Code forms part of all first tier supplier contracts and also of all new franchise agreements, thus requiring all franchisees to adhere to the code and to communicate this onwards to their suppliers.

Sources: Huijbrechts, 2015; Carlson Rezidor, n.d.

Understanding the key risk and impact areas within the supply chain is important for establishing priorities and setting the agenda. Identifying the 'material issues' in a company supply chain can also influence how companies set up their governance framework and with whom they will engage to develop and lead the initiatives. The Whitbread example (**Box 2.2**) illustrates how the company used risk assessment to establish ten priority areas of focus. The company then worked with suppliers and NGOs to establish appropriate policies in each of these areas.

Box 2.2:
Whitbread/ Premier Inn
Management framework for supplier engagement

At Whitbread, responsibility for driving the responsible business strategy (Good Together) forward and delivering against its targets is part of the remit of the Plc Board and Executive Management teams. Embedding corporate responsibility into the key decision making functions has enabled them to integrate the Good Together principles and targets into their strategic business plans. At Whitbread Group level, the General Counsel is the nominated Executive Committee member with responsibility for overseeing the strategy across their businesses. Both divisions (Hotels and Restaurants, and Costa) have established steering groups for the Good Together programmes, which assemble every 12 weeks. These are chaired by the Managing Director for Hotels and Restaurants, and the Managing Director – Costa International Franchise and Corporate Responsibility. The General Counsel attends the meetings of both steering groups to ensure alignment across the business. Day-to-day implementation of Good Together programmes is through the normal implementation channels.

Whitbread sources over 1,000 individual product lines from nearly 200 suppliers around the world. Through its responsible sourcing policy, Whitbread states that it only wants to work with suppliers who share their values and source their products responsibly according to the standards Whitbread sets, which include upholding human rights, food safety, ethical sourcing and animal welfare.

To instil these practices throughout all stages of its supply chain, for the past two years Whitbread has been working closely with its suppliers and partners to establish a responsible sourcing strategy. As part of this process the company conducted a sustainably-focused risk assessment of their supply chain and identified ten priority areas at specific product category levels. In collaboration with NGOs, trade bodies and their own suppliers, the company has developed policy documents for each of the ten product areas.

Whitbread believes that by working together with its suppliers and other partners, the company can tackle the highly complex sustainability and resourcing challenges that it faces as a large multinational business and achieve mutually beneficial outcomes for itself, its suppliers and customers.

Sources: Parker, 2015a.; Parker, 2015b.

5.2 Supply chain codes of conduct

Research by the Institute of Business Ethics found that in 2007, only 44 per cent of the United Kingdom's FTSE 100 companies had an ethical sourcing code in place (Webley et al., 2008). This number rose to over 80 per cent by 2010 (Webley et al., 2010). The length of these codes varies from a single page document to multi-page booklets. Most codes may address a range of corporate responsibility issues, including labour standards, whereas others have a limited scope, such as focus on environmental aspects of purchasing and supply. In 2007, the adoption of ethical sourcing codes differed significantly between industries. Pharmaceutical companies, the manufacturers of alcoholic beverages, and most retailers and chemical companies in the FTSE100 had a code in place. However, at the time, none of the companies in the hospitality and leisure industries at the time had an ethical sourcing policy.

Since 2007, the leading hotel and tourism companies have now developed codes of supplier conduct to set clear expectations with their suppliers. These codes provide guidelines for suppliers on how the procuring company views ethical business conduct and what will be expected of suppliers in the course of the relationship. **Box 2.3** outlines the typical issues included in corporate supplier codes of conduct, and as previously stated, they are often based on the labour standards enshrined in the ILO core Conventions. **Figure 2.7** illustrates how many of the 13 hotel and tourism supply chain codes reviewed contain references to this list. It also shows some of the other issues some companies have considered.

Of the hotel chains interviewed for this study, most were at the early stages of developing a code of conduct for suppliers and were concentrating on first tier suppliers from their owned and managed properties. Few hotel chains interviewed had made adherence to their supplier codes a condition of hotel franchise and licence agreements. Carlson Rezidor is one of these few. Only 54 per cent of the supplier codes reviewed required suppliers to promote the same standards throughout their own supply chain.

> ## Box 2.3:
> ## Issues typically included in corporate ethical supplier codes
>
> **Employment is freely chosen:** Employers should not use forced labour or any other form of bonded labour. Workers should be free to leave when they please (after appropriate notice) and should not be 'tied in' by having to lodge their passports or ID cards.
>
> **Freedom of association:** Workers should have the right to form and join trade unions [and to bargain collectively].
>
> **Safe and healthy working conditions:** Working environments and materials meet appropriate health and safety standards.
>
> **No child labour:** Children should not be employed below the legal minimum age and appropriate steps should be put in place to remove children from employment and guide them towards education.
>
> **Payment of a decent wage:** Workers should be paid at least the national minimum wage in their country, but preferably a wage that is enough for them to live on. Workers should also receive a payslip and breakdown of their payment.
>
> **Non-excessive working hours:** Working hours should comply with national laws and in any case not be more than 48 hours per week plus a maximum of 12 hours overtime. Overtime should be voluntary and agreed in advance.
>
> **No discrimination:** Employers should not discriminate against workers on any grounds including race, ethnicity, gender, caste, union membership, with regard to recruitment, promotion, training or any other matter.
>
> **Regular employment:** As far as possible, workers should be given proper employment contracts and full-time employment. Employers should not try to avoid payment of social security, sick and maternity leave and other benefits through subcontracting or labour-only contracting arrangements.
>
> **No harsh or inhumane treatment of workers:** There should be not physical, verbal or sexual abuse of workers.
>
> **No bribery or corruption:** zero tolerance to bribery and corruption.
>
> *Source:* Carnstone Partners LL, 2015.

More detail on the analysis of these hotel and leisure supply chain codes is contained in Appendix 3 and in **Figure 2.7** below. Only 62 per cent of the codes reviewed include all of the rights and principles mentioned in **Box 3**. It is not clear why the large hotel and tourism companies prioritise certain issues in their supplier codes over others. For example, 69 per cent explicitly mention that suppliers must not use child labour, while 85 per cent mention payment of decent wages. Good practice would suggest that all the ILO core Conventions should be included as a minimum in any supply chain code, and therefore the rationale for the content of hotel supplier codes reviewed in this study is questioned. Among other topics, investigating the basis for these priorities could be the topic for future research.

Figure 2.7: **Multinational hotel and tourism company supplier codes of conduct[13]. What issues are included?**

Number of supplier codes (out of a total of 13 reviewed) that mention...

Issue	Number
Provide opportunity for minority-owned business & SMEs	1
Promote local products and services to guests	1
Actively purchase locally produced goods	1
Report any suspicious behaviour (child exploitation)	2
Provide a complaints procedure	3
Not allow or tolerate any child prostitution	5
Eliminate all forms of human trafficking	5
Zero tolerance for the exploitation of children	6
Suppliers should monitor & enforce this code	7
Freedom of association	8
No harsh inhumane treatment	8
Suppliers should promote the code to their suppliers	9
Support the protection of human rights	9
Non-excessive working hours	9
No child labour	9
Payment of a decend wage	11
Safe and healthy working conditions	12
Employment is freely chosen	12
No discrimination	12
Minimise negative impact on the environment	12
No bribery or corruption	12
Comply with all laws-international and local	13

Sources: AccorHotels S.A., 2012.; Carlson Rezidor (private document); HSH Group (private document); Hyatt Hotels Corporation, n.d..; IHG, 2013.; Marriott International, Inc., 2012.; Shangri-La International Hotel Management Ltd., n.d.; Starwood Hotels and Resorts Worldwide, Inc., 2015.; Tata Sons Ltd., 2013.; Taj Group, 2013.; Whitbread PLC., 2014.; Wyndham Worldwide Corporation, n.d.; TUI Travel PLC Group, 2013.; Kuoni, 2014b.

Accor was identified as having one of the most comprehensive supplier codes in the industry. The company's 'procurement charter' applies to all contracts arranged by the central procurement teams at national and international levels. In 1995, Accor signed an agreement with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF) pledging to respect the ILO conventions relating to employees' freedom of association and the right to unionise. They have extended this commitment into their supply chain standards through their Planet 21 procurement charter – see **Box 2.4** below. This charter applies to all 'centrally approved contracts' which all Accor hotels can access, including franchise partners, but as of 2013 only 60 per cent of these central contracts were compliant and further they related to only 54 per cent of global spend (AccorHotels S.A., 2013). Although partners and suppliers are encouraged to apply the same standards in their own supply chains, further progress is still required to reach the company's aggressive supplier compliance objectives.

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13 One of the companies Taj Hotels did not have a separately published supplier code, but they do reference suppliers in their own code of conduct. This was used in the analysis, together with the content of their CR disclosure online.

Box 2.4:
Accor procurement charter and how it is used

Accor's sustainable development programme, entitled PLANET 21 (named after Agenda 21, the action plan adopted by 173 Head of State at the 1992 Earth Summit in Rio de Janeiro) covers 21 commitments made by Accor in favour of sustainable development. Procurement plays an important role in the implementation of PLANET 21, and Accor's procurement document, *"Procurement Charter 21"*, demonstrates Accor's willingness to extend its corporate social responsibility standards across the supply chain. The areas covered include environmental protection, respect for people, anti-discrimination, health and safety and working hours and conditions.

Accor's sustainable procurement programme began in 2003 with the launch of the Accor Sustainable Procurement Charter. In 2009, the Sustainable Procurement unit was created to support the programme and ensure greater consistency across the Organization. In April 2012 the Sustainable Procurement Charter became *Procurement Charter 21*.

By signing the charter Accor's suppliers are ensuring that their own suppliers and sub-contractors fulfil the same criteria. One of Accor's objectives for 2015 is to ensure that 100 per cent of purchasing contracts are in compliance with the Procurement Charter. Failure to comply with any of the criteria may result in the termination of business dealings with the supplier in question. In 2013, 68 per cent of Accor's central supplier contracts complied with their Procurement Charter. In line with this, Accor have set the 2014 target at 80 per cent of their suppliers complying with their Procurement Charter. Accor believe that it is unlikely that the 100 per cent objective will ever be achieved given that some suppliers refuse to sign the Procurement Charter 21 because they already have their own sustainable development policies.

Sources: AccorHotels S.A., 2013.; AccorHotels S.A., 2012.

In its bid to emphasize responsible business practices in its supply chain, the Intercontinental Hotel Group (IHG), has introduced a responsible procurement strategy which aims to promote diversity in the supply chain and integrate corporate responsibility criteria in selecting and evaluating vendors. The company carried out a detailed review of its supplier screening process and under the new process all suppliers on a global level must provide relevant data to support the achievement of the responsible procurement strategy's objectives. IHG requires all its supply chain partners to meet the standards and encourages vendors to exceed the minimum requirements from its Vendor Code of Conduct which supplements, but does not supersede, IHG contracts with vendors. The code underlines the importance of responsible business practices in five key areas: compliance with laws and regulations, labour and human rights, environmental protection, business integrity and supply chain. The document has been made available in 42 languages to improve accessibility for suppliers in the approximately 100 countries where IHG owns, manages or franchises hotels.

While signing up to the code has become a requirement for new suppliers at an early stage of their relationship with IHG, the company reports that it is has only just started to incorporate the corporate social responsibility criteria into the selection and evaluation process for all preferred suppliers (IHG, 2014b).

5.3 Supply chain risk assessment and supplier evidence gathering

Significant risks in the sub-tiers of a multinational's supply chain can be overlooked by limiting ethical supply chain management activities to the first tiers, where they have greatest influence. For example, some of the most serious ethical issues in supply chains, such as, child labour, forced labour, and serious violations of health and safety, often exist in sub-tiers of multinational supply chains, where their influence is weak. Consequently, ethical supply chain management programs based on spheres of influence alone may not identify issues that are critical risks to society nor to the business itself.

As previously stated, some of the companies reviewed make compliance with their supplier code a mandated part of all management and franchise agreements. While a notable beginning, it is not enough to identify and capture all areas of risk. For this reason, leading companies in the sector are interrogating their supply chains further with combined product based, supplier risk assessments to identify areas of concern and to direct their actions. Such action can be a more detailed investigation into the product being supplied or the supplier; it can trigger an audit of the supplier company; or focus the multinational to start a campaign or initiative on a specific area of interest.

Many companies have used the self-assessment questionnaire (SAQ) approach and asked suppliers to respond on areas contained within their supplier codes and provide evidence of adherence. A simple example of this is the **Scandic Hotel's** supplier declaration which provides a number of response boxes for suppliers to confirm their approach and provide detail (Scandic Hotels, n.d.). This can be a time consuming activity for both multinationals and their suppliers and the rate of SAQ return can be low. For this reason, companies are increasingly using alternative methods to gather data.

For example, **Premier Inn**, owned by Whitbread, the United Kingdom's largest owner of hotels, restaurants and coffee shops has developed an online tool to gather information on their suppliers and to use this to grade the levels of supplier compliance with its supplier code.

In developing its supplier code, the company first conducted a sustainably-focused risk assessment of its supply chain and identified ten priority areas focussed on specific product categories, including cotton, coffee, and palm oil. Working collaboratively with NGOs, trade bodies and their own suppliers, the company has developed policy documents for each of the ten product areas.

The comprehensive supplier assessment system in the form of an online tool was established in order to ensure its suppliers meet the company's *Responsible Sourcing and Commodity Policies*. Suppliers are asked to input information on the source of their products and their conditions of manufacture through an online questionnaire. Following this, an automated assessment gives the supplier a grading. A *Green* rating indicates that a supplier fully meets Whitbread's policy standards and may only require improvement action plans. *Amber* indicates a supplier requires corrective action plans to ensure they meet the standards, and Red indicates that a supplier audit is required.

This system, developed with a software company, Credit360, was only recently launched and therefore data on its use and how it will inform future engagement is not yet known. Premier Inn is a wholly owned and operated chain and so the company has the advantage of direct contractual relationships with all of its first tier suppliers. Given the nature of their relationship, it will be easier for the company to mandate

their suppliers to engage with the system. For other large chains with more diverse ownership models, the chain may not necessarily have the leverage to force all suppliers to participate.

Sha ri-La (**Box 2.5**) chose to carry out a number of audits during a pilot phase to see how suppliers might fare. The company has focussed on its top 100 suppliers, and carried out a pre-risk assessment based on its knowledge of its suppliers and information on them in the public domain. Shangri-La then used this assessment to focus on which suppliers to investigate further, and have used an independent firm to carry out a more detailed assessment.

Box 2.5:
Shangri-La risk based approach to monitoring supplier activities

Shangri-La International Hotel Management Limited's (SLIM) Purchasing Division is responsible for the procurement of products including bedding and room furnishing, cleaning supplies, and food and beverage products. The company's Supplier Code of Conduct incorporates international best practices in the areas of Labour and Human Rights, Health and Safety, Environmental Impact, Ethics and Management Commitment. The 17 criteria in the code align closely with Shangri-La's Core Values and its commitment to the 10 principles of the UN Global Compact. Suppliers to the hotels and resorts are required to complete a questionnaire on the Supplier Code of Conduct, which is included as an appendix to every supplier contract.

Regular reviews are undertaken by SLIM to ensure suppliers comply with the Supplier Code of Conduct. This code is included as an appendix to every supplier contract and SLIM ask suppliers to complete a questionnaire.

A pilot evaluation of compliance with the Code was undertaken in 2011 by an independent firm chosen by the SLIM Purchasing Division. 17 out of 44 suppliers passed the initial assessments in 2011 (pass rate of 39 per cent); in 2012, the same assessment saw 4 out of 11 suppliers pass (pass rate of 36 per cent). The majority of these failures were attributed to suppliers with insufficient record keeping. Suppliers that fail the assessments are able to take corrective action to meet Shangri-La's compliance standards and Shangri-La often splits the costs with suppliers who are required to undertake training and an audit.

As it is impossible to audit every single supplier that Shangri-La use, the purchasing team pass judgment on which suppliers pose the most risk (in terms of volumes of supply or the sector the supplier is in), and therefore which suppliers to monitor and audit first. In 2013 Shangri-La started to distribute the Supplier Code of Conduct to the company's top 100 suppliers. The results from this are not yet publically available but will be made so when the study is completed.

Sources: Sen Gupta, 2015; Shangri-La International Hotel Management Ltd., 2013.

Kuoni, a leading global travel and destination management company, as part of its sustainable supply chain strategy, has also introduced a web-based self-assessment system. This is currently being tested and will allow Kuoni to increase the number of hotels being screened, over and above the 250 the company was able to assess

manually in 2014. According to the company, the introduction of a self-assessment system, combined with risk-based on-site checks, is an important step towards ensuring compliance with Kuoni's Supplier Code of Conduct and identifying opportunities for partnerships. 72 of their Global Travel Services suppliers completed the online self-assessment in 2014, which constitutes a response rate of 23 per cent (Kuoni, 2014a).

5.4 Monitoring and audit

Monitoring compliance with a global supplier code is a complex task. Multinational companies can have tens of thousands of suppliers in their supply chains and resources need to be prioritised.

The first area of focus tends to be the high spend or high volume first tier suppliers where there is the greatest influence. Monitoring supplier behaviour can range from a simple check on what the company is doing, e.g. when the procurement team is next in touch with the supplier, to an annual review and update of the supplier SAQ response, and even beyond, to a third party audit.

Third party audits are common in other sectors, such as retail and manufacturing, and are usually carried out to an internationally recognized standard such as SA8000[14] or SMETA[15]. Such standards and audit protocols are based on the ILO core conventions and the UN Declaration of Human Rights and cover all aspects of the decent work agenda from working conditions and labour rights to health and safety, and environmental management.

Similar to the risk-based approach to monitoring suppliers taken by **Shangri-La** (**Box 2.5**) **Taj Hotels, Resorts, and Palaces** (owned by Tata Group) deploys a tiered approach to monitoring and audit, and depending on its preliminary risk assessment, uses an external firm, Intertek, to carry out an audit based on the SA8000 standard.

Taj Hotels requires all its suppliers to abide by the Tata Code of Conduct (which is used by the entire Tata Group, from Tata Steel to Tata Consultancy Services) when new contracts are signed. Vendors receive regular site inspections from Taj team members who monitor and enforce the requirements from the code. Formal social audits are conducted every year for a selection of suppliers.

All vendors receive a copy of the Tata Code of Conduct and this forms part of the contract with their suppliers. Taj monitors their suppliers by carrying out site visits, initially by the contracting teams or the operations teams. Following completion of a self-assessment questionnaire (SAQ), Taj Hotels use a risk-based analysis to identify suppliers for further audit. The company has worked with the independent audit company Intertek and audit these suppliers to the SA8000 standard, covering nine areas: Child labour, forced labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration, and management systems.

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14 SA8000 is a social certification standard for decent workplaces, across all industrial sectors. It is based on the UN Declaration of Human Rights, conventions of the ILO, UN and national law, and spans industry and corporate codes to create a common language to measure social performance. More information at http://www.sa-intl.org

15 SMETA audits are based on the standards in the ETI base code, see http://www.sedexglobal.com/ethical-audits/smeta/

A number of hotels and hotel chains use third party accreditation and certification schemes and ecolabels to provide a measure of comfort that a particular supplier is performing well. Labelling examples include: Nordic Swan[16] (environmental certification) or the Fair Trade label[17] (social and environmental).

TUI Group, owner of tourism services, travel agencies, and hotels, requires all its hotel partners to demonstrate their social and environmental credentials through a GSTC (Global Sustainable Tourism Council) endorsed certification scheme. TUI have worked with the Tourism scheme *Travelife*[18] and insist that all their hotel partners engage with it, or an equivalent third party scheme. Travelife is a sustainable tourism certification scheme which covers labour and human rights as well as environmental management and broader business practices. *Travelife* gives hotels guidance and supporting materials i.e. engages in capacity building and also provides auditors with a comprehensive manual. TUI UK & Ireland divisions surveyed 1.4 million customers and have reported that hotels with *Travelife* awards scored higher on overall customer satisfaction than those without. Based on these findings, the company has found a business rationale for continuing with this approach. However, it should be noted that *Travelife* works only with the hotel and not its suppliers.

Third party accreditation, or certification, can be seen as more efficient or cost-effective for individual companies, as the requirement to hold a certification or ecolabel reduces the need for the hotel chain to invest in its own audit.

Any audit or certification scheme review will inevitably raise issues to be addressed by the supplier. In these cases, leading companies often require their suppliers to commit to a continual improvement programme and through an ongoing action plan to demonstrate that they are taking the requirements seriously.

5.4.1 Beyond audit – capacity building and procurement development

Companies are realising that progress can be slow with the traditional monitoring-audit-improvement plan cycle. They are looking beyond audit at other more innovative ways of reaching out to their supply chains and to effect change (The Rezidor Hotel Group, 2014).

Leading companies are now working harder at supplier awareness and engagement, focussing on key issues in areas where they want to encourage change. These companies are reconsidering their own purchasing practices to see if their systems of procurement are affecting their suppliers' abilities to meet the standards they expect. The most advanced interventions involve collaboration and partnerships with suppliers, NGOs, unions and governments. These initiatives often target local community development, by supporting particular local enterprises or creating an environment for wider economic development. Examples of these initiatives are provided below.

5.4.2 Supplier awareness and engagement

Capacity building goes beyond addressing specific problems and focuses on the supplier's understanding and awareness of the key issues. It encourages suppliers

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16 http://www.nordic-ecolabel.org/

17 http://www.fairtrade.net/

18 http://www.travelife.org/Hotels/landing_page.asp

to see the business case for good management and high labour standards, thus incentivising suppliers to improve their own performance.

For example, although all area and local hotel suppliers are required to sign the **Carlson Rezidor** Supplier Code of Conduct, the company realized some time ago that simply asking suppliers to comply with their standards would not necessarily ensure it is done. Carlson Rezidor has carried out a number of initiatives to support their suppliers in understanding the requirements of their Supplier Code. The company has gone further to measure how many of its hotels are actually providing advice to suppliers on its implementation and found that in 2014, over half (55 per cent) were actively checking on the responsible business performance of their local suppliers (The Rezidor Hotel Group, 2014). One example of Rezidor's supporting activities are the supplier engagement days held twice a year, where suppliers are invited to network, learn from Rezidor and its peers, and discuss issues in relation to their Supplier Code. As further incentive, suppliers are also invited to profile their responsible business performance on the Rezidor central purchasing website. All hotels within the Rezidor network, irrespective of ownership structure, are given targets to engage with their suppliers, and their performance is documented by the group annually. For this effort, Rezidor is recognized as one of the leaders in the sector.

At Taj hotels, vendors receive regular site inspections from Taj team members who raise awareness and monitor and enforce the requirements from their Taj Group Code of Conduct. In addition, to assist suppliers in meeting the requirements of the code, they have held a number of regional masterclasses to enable vendors to network and share examples of good practice and try to avoid suppliers 'reinventing the wheel' (The Indian Hotels Company Ltd., 2014; Seth, 2015).

5.5 Purchasing practices and buyer training

Leading companies are now looking at their own purchasing practices to see how they can effect change, since there is growing evidence that the way in which companies buy can undermine their ability to enforce international labour standards in their supply chains. An important part of this process is to make sure that the company's internal buyers understand the implications of their own supplier codes and can discuss openly with suppliers any issues in relation to the code and provide advice.

Hong Kong and Shanghai Hotels (HSH), in recognising this, has delivered buyer training and provided a number of capacity building activities to support their own procurement teams. Responsible supply chains are one of the seven pillars within the company's Sustainable Luxury Vision 2020. This pillar aims to uphold the luxury standard while looking to source ethically, sustainably and locally, and to collaborate with suppliers in driving positive changes through procurement decisions. The role of procurement teams in promoting responsible business practices such as good labour standards is seen as crucial. HSH have developed a responsible procurement guide for materials such as cotton, which is a good resource for buyer training purposes. The aspiration for HSH is that buyers are able to include ethical, environmental and social issues in the selection process of suppliers to the same extent that quality and price are considered essential factors. In the longer term, HSH has committed to supplier capacity building reinforced by the audits from procurement teams. The requirements for suppliers (as seen in the Supply Chain Code of Conduct) are regularly updated by the corporate office as a result of discussions with the procurement teams.

Accor have established a dedicated Sustainable Procurement Unit to work with the country-level procurement departments, helping them to understand the requirements of Accor's Procurement Charter. The company has developed a self-training toolkit for buyers, and an on-line collaborative platform to help them assess the performance of their suppliers. Since 2011 nearly a third of all internal buyers have been trained (AccorHotels S.A., 2013).

5.5.1 Supporting local enterprises

Buying locally is increasingly recognized by companies as a 'win-win' proposition. By supporting local economic development and social enterprise and by re-engineering their procurement strategies to buy locally, companies are realizing significant benefits for the business. For multinational companies where brand standards are paramount, this may not be possible for all sourcing needs. However, for some more targeted products and services, it is possible to develop local procurement strategies with commercial return and substantially higher local economic value. In addition, the impact they can have on the local economy through supply chain reform, far outweighs what would be possible via philanthropy alone.

Research by the British Hospitality Association in 2011 demonstrated that hospitality is a key contributor to almost every local community's economic livelihood and particularly to its job-creating and wealth-creating potential (British Hospitality Association, 2011).

Despite its small scale, **The Spier Group** in South Africa has a strong record of social and environmental initiatives.The Group has demonstrated how much economic impact can be realized, and practically how to bring local micro and small enterprises into corporate supply chains (Ashley and Haysom, 2009). The Spier hotel embarked on a strategic review of its procurement in 2004, and adapted its procurement strategy to tie it more closely to local suppliers and contractors. In August that year, Spier took out its first contract with a newly established local laundry business, sourced via a new 'enterprise development' procurement approach. Since then, it has increased the percentage of goods that are procured locally and enabled at least 11 local black-owned micro businesses to successfully enter the supply chain and become established.

In 2013, **Intercontinental Hotels Group (IHG)** commissioned research to calculate the economic contribution made by IHG hotels to the US, UK and Brazilian economies. The conclusion was that their hotels in the US, UK and Brazil, which directly employed 114,000 people, supported a further 2 million jobs globally. Furthermore, the company estimated that each dollar spent at an IHG hotel multiplies through the economy six to seven times (InterContinental Hotels Group (IHG), 2012). This helped to focus IHG's supply chain strategy to source goods and services locally. IHG also promotes responsible business practices by those same suppliers and have established an academy to provide local people with opportunities to develop their skills and improve their employment prospects in the tourism industry.

Soneva, a luxury hotel chain, has supported economic development and worked with regional enterprises to support the local economy since it was established in 1995. Soneva Fushi's focus on using local suppliers along with hiring local staff is of great importance to the local economy in the Maldives. Particularly for an island nation where job opportunities are scarce and even travelling between islands is difficult. More importantly, Soneva has worked successfully with local suppliers without

compromising on quality or good environmental practice. Examples of their activities are shown in **Box 2.6** below.

Box 2.6:
Soneva enhancing the economy by supporting local enterprises

Soneva Fushi has purchased fish from experienced fisherman Rocket since its opening in the Maldives in 1995. Rocket goes out daily using the environmentally friendly pole and line fishing technique. The relationship has grown so strong that Rocket's son Shafiq is now working as a waiter at Soneva Fushi. The resort also works with four other family owned fishing vessels from its neighbouring islands. These relationships are based on verbal agreements, which on average lasts at least five years.

Once a week Soneva Fushi invites women from the neighbouring island Eydhafushi to cook authentic local food. This is very well received by the guests. The women enjoy showing their cooking skills and at the same time earn some income. Soneva Fushi provides women from the same island with coconut husks from the resort. Using traditional techniques the women turn the husks into coconut ropes, which Soneva Fushi buys and uses in the resort.

The resort also displays traditional Maldivian musical dance boduberu on a regular basis. To show this, Soneva Fushi hires the group Bodu Beru from neighbouring island Maahlos.

Beyond the Maldives, Soneva Fushi also supports rural women in Sri Lanka through its supply chain.

One characteristic feature in Soneva resorts is its colourful daybed fabrics. Soneva has purchased these from the same supplier in Sri Lanka since opening Soneva Fushi in the Maldives in 1995. The supplier, Barefoot, was set up by Barbara Sansoni in 1964. She installed a tradition of working almost exclusively with women in small works centres, most of which are located in the Sri Lankan countryside. Barefoot does not have factories with production lines. Instead, they teach skills to the workers, who are made responsible for the quality of the final product. Soneva Fushi works closely with Barbara's son Dominic, who runs the company with his wife.

Source: Oines, 2015.

5.5.2 Collaboration and partnerships

Some of the most innovative supply chain programmes involve partnerships with governments, trade bodies and NGOs. These multi-stakeholder initiatives, where diverse partners work together to solve problems collectively, are seen to generate greater buy-in by intended beneficiaries.

Partnership approaches to responsible supply chain management signify a significant shift in philosophy - from a focus on managing risk and brand protection to one of creating value for all parties in the partnership. Increasingly, companies with extended experience in sustainable procurement practices are engaging in multi-stakeholder

initiatives and partnerships to address local economic develop through their supply chains. Marriott's work with the Clinton Global Initiative and the Haiti Action Network is an example of such an initiative (**Box 2.7**).

Box 2.7:
Marriott local partnerships to support local enterprises in Haiti

The Haiti Action Network (HAN) which is part of the Clinton Global Initiative, was created to rebuild Haiti after the 2010 earthquake. Over 100 other Organizations have made commitments to support HAN. In support, Marriott International reached out to the Clinton Foundation to propose a new hotel to help Haiti rebuild its tourism industry.

In addition to the 200 new hotel jobs and hospitality training, Marriott has actively looked for ways to support the local economy through enterprise development near its new Port-au-Prince Hotel. The company has enhanced the local supply chain, through the sourcing of goods, food and amenities from local small businesses, social enterprises, farms and Haitian artisans. Examples of Marriott's impact on the island are:

- ☐ 100 per cent of the hotel's coffee is sourced from a local Haitian company, Rebo. Rebo is investing in the local farming community with agricultural and financial training and employs several hundred women who hand select the beans for quality.

- ☐ The Marriott hotel was also the first to source produce from Afe Neg Combite, a Kenscoff-based co-op made up of 5,500 farmers employing a total of 8,000 people. Marriott's procurement team worked with the farmers for more than a year to help them produce, package and transport fruits and vegetables in ways that meet the quality, yield and lower waste standards of the hospitality industry.

- ☐ Operation Blessing's Fish Farm and Hatchery is an innovative aquaculture project and is an approved supplier of Marriott for tilapia. Not only does the farm provide a source of nutritious food, it also educates Haitians about fish farming, generates jobs and develops new industries.

- ☐ On a wider level, Marriott is working to identify and recommend local suppliers to Associated Food Distributors (AFD) to build capacity within the local supply chain and to give them access to wider markets. One of these is *Ayiti Natives*, a local company producing sustainable fair trade soaps and oils.

Sources: Snyder, 2015; Marriott International, Inc., 2015.

5.6 Focusing on key issues to influence the sector

As previously discussed, in addition to general awareness-raising and capacity building, some companies opt to focus on a limited number of issues they want to specifically address in the tourism sector. Single issue initiatives are often driven by specific challenges seen as endemic to an industry.

Accor is reported to be one of the first hotel companies to address a key ethical issue with a sector-wide campaign, in this case, against child exploitation (**Box 2.8**).

Box 2.8:
Accor focus on key issues – child protection

Accor's Ethics and Corporate Social Responsibility Charter has a section dedicated to the group's commitments and responsibilities in relation to business practices, which cover three main categories. One of these categories is 'respect for people' and focuses specifically on vigilance in the area of prostitution, especially in relation to protecting children. According to the United Nations, around 150 million girls and 73 million boys under 18 are victims of sexual violence worldwide. As the world's leading hotel operator, present in 92 countries, Accor has a moral obligation to protect children from abuse and to ensure that these practices do not take place in its hotels.

Since 2001, Accor has been engaged in the fight against child sex exploitation in partnership with ECPAT International, an NGO comprising 77 organizations in more than 70 countries. Between 2008 and 2013, Accor was a member of the Executive Committee of the "Code of Conduct for the Protection of Children from Sexual Exploitation in Travel and Tourism", developed by ECPAT and the World Tourism Organization. As of year-end 2013, the Code had been signed by 35 of Accor's country Organizations.

Since engaging with ECPAT back in 2001 Accor has gone even further by combating abuse, kidnapping and other harmful acts directed at children. One of Accor's objectives for 2015 is to ensure that 70 per cent of their hotels have pledged to protect children. In 2013, 44 per cent of their hotels had signed up to this pledge. Aware of the progress required to achieve their target, Accor has increased its operational support in partnership with ECPAT. Other actions involve raising awareness among employees and providing them with training, informing customers, introducing reporting procedures and strengthening relations with authorities to combat these practices. For example, to combat child sex tourism in Brazil, Accor worked with the Tourism Ministry and NGO ECPAT to set up a crisis line in anticipation of the 2014 World Cup and the 2016 Olympic Games.

Sources: AccorHotels S.A., 2013.

Kuoni reports that following the release of the UN Guiding Principles on Business and Human Rights[19], the company saw an opportunity to raise awareness on human rights amongst tour operators. With the cooperation of NGOs, such as Tourism Watch, the company co-founded an International Roundtable to consider human rights in tourism. The Roundtable is a multi-stakeholder initiative and is considers itself an open platform. The prerequisite for membership is to sign a "Commitment on Human Rights

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19 http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

in Tourism". The initiative has since developed guidance for the sector in implementing the Guiding Principles.

Box 2.9:
Kuoni encouraging broader debate – roundtable on human rights

As part of its commitment on Human Rights, Kuoni co-initiated the international Roundtable Human Rights in Tourism, which was founded in 2012 by non-governmental Organizations and tour operators in the German-speaking area. The common goal of the multi-stakeholder initiative is to develop and disseminate concepts for tourism businesses to meet their responsibility of human rights due diligence. The know-how of all members enabled the development of management guidelines which define necessary actions for tour operators.

Human Rights in tourism is not a new issue. In 2011, the study "Putting Tourism to Rights" compiled the observations of civil society Organizations and systematised them on the basis of the international human rights framework. The tourism operators Kuoni Travel and Studiosus were the first to tackle this challenge and developed a human rights policy which they implement step by step in their businesses. One and a half years ago, representatives of various Organizations and the two tour operators got together and brought the "Roundtable Human Rights in Tourism" into being.

Matthias Leisinger (Kuoni) emphasizes that the initiative also brings concrete benefits for the business: "When staff in our business or in a hotel are treated fairly, the quality of service is better and thus, also client satisfaction is."

Sources: www.humanrights-in-tourism.net and http://www.menschenrechte-im-tourismus.net/fileadmin/user_upload/Menschenrechte/Vorstellung_RT_TW74_EN.pdf

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5.7 Social dialogue and union involvement

The extent to which trade unions have been engaged in the development of supplier codes of conduct and other ethical procurement initiatives in across the T&T industry is unknown, but is estimated to be limited. The hospitality and tourism industry has traditionally had a very low rate of trade union membership. This is believed to result from a number of characteristics of the sector, including its fragmentation among a large number of small enterprises, and a young workforce with limited industrial relations experience (ILO 2011).

Determining the global rate of unionization was outside the scope of this study; however, anecdotal findings indicate that rates of unionization, even within a single region, can vary widely. In the United Kingdom for example, union membership for accommodation and food workers was as low as 4 per cent in 2013, as compared to the highest sectors of education and public services of 52 per cent (Department for Business Innovation & Skills, 2014). While, in Norway, for example, only 50 per cent of workers in the hotel/restaurant sector are covered by minimum wages collective agreements (Pillinger, 2014).

In some cases, where unionization has not been possible, workers have looked for other vehicles to create social dialogue, for example through European Workers

Councils (EWCs). However, the ILO reported in 2010 that this coverage is also limited to specific locations: For example, although the Starwood chain operated in 23 European countries, only seven of those were represented in the European Works Councils (EWCs), and Hilton was found to have reduced the number of countries participating in its EWCs from 22 to 10 countries. (ILO, 2010b).

Even when agreements with trade unions are in place, the reach to workers within the 'sphere of influence' of the hotel chain may still remain limited. In 1995, Accor signed an agreement with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) pledging to respect the ILO conventions relating to employees' freedom of association and the right to unionise. Social dialogue with Accor is limited to the EWC meetings which Accor uses to share information, but there is limitation in the role and scope of EWCs. Employees working in franchised hotels are not eligible for EWCs and so the existing dialogue structure excludes a significant proportion of the workers under the Accor brands.

Over the past decade, there are a number of instances where workers have campaigned for improved working conditions and union recognition in the hospitality sector. In 2013, the IUF launched a global campaign aimed at employers, to protect the rights of housekeepers in the hospitality industry (IUF, 2013b). Their recommendations aim to foster good working practices, enhance the health and safety of workers in the sector and improve their performance and effectiveness in the workplace. The IUF has targeted *outsourcing* as one of its key issues, stating that it is a common experience for outsourced workers to be treated less favourably than those directly employed. The IUF are calling for housekeepers to have the right for their unions to negotiate effectively with both employers and governments. Its Fair Hotel initiatives operating across North America and in a number of countries internationally, engages workers and consumers, in the campaign to allow for Freedom of Association, by identifying those properties in adherence with core conventions. Establishing an early understanding for freedom of association and collective bargaining in an emerging new tourism market, the first hotel workers' conference was held in Myanmar in May 2015, calling for union recognition and respect. The conference, supported by the IUF and local chapters from Thailand and Malaysia, promoted sustainable jobs, safe work and respect for worker and trade union rights as integral to "Responsible, Ethical & Sustainable Tourism" (IUF, 2015).

With exception to the global campaign addressing increased labour outsourcing in the hotel industry, explicit examples of trade unions involvement across the broader hospitality supply chains were not identified. Given the fragmented nature of the sector, and the increase in franchising and arms-length ownership models, it is problematic for any kind of company-wide or sector-wide social dialogue.

5.8 Outsourcing and agency labour

One of the most debated topics in promoting decent work within hospitality supply chains is the outsourcing of hotel services and the supply of agency labour. The practice of outsourcing has increased significantly over the past few decades. **Table 2.5** illustrates the functions most and least likely to be outsourced in the hospitality industry.

Table 2.5: Hotel functions most and least likely to be outsourced[20]

Most likely	Least likely
- Laundry - Pool and grounds / garden maintenance - Housekeeping, inc cleaning of public areas - Equipment and engineering maintenance, eg air conditioning and boilers, elevators - Restaurants/foodservice/entertainment - Painting and decorating - Floral arrangements - Revenue management - Information Technology - Reservations - Project management - Capital projects - Furniture, fixture and equipment and other purchasing - Help-desk support - Loyalty programme management - Distribution management - Accounts and financial services - Car parking and valet services	- Bell staff - Front desk - Switchboard operations - Concierge - Front office

The most common rationale for outsourcing can be a desire to reduce cost or increase flexibility, while at the same time maintaining service quality, or accessing specialist services. For example, outsourcing information technology (IT) services to a specialist company can often result in improved services at a reduced cost.

A major challenge for any multinational is to be able to raise awareness of labour rights issues around contracting such services within every hotel procurement team

Increasingly hotels are outsourcing housekeeping, raising concerns globally about the implications for labour standards. Housekeeping is often one of the largest

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20 Based on: http://www.hotelnewsnow.com/Article/3209/Pros-and-cons-of-hospitality-outsourcing, but modified by the authors

departments in a hotel, is non-revenue generating, labour intensive, and drives a large proportion of payroll. Outsourcing this function immediately turns a housekeeping fixed cost into a variable cost, giving the hotel increased flexibility. However outsourcing the housekeeping function means relinquishing a crucial part of a hotel's quality control, a considerable business risk.

From a worker perspective, there have been a number of claims that outsourcing housekeeping removes employee protection, and that it often leads to a drop in working conditions and pay. As mentioned above, the IUF has identified this issue as a priority and in 2013 launched a global campaign to support decent work within housekeeping services (IUF, 2013a). In the same year, Unite in the UK accused some of the large chains of facilitating worker exploitation and abuse through the outsourcing housekeeping services (Harmer, 2013). These issues are still under debate.

In addition to conventional outsourcing, the supply of temporary labour via private employment agencies has also caused concern. Labour supply chain relationships with various employment agencies exist at the hotel level and are often vital for the flexible management of hotel resource needs. However, if not properly protected the individual workers can suffer from precarious working arrangements, a lack of training and development and sometimes much poorer working conditions. ILO's Private Employment Agencies Convention, 1997 sets the general parameters for the regulation, placement and employment of workers by these agencies.

The risks of forced labour and human trafficking in hotel labour supply chains are an issue of concern. In 2014, the University of Liverpool took part in an EU-funded project to examine risks of human trafficking for forced labour in the UK hotel sector (Balch and Rankin, 2014). The project found that the main risks around the exploitation of workers could be linked to the use of temporary agencies or outsourcing companies.

Information and advice for hotel companies on human trafficking does exist. For example, the International Tourism Partnership (ITP) in collaboration with employers and its working group on trafficking has created guidance to explain the problem of human trafficking and what to do about it. It has also provided hotel companies with an introduction to human rights and how to assess the hotel company impacts[21].

Significant on-going global unrest across the hospitality sector with regard to outsourcing and the use of agency labour has been identified. To address this, the T&T industry is encouraged to harness the power of collective action and engage in productive dialogue with workers and trade unions.

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21 See: www.greenhotelier.org/know-how-guides/

6. Conclusions

6.1 Lessons learned: Promoting good practice

The hospitality and tourism sector is becoming a major economic force and a large global employer. Each multinational operator and hotel company has a wide sphere of influence through its direct employment, and supply chain. Beyond the normative imperatives, the authors identify a business case for actively promoting labour standards through tourism supply chains. The findings have been identified from the authors' research, interviews, and personal experience:

- **Company image and reputation:** Leading by example and promoting company credentials in working with suppliers on labour and human rights will affect the ways in which employees, customers, governments, investors and other stakeholders perceive the company. Accor, for example, has enhanced its own image through its work with the UN in combatting child sexual exploitation in travel and tourism (**Box 2.8**). By engaging with local suppliers and promoting local enterprise, hotels benefit from an enhanced reputation at a community level. Such initiatives are seen to engender stronger relationships with the local community and a company's reputation as a good place to work and an employer of choice. Marriott experienced this in Haiti when the company tried to help rebuild the community there after the major earthquake in 2010 (**Box 2.7**).

- **Productivity and Competitiveness:** Implementing good business practice and raising standards across the industry can lead to better productivity throughout the value chain and enhance competitiveness.

- **Efficiencies from shared learning:** Learning from other sectors and particularly avoiding common mistakes enables late adopters such as the hospitality sector to maximise the speed of uptake of their supply chain programmes and help them focus on those initiatives which will really build supplier confidence and effect change. This saves time and money for all concerned. Premier Inn has found this and through the adoption of new tools and techniques has moved quite quickly to the point of supplier engagement with their standards (**Box 2.2**).

- **Pro-active risk management:** By mapping a company supply chain and assessing the risks associated with the supply can enable the company to spot any issues early and to start a dialogue with the relevant parties before problems escalate.

- **Stronger local economy:** Strengthening the supply chain through capacity building and enhancing local markets provides greater opportunities for supply and makes hotels less vulnerable to fluctuations at a local level. As learned by Spier in South Africa, working with local enterprises results in benefits for the local economy and can help develop the tourism market more widely.

- **Improved stake-holder relations and industry status:** Collaborating with wider partners and government bodies on key initiatives in the supply chain will not only strengthen relationships with suppliers but will also increase stakeholder trust, in particular the company reputation with employees and trade unions, and make it easier for the multinational to gain cooperation in the future.

□ **Industry leadership:** By influencing governments and supporting increased national and international standards of work, the tourism and hospitality can be identified as a major employment sector. This will encourage government bodies to take the sector more seriously and allow it to have a voice in local, national and international development debates. Kuoni have certainly found this following the initiation of a dialogue on human rights in tourism (**Box 2.9**).

6.2 Lessons learned: Meeting the challenges

Implementing a global supply chain programme and promoting good labour standards and decent work to all relevant stakeholders is a big task, beset with a number of challenges which the multinational hotel chains are trying to address. These include:

□ **Diverse and complex supply chain structure:** The wide range of commodities and services supplied means that there cannot be one solution that fits all. Segmenting the supply chain, looking at areas of risk and influence are essential to tackling the problem. The research finds that most hotel companies engaged in any ethical or sustainable supply chain initiatives are still working at the edges of this problem.

□ **Fragmented segment, dominated by SMEs:** The fragmentation of the sector and the large contribution made by SMEs means that the number of Organizations that a hotel chain needs to engage with is inherently increased. SMEs do not always have the resources and capacity to address some of the issues identified in supply chain codes of practice and need support. Leading companies have learned that traditional top down approaches are not effective. There needs to be a more collaborative approach by company's working through their 'chain of influence' to gradually effect change.

□ **Shifting legal boundaries in "sphere of influence":** The range of ownership models and hence procurement structures that exist within multinational hotel chains makes the promotion of the decent work agenda more intractable. The largest global hotel chains are moving more and more towards franchising models which decreases their levels of influence on who the hotel works with and procures from. Some hotel chains are addressing this through their franchising agreements, mandating franchisees to comply with the global supply chain standards, and by asking them to report back on key performance metrics (e.g. Carlson Rezidor in **Box 2.1**). Nevertheless this will always be imperfect and ultimately it will rely on a huge change in thinking and for the whole of the tourism sector to work together with other partners and local governments in raising standards.

□ **Increased outsourcing:** Outsourcing services and the use of agency labour are prominent issues in the hospitality sector. Awareness campaigns and productive social dialogue to reach business and workers engaged with these services is needed to avoid a possible race to the bottom in standards, and the potential negative consequences for both business and workers.

□ **Informal agreements:** The research found that a number of products and services are being purchased at a local level through informal agreements. Such agreements strengthen relationships with local communities and are therefore valuable to the hotel. Rather than trying to rule out these interactions, hotel chains may consider developing guidelines for local buyers on how to treat these informal relationships and their boundaries.

☐ **Corporate buy-in, core business operations:** Increasing the level of awareness and understanding of the issues with the right teams within the global hotel chains remains an issue. Quite often the knowledge around international labour standards and what the company is trying to achieve with its Supplier Code sits with responsible business or CR teams somewhere central to the Organization. Finding ways to engage internally with operations and procurement is critical to making a supply chain programme successful. Indeed some Organizations focus heavily on internal training to raise awareness and provide help to procurement teams, long before going out to the wider market.

☐ **Seasonality effect:** The seasonality effect and the transient nature of the workforces in tourism mean that hotel chains have to continually reinforce their messages and communicate their expectations to employees and suppliers on a regular basis. This has knock on effects for any capacity building work that they do, since this relies on a relatively stable workforce where the skills and knowledge remain.

☐ **Global purchasing agreements:** The way in which corporate buying is being centralised into large global contracts to increase buying power and reduce costs and risks, means that the purchaser is even further from the 'coal face' working conditions. Characteristics of modern supply chain management can undermine commitments made in typical supplier codes (Insight Investment and Acona 2004). For example, seasonality - the demand for certain products all year round and the need for high volumes at peak times - can raise the demand for contract and temporary employment, and undermine suppliers' ability to provide secure and regular employment; and constant price pressure can feed through into pressure for suppliers to reduce wages below levels defined by legislation or a company's own supplier code. This requires the multinational to understand its own 'purchasing practices' and to see how it might be influencing (positively or negatively) its ability to promote good standards in its own supply chain. Even the most advanced sectors are only now getting to grips with this issue. In addition, constraints presented by the brand standards and certain product offerings, eg all-inclusive deals, can mean that the flexibility to engage with local suppliers is limited (Tourism Concern, 2015). Meeting the needs of global brand standards can drive procurement more towards centralised global agreements involving large multinational suppliers.

☐ **Competition and race to the bottom:** The expansion and globalisation of the tourism market presents both opportunities and challenges. It offers travellers a huge range of international destinations and modes of travel to choose from. But increased competition between tour operators and hotel chains has also led to a significant reduction in prices. Popular package holidays offer low cost combinations of flights, transfers, accommodation, food, beverages and activities. This often results in a knock on effect to the supply chain. The tourism industry could learn from the experiences of global retail and manufacturing, where exactly the same issues have been raised, and various programmes to uplift working conditions are being tested.

☐ **Changing global regulatory environment:** The continual development of international human rights and labour legislation will continue to affect global hotel chains. In the US, the California Transparency in Supply Chain Act, the Business Supply Chain Transparency on Trafficking and Slavery Act of 2014 and Federal Acquisition Regulation: Ending Trafficking in Persons, 2015, and in the UK, the Companies Act (2006) Regulations 2013 and the Modern Slavery Act (2015) Transparency Clause, require companies not only to understand

their human rights impacts, but also to report on how they are managing them across their different spheres of influence. Proactive engagement with workers and suppliers, and social dialogue with stakeholders throughout the supply chain will help companies to avoid or mitigate business risks.

6.3 Closing remarks

Drawing on case studies and interviews, this study has explored efforts made by selected large multinational hotel chains and tourism operators to promote good practice in their supply chains through various initiatives and supplier codes of conduct. The report highlights the complexity of the multinational hotel supply chain and the resulting challenges that individual companies face in managing the performance of the diverse suppliers within their 'sphere of influence'. While the travel and tourism (T&T) sector is identified as a late adopter of ethical or sustainable supply chain management programs, when compared with other sectors, such as retail and high street brands, there is an opportunity for the industry to learn from other sectors, as well as, guidance provided by recently updated public initiatives. The report is intended as a basis for future discussion and while primarily focused on hotels, just one segment of the T&T sector, also provides a brief overview of activities across the industry.

Among the key findings, the research indicates that hotel ownership models have a strong influence on the ability of a multinational chain to maintain standards and effect change throughout their supply chain. The approaches to maintaining standards through franchising agreements, informal agreements and through outsourcing and agency labour contracts, including the business opportunities and risks associated with these diverse arrangements have been discussed. In particular, franchising and outsourcing have attracted public scrutiny and these themes call for an industry-wide debate on the cross-cutting issues that are associated with these business models.

Given the size and scope of the industry, the complete 'chain of influence' needs to be activated to bring true change across the sector. Collective action through multi-stakeholder initiatives, where possible, supported by productive social dialogue, is found to be the most effective for implementing and monitoring good practice. When effective, these measures are found to result in enhanced competitiveness, productivity, and company or industry-wide reputation, as well as, reduced poverty and improved socio-economic development for affected individuals and communities. There is a role for the ILO and other global Organizations in working with multinationals to help build capacity in the tourism supply chain, through guidance and tools, facilitation of social dialogue, and continued research to measure and monitor good practice and social outcomes.

Appendices

Appendix 1

Scope of the research and interviews

Organizations researched

Multi-national hotel chains	Accor
	Best Western
	Carlson Hotels Worldwide
	Choice Hotels International
	Como Group
	Diamond Resorts International
	Fairmont, owned by FRHI Hotels & Resorts
	Four Seasons Hotels & Resorts
	Hilton Worldwide
	Hyatt
	Intercontinental Hotel Group
	Jardine Matheson
	Jumeirah Group
	Kempinski
	Langham Hospitality Group
	Marriott International
	NH Hotel Group
	Regal Hotels Limited
	Scandic
	Shangri-La
	The Soneva Group
	Starwood Hotels
	Taj Group
	The Hongkong and Shanghai Hotels Ltd
	Travelodge
	Whitbread / Premier Inns
	Wyndham Worldwide
Tour operators and travel agents	Kuoni
	Thomas Cook
	Tui

Industry & international Organizations	British Hospitality Association
	International Labour Organization (ILO)
	International Hotel & Restaurant Association
	World Travel & Tourism Council (WTTC)
	United Nations World Tourism Organization (UNWTO)
Non-governmental Organizations	Global Sustainable Tourism Council
	International Tourism Partnership/Green Hotelier
	International Centre for Responsible Tourism, Manchester Metropolitan University, UK
	Recruitment & Employment Confederation Ltd (REC)
	Tourism Concern
	Tourism Watch
	Travelife

| Interviews and discussions held

The authors would like to thank the following individuals for their time during our discussions and subsequent help and assistance in providing information for this report.

Multi-national hotel chains & large tour operators	Arnfinn Oines, The Soneva Group, Soneva Social and Environmental Conscience
	Inge Huijbrechts, Carlson Rezidor, VP, Responsible Business
	Natalie Chan,The Hong Kong and Shanghai Hotels Ltd,Director, CR & Sustainability
	Brigitta Witt, Hyatt, Global Head, CR
	Matthias Leisinger & Sibylle Baumgartner, Kuoni, VP, CR & CR Project Manager
	Mari Snyder, Marriott International,VP, CSR
	Parikshit Sen Gupta, Shangri-La,Vice President – Finance & Purchasing
	Ashish Seth, Taj Hotels, Director, Materials
	Ian Corbett, TUI, Sustainable Development Manager
	Mark Parker, Whitbread, Programme Manager, CR
Industry & governmental Organizations	Fran Hughes, International Tourism Partnership, Head of Programmes
	Rochelle Turner, WTTC, Head of Research
	Dale Honeck, WTO, Counsellor, Trade in Services Division

Civil Society	Clement Sheil, REC, Policy Advisor
	Mark Watson, Tourism Concern, Executive Director
	Antje Monshausen, Tourism Watch, Senior Policy Advisor
	Sören Stöber, Travelife, Business Manager
	Massimo Frattini, The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF), International Coordinator
Academics & consultants	Harold Goodwin, International Centre for Responsible Tourism, Manchester Metropolitan University, UK, Director
	Dr Andreas Walmsley , University of Plymouth, UK, Associate Professor
	Professor Thomas Baum, University of Strathclyde, UK, Professor
	Professor Graham Miller, University of Surrey, UK, Head of School
	Eric Ricaurte, Greenview advisors
	Jan Peter Bergkvist, SleepWell AB, Senior Adviser

Appendix 2 — Multinational companies and their brands

Multinational companies	Hotel and Leisure brands
Intercontinental	InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites, Hotel Indigo, EVEN Hotels, Hualuxe
Wyndham Worldwide	30 primary brands, which include Wyndham Hotels and Resorts, Tryp by Wyndham, Ramada, Days Inn, Super 8, Howard Johnson, Wyndham Rewards, Wingate by Wyndham, Microtel Inns & Suites, RCI, The Registry Collection, Landal GreenParks, Novasol, Hoseasons, cottages4you, James Villa Holidays, Wyndham Vacation Rentals, Wyndham Vacation Resorts, Shell Vacations Club and WorldMark by Wyndham
Hilton	Waldorf Astoria, Conrad, Canopy, Hilton, Curio, Double Tree, Embassy Suites Hotels, Hampton Inn, Homewood Suites by Hilton™, Home2 Suites

Marriott	BVLGARI® Hotels & Resorts, The Ritz-Carlton®, JW Marriott®, EDITION, Autograph Collection® Hotels, Renaissance® Hotels, AC Hotels by Marriott, Moxy Hotels®, Marriott Hotels®, Courtyard by Marriott®,Protea Hotels®, SpringHill Suites by Marriott®, Fairfield Inn & Suites® by Marriott, Residence Inn by Marriott®, TownePlace Suites by Marriott®, Marriott Executive Apartments®, Gaylord Hotels®, Marriott Vacation Club
Starwood	St. Regis®, The Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points®, Aloft® and Element®
Choice	Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Sleep Inn®, Econo Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, Cambria Suites® and Ascend Hotel Collection®
Accor	Sofitel, Pullman, Mgallery, Novotel, Suite Novotel, Mercure, Adagio, ibis, ibis Styles, ibis budget, Adagio access, hotelF1, Formule 1
Carlson Rezidor	Quorvus Collection, Radisson Blu, Radisson, Radisson Red, Park Inn by Radisson, Park Plaza, Country Inns & Suites, Radisson Blu, Park Inn by Radisson, Radisson, Red and Quorvus Collection
Home Inns	Home Inns, Yitel, Motel 168
Best Western (private)	Best Western, Plus and Premier
Travelodge UK	Travelodge
Whitbread Plc: Premier Inn	Premier Inn
Hyatt	Park Hyatt, Andaz, Grand Hyatt, Hyatt, Hyatt Regency, Hyatt House, Hyatt Ziva/Zilara, Hyatt Residence Club
Taj Hotels	Taj
Como (Singapore)	Como
Kuoni	Playïtas
The Hongkong and Shanghai Hotels	Peninsula Hotels (also commercial properties, clubs & services)

Jardine Matheson	Mandarin Oriental
Regal Hotels International	Regal Hotels
Shangri-La Hotels and Resorts	Shangri-La Hotels and Resorts
Langham Hotels International	Langham Hotels
Four Seasons Hotels & Resorts	Four Seasons, Four Seasons Residence Clubs
FRHI Hotels & Resorts	Fairmont Hotels & Resorts, Raffles Hotels & Resorts, Swissôtel Hotels & Resorts
Diamond Resorts International	Diamond Resorts International
Jumeirah Group	Jumeirah Hotels & Resorts, Jumeirah Living, Jumeirah Restaurants, Jumeirah Hospitality, Sirius, Talise and others
Kempinski	Kempinski Hotels and residences
NH Hotel Group	NH Hotels, NH Collection, nhow, Hesperia Resorts
Soneva	Soneva, Six Senses Resorts and Spas

Appendix 3

Multinational hotel and tourism companies – Supplier Codes of Conduct

Topic	Accor	Carlson Rezidor	IHG	HSH	Hyatt	Marriott International	Shangri-La
Business Conduct and Ethics							
Comply with all laws - international and local	✓	✓	✓	✓	✓	✓	✓
No bribery or corruption		✓	✓	✓	✓	✓	✓
Environment							
Minimise negative impact on the environment	✓	✓	✓	✓	✓	✓	✓
Human rights & labour conditions							
Support the protection of human rights	✓	✓	✓	✓	✓	✓	
Employment is freely chosen	✓	✓	✓	✓	✓	✓	✓
Freedom of association (and rights to collective bargaining)	✓		✓		✓		✓
Safe and healthy working conditions	✓	✓	✓		✓	✓	✓
No child labour	✓			✓	✓	✓	✓
Payment of a decent wage	✓	✓		✓	✓		✓
Non-excessive working hours	✓	✓			✓		✓
No discrimination	✓	✓	✓		✓	✓	✓
No harsh or inhumane treatment	✓		✓		✓		✓
Eliminate all forms of human trafficking						✓	✓
Provide a complaints procedure/ report issues							✓
Not support exploitation of children	✓	✓	✓	✓			
Sexual exploitation of children & adolescents							
Not allow or tolerate any child prostitution	✓			✓		✓	
Report any suspicious behaviour							
Local sourcing & benefiting communities							
Actively purchase locally produced goods							

Promote local products and services to guests						
Provide opportunity for diverse, minority-owned businesses, including small and medium enterprises				✓		
Suppliers should communicate the code to their employees and through their own supply chains	✓	✓	✓	✓		✓
Monitoring & Enforcement	✓		✓	✓		✓

Supplier Codes of Conduct

Topic	Starwood	Taj Group	Wyndham Worldwide	Whitbread	Tui	Kuoni
Business Conduct and Ethics						
Comply with all laws - international and local	✓	✓	✓	✓	✓	✓
No bribery or corruption	✓	✓	✓	✓	✓	✓
Environment						
Minimise negative impact on the environment	✓		✓	✓	✓	✓
Human rights & labour conditions						
Support the protection of human rights		✓		✓	✓	
Employment is freely chosen	✓		✓	✓	✓	✓
Freedom of association (and rights to collective bargaining)	✓		✓	✓		✓
Safe and healthy working conditions	✓	✓	✓	✓	✓	✓
No child labour			✓	✓	✓	✓
Payment of a decent wage	✓		✓	✓	✓	✓
Non-excessive working hours	✓		✓	✓	✓	✓
No discrimination	✓	✓	✓	✓	✓	✓
No harsh or inhumane treatment	✓		✓	✓		✓
Eliminate all forms of human trafficking	✓			✓	✓	
Provide a complaints procedure/ report issues			✓			✓

Not support exploitation of children	✓			✓	
Sexual exploitation of children & adolescents					
Not allow or tolerate any child prostitution				✓	✓
Report any suspicious behaviour				✓	✓
Local sourcing & benefiting communities					
Actively purchase locally produced goods					✓
Promote local products and services to guests					✓
Provide opportunity for diverse, minority-owned businesses, including small and medium enterprises					
Suppliers should communicate the code to their employees and through their own supply chains		✓	✓	✓	✓
Monitoring & Enforcement			✓	✓	✓

Note: One of the companies Taj Hotels did not have a separately published supplier code, but they do reference suppliers in their own code of conduct. This was used in the analysis, together with the content of their CR disclosure online

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**Good Practices by Multinational
Enterprises in the Promotion of Decent
Work in the Global Tea Supply Chain**

Huw David Thomas

Study 3

Study 3

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Executive summary

Tea is the second most consumed beverage in the world and intimately connected to the global economy. The production of tea has increased dramatically over the past decade, and in recent years, increases in both the export quantity and value of tea has created a stronger link between the rural and the global economy. Four countries, in particular, constitute the production and export leaders of tea, and the commodity contributes significantly to their global domestic product (GDP) and export revenues. The tea supply chain is highly concentrated, with only a handful of companies controlling the packing, distributing and retailing of tea.

Tea is produced by both plantation and smallholder farmers, and millions of lives, especially the poor, depend upon its production. However, questions have been raised on the implications of the tea supply chain on the quantity, quality and distribution of employment. As tea production is highly labour-intensive, the tea industry has the potential to create direct employment and stimulate local enterprise and job creation in the rural economy. On the other hand, tea workers often experience decent work challenges with respect to wages, working conditions and freedom of association. Fluctuations in tea demand, supply and consequently price have had a direct impact on the promotion of decent work in this sector. Multinational enterprises (MNEs), in response to growing consumer pressure and the search for improved efficiency in a competitive market, have adopted policies and mechanisms to improve the conditions in their supply chains. These have largely taken the form of ascribing to a set of certification schemes with varying impact.

The purpose of this paper is to identify and assess good practices in the tea sector within different countries and among various MNEs. The paper concludes with a set of recommendations for the International Labour Organization (ILO) and its constituents.

Abbreviations and acronyms

CSR	Corporate Social Responsibility
DFID	UK Department for International Development
ECAM	Employers Consultative Association of Malawi
ETI	Ethical Trading Initiative
ETP	Ethical Tea Partnership
EU	European Union
FDI	Foreign Direct Investment
FFS	Farmers Field Schools
GDP	Gross Domestic Product
GPN	Global Production Network
GSC	Global Supply Chain
GUF	Global Union Federation
GVC	Global Value Chain
IDH	Sustainable Trade Initiative (Initiatief Duurzame Handel)
ILC	International Labour Conference
ILO	International Labour Organization
IPEC	International Programme on the Elimination of Child Labour
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association
KTDA	Kenyan Tea Development Agency
MNE	Multinational Enterprise
NGO	Non-Governmental Organization
PwC	Pricewaterhouse Coopers
SOMO	Centre for Research on Multinational Corporations [Stichting Onderzoek Multinationale Ondernemingen]
TAML	Tea Association of Malawi
TGB	Tata Global Beverages
UNGP	United Nations' Guiding Principles on Business and Human Rights
UNICEF	United Nations Children's Fund

1. Introduction

1.1 The tea market

Tea is the second most consumed beverage in the world, after water, and it is estimated that 25,000 cups of tea are consumed every second (Oxfam, 2015). Owing to the global demand for and consumption of tea, it is one of the most exported and imported agricultural commodities.[22] With just seven countries importing over half of the tea on the world market, the consumption of tea is highly concentrated (SOMO, 2008). Similarly, although produced by over 35 countries worldwide, four countries lead the production (and export) of tea: China, India, Kenya and Sri Lanka (see Tables 3: 1 and 3: 2). Turkey, Vietnam and Indonesia also play a major part in growing tea, as shown in **Figure 3.1**. Some 60 per cent of world tea production is consumed domestically in the producing countries (Grossman, 2011). However, in some countries, for example in Sri Lanka, Malawi and Kenya, the majority of tea produced is exported (Fairtrade, 2013b). While the UK and the USA are among the top five importers of tea, as illustrated in **Table 3.3**, more tea overall is exported to Middle Eastern, North African and ex-Soviet countries than to North American and European countries.

Tea production is a major contributor to gross domestic product (GDP) and export earnings of many countries. For example, tea accounts for four per cent of Kenya's GDP and 26 per cent of foreign export earnings (TRFK, 2011). While the tea industry in Sri Lanka has dropped to two per cent of GDP from its high of 17 per cent in the 1950, the sale of tea accounts for a massive 70 per cent of the country's total agricultural export revenues, and a significant 15 per cent of the country's total export earnings (Herath and Weesink, 2009).

Figure 3.1: The major tea producers
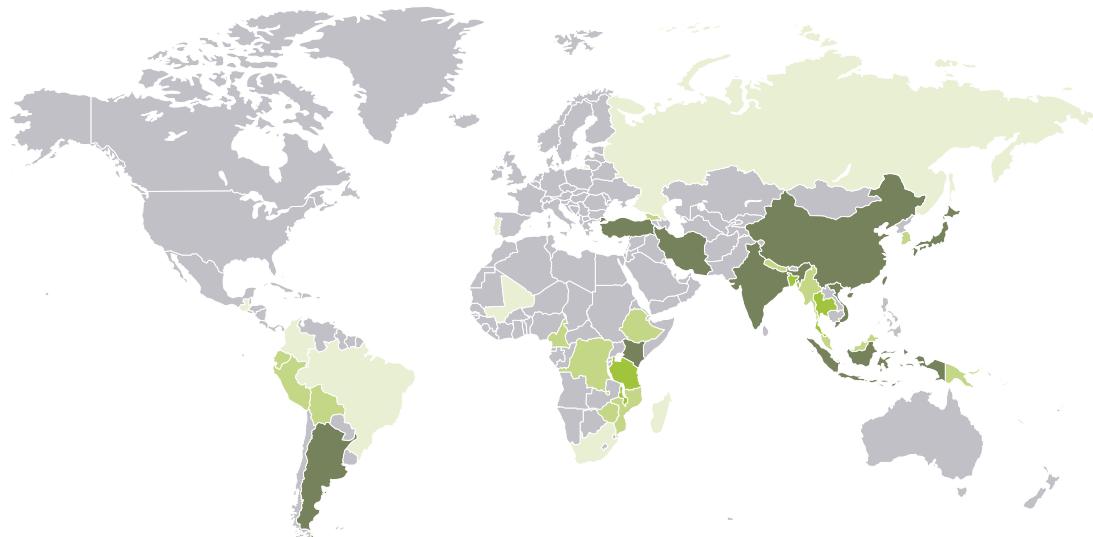
Source: IMF, 2015.

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22 Note, within the top ten countries with the largest consumption of tea, only Turkey is a major producer (Euromonitor, 2014).

Table 3.1: Top four producers of tea in 2013

Country	Production quantity (tonnes)
China	1,939,457
India	1,208,780
Kenya	432,400
Sri Lanka	340,230

Source: FAO, 2013.

Table 3.2: Top four exporters or tea in 2011

Country	Export quantity (tonnes)
China	327,650
India	322,548
Sri Lanka	321,074
Kenya	306,678

Source: FAO, 2011a.

Table 3.3: Top four importers of tea in 2011

Country	Import quantity (tonnes)
Russia	187,790
United Kingdom	154,552
United States	127,511
Pakistan	119,231

Source: FAO, 2011a.

The tea industry has seen dramatic changes over the last two decades. The production of tea has increased by 100 per cent between 2003 and 2013, reaching 5.3 million tonnes, while export quantity has increased by 66 per cent and export value by 168 per cent in the same period (FAO, 2011a; FAO, 2013). At the same time, however, producer prices have fallen dramatically. If corrected for inflation, world market prices for tea in the period from 2000 to 2005 were half what they were in the 1980s (SOMO, 2008). Between 2008 and 2012 market prices remained high but volatile, as illustrated in **Figure 3.2**. Even so, any increase in tea prices can potentially have a beneficial impact on rural communities. For example, in 2011 which enjoyed a price increase, tea export earnings paid for 51 per cent of Kenya's and 71 per cent of Sri Lanka's food import bills, respectively (FAO, 2011b). However, since early 2013 tea prices have fallen to pre-2008 levels. As production costs have remained the same, there is evidence that this, in turn, has negatively affected the working conditions and livelihoods of plantation workers and small-scale farmers in many tea producing countries (Grossman, 2011). In addition, fierce competition between producing

countries for market share to increase foreign direct investment (FDI) and export incomes creates significant incentives to decrease costs and improve productivity of tea production, which often negatively impacts the working conditions and livelihoods of millions of workers engaged in the production of tea.

Figure 3.2: Changes in Mombasa tea prices between January 2005 and January 2015 (US cents per KG)
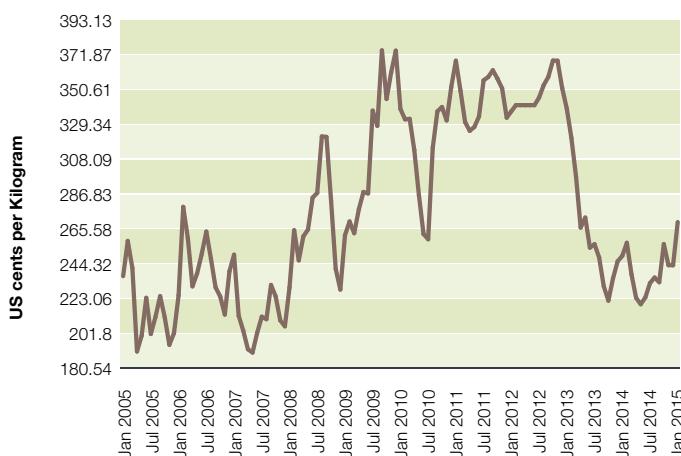
Source: IMF, 2015.

The tea supply chain remains a complex network of power and information asymmetries. That said, lead firms, primarily supermarkets and brands, retain the responsibility to respect national laws and hold the power to effect significant progress in improving the conditions of work within their supply chains. This paper is primarily tasked with identifying the decent work challenges within the tea supply chain, and identifying how multinational enterprises (MNEs) have sought to address these.

1.2 The tea global supply chain

As **Figure 3.3** demonstrates, there are multiple actors and multiple stages involved in producing, sourcing, distributing and bringing tea to the market. The tea supply chain begins in the rural economy where tea is produced by a combination of large-scale plantations, including those owned by MNEs, and smallholders. Plantation systems typically employ both permanent and temporary waged workers. Labour agencies may also employ workers on a "no work, no pay" basis (TUC, 2009). The proportion of tea produced by smallholders differs from country to country but the smallholder sector is growing.

Unlike many other agricultural commodities, tea is not always bought privately but is predominantly (70 per cent) bought and sold through auction houses in the main cities of tea producing nations (Lines, 2006). Brokers determine the price of tea by communicating the present supply and demand. Unlike the coffee auction, there is no single price for tea and the price fluctuates from day to day (Grossman, 2011). A few firms dominate the sales of auctioned tea. The largest tea broker in the world is J. Thomas & Co. Pvt. Ltd., which handles 200 million kilograms of tea annually (J. Thomas & Co. Pvt. Ltd, 2011).[23]

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23 3.7 per cent of the world production of tea.

Figure 3.3: The tea supply chain
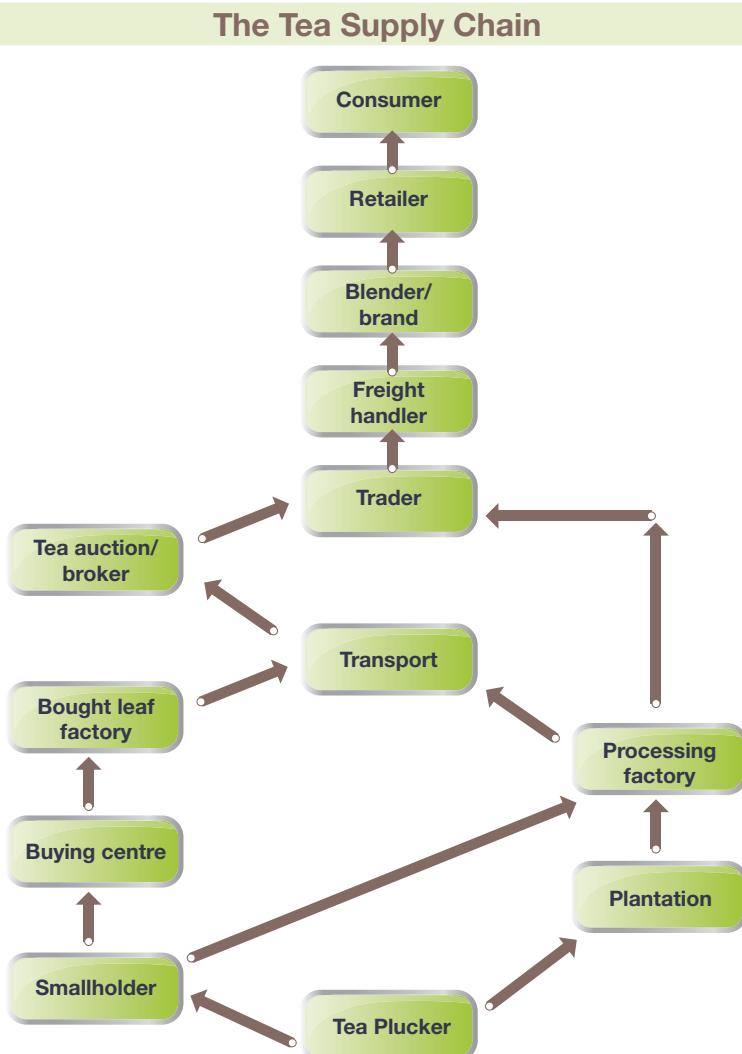
Source: adapted from SOMO, 2008.

With the growth of supermarkets in Europe and North America, the tea supply chain dramatically changed. This shift led to "a centralization of tea buying, increased buying by individual companies and the bypassing of wholesalers through direct links between the tea buyers and the tea packers" (Grossman, 2011). The tea supply chain of today can be best described as a buyer-producer chain, where the lead firms are the final buyers (Gereffi and Korzeniewicz, 1994). Whilst retaining its complexity, it has become more vertically and horizontally integrated and streamlined as MNEs seek ways to reduce costs. Rather than an 'arms-length' relationship, there are now direct links between producers and retailers (Dolan and Humphrey, 2004).

MNEs in the sector typically fall into two categories: retailers such as Asda (Walmart) and Tesco; or brand-owners such as Unilever and Tata Global Beverages (TGB). The control of the tea industry is highly concentrated; only a handful of MNEs control the tea supply chain in terms of producing, packing, trading and retailing. Some 85 per cent of the global production of tea is sold by MNEs (CBI, 2011), and the main packers such as Unilever and TGB are major players in the consumer market (Grossman, 2011). The three biggest brand-owners control one fifth of the market – Unilever (12 per cent), TGB (4 per cent) and Associated British Foods (3 per cent) – and have a

dominant position in the supply chain due to their vertical and horizontal integration (Grossman, 2011). As a result, individual producers and workers have very little say over the conditions of trade and consequently the conditions of work.

The downstream stages such as retailing and branding are the most profitable. Apart from plucking and processing, most of the value generated from the production of tea happens outside of the producing country.[24] Thus, the most 'lucrative' aspects of the tea supply chain happen within advanced economies where the MNEs are based. Producing countries often export tea as a bulk good without branding or packaging it, missing out on potentially lucrative revenues.[25] In addition, given that the majority of tea is blended, combining both higher and lower quality teas, traceability can be difficult in the tea supply chain.

The terms of trade between retailers and suppliers in tea supply chains are intimately connected to the working conditions at the plantation level. Currently, the promotion of decent work has been impacted by various conditions, including, just-in-time ordering, the threat of supply switching or termination, and consumer pressure for favourable conditions.

2. Decent work in the global tea supply chain

2.1 Employment

Worldwide, the tea sector provides millions of jobs and contributes significantly to people's livelihoods, especially the rural poor who rely upon the production of tea. One source estimates that 13 million people globally are engaged in the production of tea, of which 9 million are smallholders (IDH, 2011). Others estimate that the leading production and export countries (i.e. China, India, Kenya and Sri Lanka) alone employ some 13.3 million workers, as illustrated in **Table 3.4** (ETP, 2011; TCC, 2010). In India, for example, tea is a major employer and gives direct employment to over 1.3 million workers. Due to the scale of casual or temporary workers, this figure increases to ten million (Kadavil, 2007). This is the case in most economies producing tea, and hence employment figures are either hard to come by or grossly underestimated. In Sri Lanka approximately one million people are dependent on the tea industry for their livelihood and the majority of these are smallholder farmers (Achter, 2014). Estimates suggest there are roughly three million tea workers in Kenya alone (ETP, 2011).

Although global demand has meant that many of these jobs are linked to global supply chains (GSCs), these jobs can be insecure and temporary at best.[26] While some permanent workers for key suppliers gain in terms of pay and benefits, companies supplying global buyers frequently reduce costs by employing temporary or casual

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24 It is estimated that tea brands and retailers capture 86 per cent of the value added, compared to 7 per cent for the producing country (War on Want, 2010).

25 Sri Lanka's Ceylon tea, however, has its own brand and international recognition and often commands a higher price premium.

26 The ILO estimates that one in five jobs are connected to GSCs (ILO, 2015).

workers on their plantations and outsourcing work to smallholders whose working conditions are considerably poorer (UNCTAD, 2013a).

Table 3.4: Smallholder and plantation employment in the largest tea producing nations

Country	Smallholder-plantation ratio	No. tea workers (estimate)
China	80-20	8 million
India	27-73	1.3 million
Kenya	60-40	3 million
Sri Lanka	65-35	1 million

Source: TCC, 2010 and ETP, 2011.

2.1.1   Decent work deficits

The conditions of work on plantations and smallholder farms are often the same although differences exist, as compared in **Table 3.5**.

Table 3.5: Overview of decent work challenges

	Plantation Workers	Smallholder Farmers
Social Issue	■ Low representation ■ Poor living conditions ■ Fluctuations in working hours ■ Gender discrimination ■ Child Labour	■ Low representation/ organization ■ Reliance on tea as a livelihood ■ Excluded from labour law ■ Child labour
Economical Issue	■ Low wages ■ High levels of casual employment ■ Uneven value distribution ■ Fluctuations in demand	■ Low productivity ■ Uneven value distribution ■ Low prices

Source: adapted from Grossman, 2011.

Tea, being a global commodity, is susceptible to changes in demand that can have a dramatic impact on conditions on the ground in producing areas. For smallholders and plantation workers at the bottom of the supply chain, these fluctuations in demand can be particularly harmful. "This effect is further exacerbated by lags between demand fluctuations and order fluctuations, resulting in greater variation upstream in the supply chain with negative consequences on suppliers in developing countries, a phenomenon referred to as the 'bullwhip effect'" (UNCTAD, 2013a). In India, TGB's decision to withdraw from its plantation operations coincided with a drop in producer prices for processed leaf, which led to the closure of plantations and to

hunger, malnutrition and even starvation of many plantation workers and their families (Columbia, 2014). In Sri Lanka, the combination of high labour costs and the low price of tea have threatened the sustainability of the industry.

At the same time, the tea sector has an important role to play in stimulating local enterprise and upstream job creation through tangential work. In particular, as tea must be processed within 12 hours of plucking, jobs are created further upstream, such as in oxidation or drying, once the crop is harvested. Thus, if the tea sector is properly managed, "it can create forward and backward linkages with the rest of the economy, thus becoming an engine of broader-based growth" (ILO, 2014).

Tea does not just create employment for large-scale plantations but also constitutes an important source of livelihood for smallholders. For example, in Kenya, smallholders provide 'bought leaf' for processing to the factories of the bigger regional plantation companies and often contribute 60 per cent of the tea that is processed (SOMO, 2008). In Sri Lanka, of total tea production of 340 million kg in 2013, smallholders' contribution was estimated at 248 million kg (Perera, 2014).

2.2 Working conditions

2.2.1 International labour standards

International labour standards are generally applicable to all tea workers, whether they are waged workers, temporary, casual or seasonal workers, tenants, sharecroppers, owner-occupiers, self-employed, smallholder or family farmers, micro-entrepreneurs or vendors. Yet where tea workers are included in the scope of protective legislation, the law is often not applied in practice either due to the precarious nature of the employment relationship or a labour inspectorate ill-equipped to ensure application of the laws due to the challenging specificities of rural work (ILO, forthcoming[a]). The ILO has drawn up and oversees a number of Conventions relevant to the tea sector, as demonstrated in Table 3.6, however its ratification remains limited. Due to the significant number of plantation workers, the Plantations Convention, 1958 (No. 110) in particular is one of the most relevant and authoritative instruments, although ratification remains limited in tea producing nations as illustrated in Table 3.6. It is worth noting that in some countries the tea plantation sector has adequate labour legislation. For example in India, the Plantations Labour Act obliges employers to provide social services to their workers and their families free of charge within the estate, including free housing, drinking water, medical services, education, childcare facilities, canteen and recreational facilities.

Table 3.6: Ratification of agriculture-related conventions (fundamentals are highlighted)

Convention	China	India	Kenya	Sri Lanka
Abolition of Forced Labour Convention, 1957 (No. 105)		✓	✓	✓
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	✓	✓	✓	✓

Convention	China	India	Kenya	Sri Lanka
Employment Policy Convention, 1964 (No. 122)	✓	✓		
Equal Remuneration Convention, 1951 (No. 100)	✓	✓	✓	✓
Forced Labour Convention, 1930 (No. 29)		✓	✓	✓
Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)	✓			✓
Indigenous and Tribal Peoples Convention, 1989 (No. 169)				
Labour Inspection (Agriculture) Convention, 1969 (No. 129)			✓	
Labour Inspection Convention, 1947 (No. 81)		✓	✓	✓
Migrant Workers Convention, 1975 (No. 143)			✓	
Migration for Employment Convention (Revised), 1949 (No. 97)			✓	
Minimum Age Convention, 1973 (No. 138)	✓		✓	✓
Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99)			✓	✓
Plantations Convention, 1958 (No. 110)				✓
Right to Organize and Collective Bargaining Convention, 1949 (No. 98)			✓	✓
Rural Workers' Organizations Convention, 1975 (No. 141)		✓	✓	
Safety and Health in Agriculture Convention, 2001 (No. 184)				
Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)	✓	✓	✓	✓
Worst Forms of Child Labour Convention, 1999 (No. 182)	✓		✓	✓
Total	7	8	14	12

Source: NORMLEX, 2015.

2.2.2 Wages

Within labour-intensive sectors such as tea, MNEs have significant buyer power to reduce costs and put downward pressure on wages, considering labour costs make up a significant proportion of the final retail cost to consumers (UNCTAD, 2013a). Labour costs make up 55 to 73 per cent of tea production costs (Grossman, 2011) and pickers represent 75 per cent of this cost (Lines, 2006). Stricter demands from buyers may force suppliers to extract the largest economic rents from their workforce. As a result, many plantation workers do not receive a living wage even when fair trade initiatives are in

place (ETP and Oxfam, 2013). Tea pluckers in Assan, India, on average make just £1 a day (ETP and Oxfam, 2013) and even in Sri Lanka, where labour costs are among the highest in the tea supply chain, workers make on average £2.90 a day. Although tea plantations tend to conform to minimum wage legislation, it is often far removed from the living wage.[27] This, in some cases, is compounded by specific agriculture or 'estate' legislature which can often set wages below even the minimum wage.

Wages are increasingly important on plantations due to the workers' need to support their households and dependents who often reside on the plantation. In many countries, large scale plantations in particular have often benefitted from migrant and low-cost local labour. Piece-rate pay can also circumvent national minimum wage standards. To address these issues, basic cash wages can be supplemented by bonuses, allowances and in-kind benefits such as medical care, transport or housing, which are common within the tea industry (ETP and Oxfam, 2013).

2.2.3 Working hours

Working hours in the tea sector can be excessive. Firstly, although tea can be produced year-round, it requires a quick turnaround; tea leaves must be plucked and processed within 12 hours. In Malawi the tea industry experiences sharp spikes in production during the rainy season. In these cases, working hours often become excessive (Grossman, 2011). Secondly, tea workers are often paid piece-rate and thus are incentivised to work longer hours to increase their incomes.

2.2.4 Occupational safety and health

Tea workers often work within close proximity to agrochemicals and are often inadequately trained to deal with the associated risks. They often apply these chemicals without any type of personal protective equipment (SOMO, 2011). Picking and pruning is also physically demanding and workers often suffer long-term back pain (SOMO, 2008). In general, tea workers' access to health care facilities is also poor (Besky, 2008).

2.2.5 Freedom of association, collective bargaining and social dialogue

Unionization in the tea sector is typically very low and rural workers' organizations are often weak and fragmented. Workers and their representatives often lack the leverage and organization needed to engage their partners in collective bargaining and social dialogue (Riisgaard and Hammer, 2011). Even when industrial action takes place, it can be met with hostility by the government and plantation owners.[28] Organizations in the tea sector also lack the capacity to effectively bargain for their members, especially when the workforce is made up of casual labour, which exacerbates effective social dialogue. However, tea workers' organizations are key players in highlighting the specific needs of tea workers who are often dependent on their work relationship for housing, education for their children, transport and other services (ILO, forthcoming[a]).

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[27] In the ILO conception, a minimum wage should meet the basic needs of workers and their families and therefore, in theory, be a 'living wage'. Analysis produced by the ILO in 2009 suggested that minimum wages remain low in absolute terms, "In 50 per cent of countries the minimum wage is set at less than $250 PPP per month" (ILO, 2009a).

[28] For example, on an Assam tea plantation owned by TGB, protests in 2010 about the death of a worker who collapsed while spraying pesticides were quelled by police, leaving two protesters dead and 15 injured (The Ecologist, 2011).

Wages are much higher on plantations in Sri Lanka, for example, than those of competitors from India and Kenya, because, in addition to several labour laws covering the rights of workers, the workers are entitled to enter into a collective agreement with the employers (ILO, forthcoming[b]).

2.2.6 Child labour and forced labour

There were not many cases of forced labour reported in the tea sector although some have suggested that there are reliable indications (Menon, 2014; Kara, 2010). Child labour and the trafficking of children has been linked to the production of tea (Chamberlain, 2013). One report stated that there were 40,000 children working on Ugandan tea plantations (The Ecologist, 2013). In Indonesia it has been reported that children aged 13-15 work on tea plantations (SOMO, 2008). In 2002, the International Programme on the Elimination of Child Labour (IPEC) conducted an assessment of tea estates in Tanzania, and found that children were working on average eight hours per day, were working without proper protective clothing, and were exposed to toxic herbicides (IPEC, 2004). The report also found the sexual harassment of girls took place (IPEC, 2004).

2.2.7 Discrimination

By and large, the majority of tea pluckers are women (75-85 per cent) and gender discrimination remains an important challenge (McLennan, 2011). Men take up the roles of pruning, applying agrochemicals, hauling or managing. SOMO (2011) showed that because of the predominance of men in managerial positions women were discriminated against in terms of promotions and benefits. Women may also face legal or practical disadvantages relating to access to adequate training, credit, land and the various goods and services necessary for the exercise of their occupation (ILO, forthcoming[a]). Vulnerable groups such as ethnic minorities, migrant workers and indigenous and tribal peoples may also be subject to exploitation and discrimination, including low wages and hazardous working conditions (ILO, forthcoming[a]).

3. Good practices by MNEs in promoting decent work

3.1 Buyer characteristics in the tea industry

MNEs play a significant role in the tea industry. They operate at two junctures in the supply chain, either through the retailing of goods, or as brands/brand-owners. As an example, **Figure 3.4** details the most prominent MNEs engaged in the tea sector and the retailers in the UK. These MNEs are also often major players in other countries in Europe, Asia and the Middle East.

Figure 3.4: Overview of the main MNEs engaged in the tea sector

Producing and processing	Trade	Blending and packaging	Retailing
Unilever	Unilever	Unilever	Sainsbury's
TGB	TGB	TGB	Morrisons
McLeod Russel	Van Rees	Associated British Foods	Tesco
James Finlay	Consumer	Apeejay	Asda
John Keels			
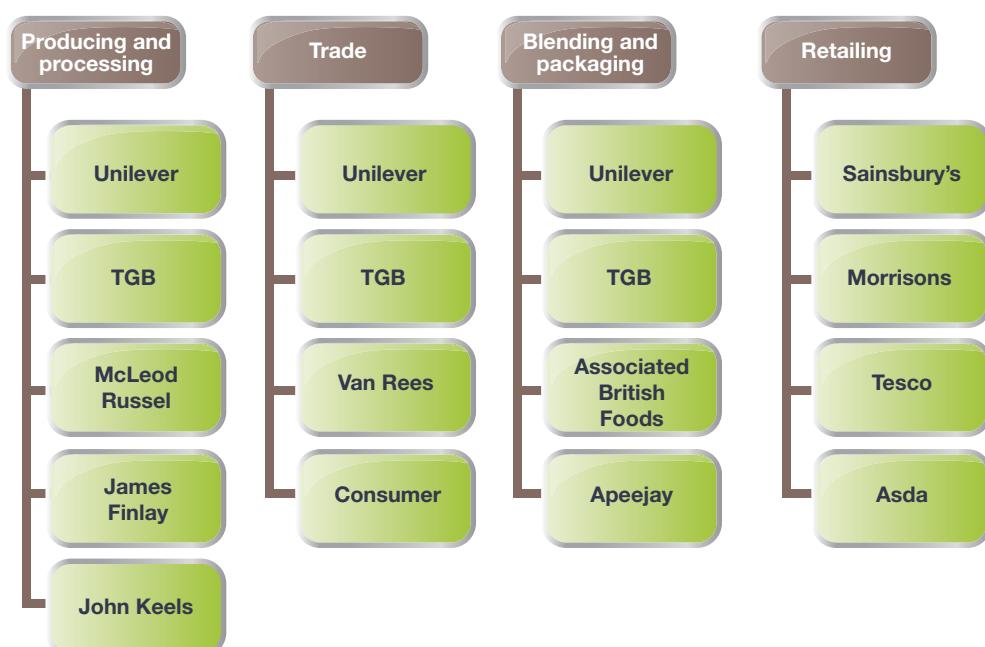
Source: adapted from Grossman, 2011.

Many MNEs have developed corporate social responsibility (CSR) practices,[29] primarily in the form of codes of conduct for producers. Theses CSR practices are in response to growing pressure and expectations that they be not only responsible for their own operations but also for labour practices of their trading partners, including suppliers, logistic providers and intermediaries, many of them operating in countries with important governance gaps (Van Tulder et al., 2009). There is a growing public awareness in industrialized countries of the social, economic and environmental issues associated with tea cultivation. Consequently, there is increased interest in the working and living conditions of the workers who produce tea.

Demands and standards from tea buyers can help improve health and safety, facilities, and storage. The tea supply chain can contribute to the dissemination of knowledge

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29 CSR can be defined as "commitment of business to contribute to sustainable economic development - working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development" (ILO, 2009b).

and productive technologies across economies at different stages of development, thereby improving performance and productivity (UNCTAD, 2013b). Linking producers to GSCs will aid the transition from smallholder to market-oriented production and this could lead to a rise in incomes and incentives to invest in agriculture, with a positive impact on productivity, output, food security, and other sectors (ILO, 2011).

While GSCs can lead to significant employment creation they can also affect different aspects of the quality of jobs, such as wages or the nature of work contracts. In other words, economic benefits do not automatically translate into benefits for workers (ILO, 2015). As the World Economic Forum (2015) notes, "many companies struggle to balance a commitment to ethical working conditions over managing multiple value chain partners and remain competitive in the process".

3.2 Multi-stakeholder roundtables

In the tea sector there are several global governance initiatives such as multi-stakeholder roundtables to improve the working conditions of tea workers. Unilever, along with Finlays, was the first to establish the Tea 2030 forum that discusses the most pertinent issues affecting the tea industry in the coming decades, including issues related to wages and working conditions. The Forum also includes organizations such as the Ethical Tea Partnership (ETP), Fairtrade International and the Sustainable Trade Initiative (IDH), however, governments, trade unions and employer associations are absent. Although the coalition is very young, running its first projects in 2011, there have been very few visible or concrete actions produced by the coalition. A report produced in 2015 details the potential future of the global tea industry, including different scenarios on what the tea sector might look like in 2030, as well as a series of recommendations, including promoting the work on living wages and gender equality. The report and its recommendations were based on desk research, interviews and several industry-wide workshops (Forum for the Future, 2015). ETP has also begun organising an annual conference that has become the premier sustainability event for the tea sector worldwide.[30]

In addition, another industry-wide coalition was established in 2011, including companies such as Unilever, TGB, Associated British Foods, Tesco and Marks & Spencer. Working with Oxfam, ETP established that wages were far below the living wage standard in the tea plantations surveyed. The coalition is now tackling these issues in Malawi first with the expectation to apply the lessons learned to other countries (ETP, 2014). This effort includes working closely with the Malawian producers, Ministry of Labour, tea buyers and retailers, wage experts, unions, certification organizations and non-governmental organizations (NGOs) to assess its impact and the way forward (ETP, 2014).

3.3 Certification schemes

The most common forms of CSR in the tea industry are certification schemes. Certification schemes normally establish standards that fall under three pillars: economic, environmental and social sustainability. Certification means a third party assesses the extent to which a company is complying with a set of predetermined criteria. They are particularly common in consumer-facing goods, such as tea, as they

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30 See http://www.ethicalteapartnership.org/team-up/

allow the brand companies to display the certification logo on their packaging as a form of product differentiation, once their products have met the standards set out in the certification.

The market share of certified teas was one per cent in 2007 and had risen to 12 per cent by 2012, with Rainforest Alliance certified tea experiencing the largest growth (Potts et al., 2014). The impressive growth in certification, expected to rise to 80 per cent of global tea exports by 2020, is a result of commitments to sourcing certified tea by the large tea brands in European countries. As Potts et al., (2014) state, "One of the advantages of the highly concentrated structure of the market has been the ability of major companies to transition supply to standard-compliant sources relatively rapidly".

This section will examine the various certification schemes that have emerged in the tea sector and further proceed to highlight how MNE's have attempted to improve the conditions of work in their supply chains. **Table 3.7** details the various certification schemes and their link with the international labour standards, in particular ILO Fundamental Conventions.[31]

Table 3.7: International labour standards and certification schemes

Certification scheme	Link with international labour standards
Ethical Tea Partnership	Fundamental Conventions along with: Safety and Health in Agriculture Convention, 2011 (No. 184); and Indigenous and Tribal Peoples Convention, 1989 (No. 169).
Fairtrade	The Hired Labour Standard is based on the Fundamental Conventions along with: the Plantations Convention, 1958 (No. 110); the Migration for Employment, 1949 (No. 97); the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143); the Workers' Representatives Convention, 1971 (No. 135); the Rural Workers Organizations Convention, 1975 (No. 141) and its accompanying Recommendation; the Protection of Wages Convention, 1949 (No. 95); the Social Security (Minimum Standards) Convention 1952 (No. 102); the Employment Injury Benefits Convention, 1964 [Schedule I amended in 1980] (No. 121); the Medical Care and Sickness Benefits Convention, 1969 (No. 130); the Maternity Protection Convention, 2000 (No. 183); the Workers' Housing Recommendation, 1961 (No. 115); the Occupational Safety and Health Convention, 1981 (No. 155); Safety and Health in Agriculture Convention, 2001 (No. 184) and its accompanying Recommendation; the Medical Examination of Young Persons (Industry) Convention, 1946 (No. 77); the Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946 (No. 78); and the Welfare Facilities Recommendation, 1956 (No. 102).

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31 The Fundamental Conventions are as follows: Freedom of Association and Protection of the Right to Organize, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182); Equal Remuneration Convention, 1951 (No. 100); and Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

Certification scheme	Link with international labour standards
Rainforest Alliance	Fundamental Conventions along with: Safety and Health in Agriculture Convention, 2011 (No. 184); and Indigenous and Tribal Peoples Convention, 1989 (No. 169).
UTZ Certified	Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour, 1999 (No. 182); Forced Labour Convention, 1930 (No. 29); Abolition of Forced Labour Convention, 1957 (No. 105); Freedom of Association and Protection of the Right to Organize, 1948 (No. 87); Right to Organize and Collective Bargaining Convention, 1949 (No. 98); Hours of Work (Industry) Convention, 1919 (No. 1); Protection of Wages Convention, 1949 (No. 95); Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

Source: NORMLEX, 2015.

3.3.1   Ethical Tea Partnership

The Ethical Tea Partnership (ETP) is an NGO working with tea companies at each end of the supply chain to improve working conditions. It is a non-commercial alliance between 37 tea companies including household names such as Twinings, Tesco and Tetley. It works with the key certification agencies such as Fairtrade, UTZ Certified and the Rainforest Alliance. It also monitors tea estates in China through Pricewaterhouse Coopers (PwC) (IOE, 2006). However, there is a dearth of representation from the tripartite constituents. ETP works directly with producers through a network of regional managers based in India, China, Indonesia, Kenya, Malawi and Sri Lanka. The ETP Global Standard, which all their members must report on annually, includes a list of fundamental principles, which make a direct reference to the ILO's Decent Work Agenda, as illustrated above in **Table 3.7**. In addition, it includes other aspects such as monitoring and evaluating as well as implementing training and improvement programmes.

Box 3.1:
Case Study: Malawi 2010

Ethical Tea Partnership (ETP) in partnership with the Fairtrade International and the Sustainable Trade Initiative (IDH) have recently introduced a revitalization programme for the Malawi tea industry, working towards a living wage. This programme is based on a number of initiatives in the country over the last five years, with the aim of achieving the following outcomes by 2020:

- An industry investing in its future and its workforce;

- Significant improvement in wages and benefits for workers;

- Improvements in smallholder farming practices, yields, quality, income and income diversification;

- A healthier, motivated and productive workforce, with greater opportunities for women; and

- An improved wage-setting process with greater worker representation.

The project attributes its success to the commitment of all the key partners including all the Malawi tea producers who are organized through the Tea Association of Malawi (TAML). To date, work has focused on increasing the quality of tea produced by smallholders to help improve their incomes; building the capacity of the trade unions; engaging with the Malawi Government to improve the wage-setting agreements; and establishing a process for monitoring the real wages and benefits compared to the living wage. Tea plantations have made significant progress in recent years to improve the wages in the sector, since the initiative started, as illustrated below.

TAML basic wage in Kwacha. January 2004-2014

Source: Correspondence with ETP
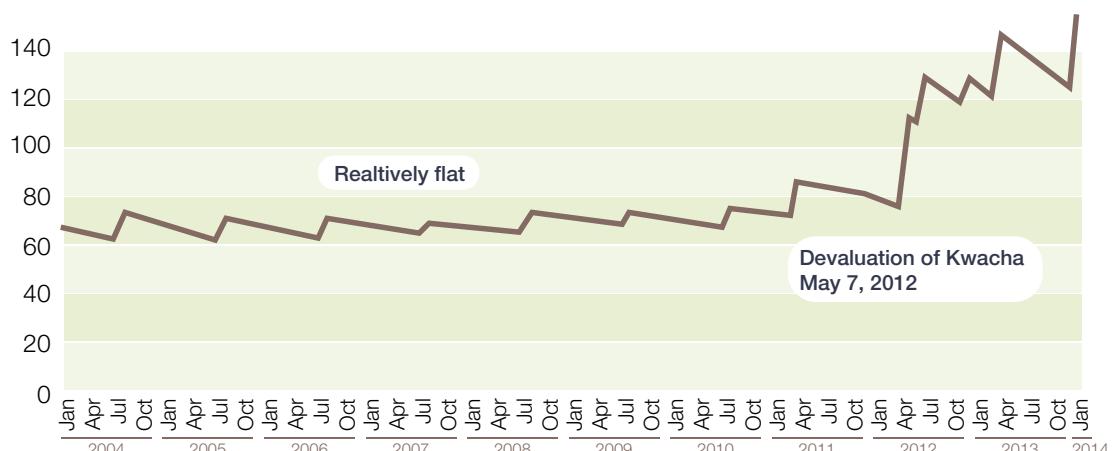
Source: Correspondence with ETP.

3.3.2 Fairtrade

Fairtrade has become one of the most popular certification systems for agricultural commodities. As **Table 3.8** illustrates, many British brands and supermarkets have committed to sourcing their tea from Fairtrade certified plantations. Under the Fairtrade system, tea employers have to comply with Fairtrade's Standard for Hired Labour, which requires that workers are paid at least the country's minimum wage, have safe living and working conditions, and adhere to minimum environmental criteria. The revised Standard for Hired Labour strengthened the criterion that requires employers to actively promote Freedom of Association.

Instead of paying a minimum price to the producer, a premium is paid to what is called the "Joint Body" of each tea plantation, to be spent on community development (Oxfam, 2015). The Joint Body is comprised of representatives of the workers and of management who democratically determine how the money is spent (Oxfam, 2015). That said, Fairtrade certification has attracted some criticism in terms of workers involvement in the programme. Besky (2008) showed that Fairtrade certification in Darjeeling tea plantations was hardly known to the workers and that worker representatives did not manage the premiums.

3.3.3   Rainforest Alliance

Rainforest Alliance is the most dominant system of private certification as it is used by the three market leaders, Unilever, TGB and Associated British Foods (Rainforest Alliance, 2011). The Rainforest Alliance certification includes environmental, social and economic standards with a special emphasis on wildlife, workers and the local environment. Similar to other certifications, its standards include reference to ILO Conventions. Rainforest Alliance certifies the largest amount of tea produced of all the certification schemes and has experienced the most growth. It is also becoming a precondition for many tea plantations to access Western markets.

The Rainforest Alliance certification has been criticized though as "a less expensive way for companies to answer consumers' concerns about sustainability than to achieve Fairtrade certification" (Nicholls and Opal, 2005). It calls for the lowest baseline of standards compared to the other certification standards. In order to receive the Rainforest Alliance label as little as 30 per cent of the product is guaranteed to be sourced from Rainforest Alliance-certified farms or plantations. By comparison, Fairtrade requires 100 per cent of the content to be officially certified in order to be able to use the programme's label.

3.3.4   UTZ Certified

UTZ is an industry-producer partnership that includes a certification programme in the tea sector launched in 2007. It aims to provide an assurance of responsible sourcing by ensuring that UTZ certified producers comply with the UTZ Code of Conduct, which includes standards based on relevant ILO Conventions (as illustrated in **Table 3.7**). In addition, producers are required to meet the living wage, which is defined per country and/or per region.[32] Working hours must not exceed 48 hours a week and workers are required to have one day off after six days of work and at least one 30-minute rest break after five hours of work (for more information see UTZ, 2014). Monitoring is achieved through independent auditors that check producers annually. As with Rainforest Alliance, UTZ certification does not guarantee a minimum price for the crop, and fewer ILO Conventions are included in its code of conduct.[33]

4. MNEs and their supply chains

MNEs have recently taken a more vested interest in promoting decent work in their supply chains, driven in part by greater consumer concern for sourcing conditions, and the damage that labour rights problems can have on their 'brand reputation' (IOE, 2006). Due to the concentration of MNEs in the sector and competition among them, changes in one company often push others to follow suit. For example, when Unilever committed to sourcing all their Lipton branded tea from Rainforest Alliance certified plantations by 2015, it sent a message to its competitors that certification was now a market reality. TGB responded by committing to sourcing all its tea from

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32 "The Living Wage is the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events" (UTZ, 2014).

33 Importantly, the Equal Remuneration Convention, 1951(No. 100) is not included.

certified plantations by 2016 (Murray, 2013) and Associated British Foods copied Unilever's sourcing commitment. Implementation of these agreements involves not only a commitment to source tea applying decent work principles (such as those in relevant ILO Conventions), but also an investment in capacity building so that the supply of tea from decent sources is maintained and improved (Potts et al., 2014). However, capacity building is still lacking in the tea sector. **Table 3.8** offers an initial summary of the sourcing commitments of several large MNEs operating in the tea sector.

Table 3.8: MNEs and their sourcing commitments

MNE	Sourcing commitment
Unilever	- 100 per cent Rainforest Alliance certified Lipton branded tea by 2015 - All of its tea Rainforest Alliance certified by 2020
Tata Global Beverages	- 100 per cent Rainforest Alliance certified Tetley tea by 2016
DE Master Blenders	- 50 per cent of tea from UTZ certified
Apeejay	- Committed to adhering to the ETI base code
Finlays	- 100 per cent Fairtrade certified
Associated British Foods	- 100 per cent Rainforest Alliance certified tea by 2015
Taylors of Harrogate	- 100 per cent Rainforest Alliance certified tea
Café Direct	- 100 per cent Fairtrade certified

Source: company websites.

4.1 Unilever (Lipton, PG Tips)

Unilever is the world's largest tea manufacturer and has, in the last decade, put in place mechanisms to promote decent work in the sourcing of its tea. Unilever established its first set of good agricultural practice guidelines in 1998 (Grossman, 2011). In 2006, Unilever began the process of creating a massive consumer-facing initiative as a way to improve product differentiation (Potts et al., 2014), which included eliminating the use of pesticides to improve the health and safety of tea workers in their supply chain. By investing in suppliers, Unilever has also chosen to produce their own tea rather than buy it through the auction system. In addition, along with IDH, Fairtrade International, the Rainforest Alliance, UTZ Certified, Oxfam and ETP, Unilever has supported work on investigating the causes of poor wages and ways to improve them (ETP and Oxfam, 2013).

Unilever has committed to sourcing all of its Lipton branded tea from Rainforest Alliance certified plantations by 2015, and has committed to selling 100 per cent Rainforest Alliance certified tea by 2020. As of 2013, 39 per cent of the tea purchased for all of Unilever's brands is Rainforest Alliance certified, and 75 per cent of Lipton tea bag blends contain Rainforest Alliance certified tea (Potts et al., 2014).

Unilever employs some 12,500 permanent workers in Kericho, Kenya and up to 4,000 seasonal workers during peak periods, with up to 50,000 people living in company villages on the plantations. The plantations are Rainforest Alliance certified and

Unilever provides free health care and housing, transport allowances, and paternity and maternity leave to their permanent employees (Murray, 2013). In 2009, the plantations also won an award for their HIV/AIDS education, prevention treatment and care programmes (Murray, 2013). However, the dependants of casual workers are charged a fee for use of housing and medical benefits (KHRC, 2008). Workers are paid approximately two and a half times the national minimum wage, wages are the same for both permanent and seasonal workers and, to deal with fluctuations in picking, rates are paid on a monthly basis.[34] Unilever provides nursery, primary and secondary school education for all workers and their registered dependents, clean drinking water is made available to all, and meals are provided during working hours free of charge.[35]

> ## Box 3.2:
> ## Case Study: Skills development in Unilever's supply chain
>
> The Kenyan Tea Development Agency (KTDA) jointly with Unilever and IDH, launched a new project in 2013 designed to develop skills and improve the conditions of work of 560,000 smallholder farmers. The aim of the project is to improve working conditions and increase productivity (by 30 per cent) through skills training towards Rainforest Alliance certification. This is achieved through Farmers' Field Schools (FFS) where farmers are trained to improve the quality of their produce and the ability to implement the sourcing practices, and includes ILO Conventions in Rainforest Alliance's code of conduct (KTDA, 2013). FFS are made up of groups of farmers who meet regularly, assisted by facilitators, to find solutions to improve their practices and to share knowledge regarding the difficulties they find in the field. In particular, these groups discuss social challenges such as gender discrimination and HIV/AIDS prevention. The FFS project has already helped 48,000 smallholders increase their yields an average of 36 per cent and succeeded in making the social changes necessary to achieve compliance with the ILO Conventions in the Rainforest Alliance standard (Greenhouse, 2014).

The conditions of work on Unilever's Kericho plantations have been questioned by the NGO, the Centre for Research on Multinational Corporations (SOMO). The SOMO study found evidence of discrimination, poor health and safety standards and hampered freedom of association and collective bargaining, even though these plantations were Rainforest Alliance certified (SOMO, 2011). However, the Rainforest Alliance found no cases of substandard working and living conditions on this plantation (Largo, 2011). In response to the report, produced by SOMO, Unilever introduced a range of additional measures including regular rotations of the plantations leaders, a free telephone and anonymous hotline, and "a welfare committee with female representation to improve liaison between workers and management on welfare issues" (Largo, 2011).

In Turkey, Unilever established the Sustainable Tea Agriculture project. Turkey is the sixth largest producer of tea in the world and one of the largest tea markets. In addition, Turkey is one of Unilever's main centres for tea production and sales, with over 15,000 farmers in three plantations based in the country (Potts et al., 2014). Unilever worked closely with its producers to ensure Rainforest Alliance certification

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34 http://www.unilever.com/Images/kericho-tea-estates-december-2013_tcm244-424953_1.pdf

35 http://www.unilever.com/Images/kericho-tea-estates-december-2013_tcm244-424953_1.pdf

by offering one on one training sessions to tea growers to help assist in meeting certification such as improvements in working conditions, training and bio-diversity. Furthermore, Unilever has plans to provide approximately 5,000 female growers with health services as part of its investment in Turkey.

In 2014, Unilever partnered with the NGO Solidaridad to help improve the lives of one million workers, many of whom are engaged with the tea industry. The partnership focuses on promoting gender equality and improving agricultural and labour practices (Solidaridad, 2014). This follows Unilever's Responsible Sourcing Policy, which was released in the same year. The 12 mandatory requirements for doing business, which existing suppliers must reach by 2015 and move to 'good practices' by 2016, recognize the ILO's Fundamental Conventions and the United Nations Guiding Principles on Business and Human Rights (UNGP).[36] In addition, the Responsible Sourcing Policy includes a 'continuous improvement ladder' where suppliers are ranked as either 'do no harm'; 'good practice'; or 'best practice'.

4.2 Tata Global Beverages (Tetley)

Tata Global Beverages (TGB) is the world's second largest tea manufacturer and is committed to sourcing all its Tetley branded tea from Rainforest Alliance sources by 2016 (Potts et al., 2014). By September 2012, the company succeeded in sourcing 50 per cent of tea from Rainforest Alliance certified sources (Potts et al., 2014). To assist in meeting the certification levels it has committed to, TGB is working with over 82,000 smallholder farmers across the major tea growing regions and states on its website:

> "The idea is to offer the tea farms the benefit of the Rainforest Alliance's expertise and enable tea producers to maintain high standards of sustainable farming practices. For farmers, the initiative brings in a more sustainable livelihood, and better access to global markets. Tetley and TGB benefit from a more robust, sustainable supply chain and the validation of their sustainability practices by an independent third party" (TGB, 2013).

TGB is also a member of the ETP although they have been criticized in the past for the late payment of wages that are below the poverty line (IUF, 2009; IUF, 2015).[37] In addition, a report by Columbia Law School found TGB tea pickers to be living and working in inhumane conditions (Columbia, 2014).

To bring attention to its Rainforest Alliance certification progress, Tata has also been promoting tea producer and consumer awareness through its Farmers' First Hand initiative (TGB, 2013). This is a Facebook-based social media campaign with nearly 500,000 'likes' that encourages a group of smallholder farmers and estate workers, who are working towards the Rainforest Alliance certification, to use their mobile phones to share aspects of their daily lives.[38]

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36 For more information see Unilever (2014).

37 According to the IUF, the goal was to "starve the workers into renouncing their elementary human rights, including their right to protest against extreme abuse and exploitation" (2009).

38 The Facebook page is available at: https://www.facebook.com/TetleysFarmersfirsthand

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Box 3.3:
Case study: Correcting decent work deficits

TGB faced severe criticisms of the conditions of work on their Indian tea plantations in 2014 (Columbia, 2014). As a response TGB commissioned Solidaridad to assess the living and working conditions of the workers at the Indian plantations and several decent work deficits were identified, and the following actions reported (TGB, 2014).

- Wages - A multi-stakeholder dialogue was being planned to discuss the value and quality of non-cash components of wages

- Unions - Estate Employee Councils (EEC's) were formed in each plantation with 50 per cent women members and the inclusion of union representatives at the meetings. It had been agreed that any major initiatives would be discussed in the EEC before implementation.

- Migration of young girls - TGB had joined a project by UNICEF and the ETP to reduce children's vulnerability to trafficking and abuse.

- Personal Protection Equipment - Improved Personal Protection Equipment (PPE) had been provided to all the workers along with the establishment of wash stations in all plantations.

Sources: TGB, 2014; Columbia, 2014.

4.3 Apeejay (Typhoo)

The Apeejay Group has had two Fairtrade certified tea plantations in India since 2009 (Apeejay, 2013). As the company states on its website: "Typhoo is also the first tea company to support Fair Working Conditions in their tea plantations in Kenya and India, with a globally benchmarked working environment and labour standards. All Typhoo suppliers are encouraged to join the Sedex self-assessment system to improve their labour standards, helping our internal teams to monitor continuous improvements" (Apeejay, 2013). According to the company, all its tea must conform to the Ethical Trading Initiative's base code, which follows the same standard in relation to ILO Conventions as ETP. In 2010, the IUF signed an access agreement with Apeejay which establishes a procedure for IUF representatives to visit and assess working conditions on Apeejay plantations (IUF, 2010a). As a response to criticism from the IUF, Apeejay agreed to implement improvements in housing, toilets and the provision of water supplies (IUF, 2010b).

4.4 Finlays

Finlays advertises itself as the largest trader of Fairtrade tea in the world (Finlays, 2011a), and, in addition, has Rainforest Alliance certified all 26 of its tea plantations in Sri Lanka (Finlays, 2013). The company has also made significant investments in education and medical services with 37 hospitals and 160 schools on their estates in Sri Lanka (Finlays, 2011b). However, in 2008, Kenyan plantations owned by Finlays have come under severe criticism, including on issues of sexual harassment and on a lack of permanent positions and wages below the living wage (KHRC, 2008). More recently, the company is reported to be working towards a living wage, as defined

by ETP, on their Kenyan tea estates (Finlay, 2013). Finlay established a project from May 2009 to July 2013, which organized smallholders in Kenya into five cooperatives allowing them to improve productivity and achieve standards set out in both Fairtrade and Rainforest Alliance certifications. The project engaged 15,000 farmers in five fully functioning co-operatives and all of these co-operatives have been certified to Rainforest and Fairtrade standards allowing them to access wider markets and improve their incomes (Finlay, 2013).

Box 3.4:
Case study: Eastern Produce Ltd. in Malawi

Mzembe et al. (2015) examined the implementation of CSR practices in Eastern Produce Malawi's (EPM) tea plantations. A failure of the Malawian government to provide basic rights raised the expectations of private companies to fill this gap. As a result, EPM introduced several CSR based initiatives, including: upholding workers' rights (based on ILO Conventions), promoting ecological preservation, and combating corruption. In addition, as they state, "we are founding members in Kenya of UN Global Compact; we are a founder member of Business Action against Corruption and United Nations Global Compact in Malawi, and we make sure that we do our business to standards required of a member of the Compact and the Business Action against Corruption". Both Apeejay (Typhoo) and ETP worked with EPM to improve the working conditions of their workers and to implement the Ethical Trading Initiative's base code.

EPM initiated its community-oriented CSR even before certification agencies and brand retailers introduced similar programs. This was partly due to their parent company's alignment with the London Stock Exchange's requirements for managing social and environmental risks. This case shows that CSR practices, and in this case a good practice, do not necessarily derive solely from external forces but can be established further down the supply chain.

Source: Mzembe et al., 2015.

4.5 Cafédirect

Founded in 1991 by Oxfam and others, as a result of plummeting coffee prices, Cafédirect is identified as the United Kingdom's leading Fairtrade hot drinks company (Ethical Consumer, 2013). Unique among the other larger brands, Cafédirect buys directly from the producers to ensure that they receive the full price. Fifty per cent of the profits are split with producers and 22 per cent of the value of a box of tea goes directly to the producers (Ethical Consumer, 2013). It works predominantly with smallholders and tea producing Organizations and 75 per cent of producers are currently shareholders of Cafédirect.

4.6 British supermarkets

Increasingly, major British supermarkets' are participating in sustainable sourcing and certification schemes. For example, Marks & Spencer is a member of ETP and has committed to sourcing all of their house brand teas from Fairtrade certified producers (Marks & Spencer, 2012). Furthermore, with support from the UK Department for

International Development (DFID), Marks & Spencer has helped the Iriaini tea factory become the first Kenyan tea factory to package at source, increasing incomes and empowering workers (Fairtrade, 2014). Both Sainsbury's and Co-operative's own brand range are now 100 per cent Fairtrade certified, as highlighted in **Table 3.8**. Tesco was the first supermarket to become a member of ETP and has recently collaborated with the United Nations Children's Fund (UNICEF) in addressing conditions in its tea supply chain. This includes:

> "equipping more than 25,000 girls with the knowledge and life skills that will help them secure a better future and reduce their vulnerability to violence, abuse and exploitation; giving more than 10,000 community members the knowledge and training to protect children from all forms of violence, abuse and exploitation; [and] working with state and district government to improve the quality of education and the effectiveness of child protection policies" (Bolton, 2014).[39]

5. Assessing the effectiveness of CSR practices in the tea sector

Research has shown that CSR has, in general, been inadequate at addressing the problems involved in GSCs (Locke, 2013). The Director-General of the ILO (2014) describes CSR as "the unwanted child of globalization, born of the inability or unwillingness of governments to subject enterprises to effective binding regulation". Critics perceive codes of conduct and other CSR practices as a 'public relations exercise' because of their voluntary nature (IOE, 2006). For example, Wirjarathna and Gajanyaka (2013) found varying impacts of CSR on Sri Lanka's tea sector. They found the practice improved productivity and the moral perception of the company, even though employees remained critical of companies' poor practices. Furthermore, there had been no beneficial impact on smallholders' social and economic development, while deficits in communications and stakeholder engagement in decision-making persisted.

Mosley (2010) found plantations owned directly by MNEs generally have improved labour rights, while plantations owned by subcontracting companies are correlated with a deterioration of labour rights. Unfortunately, in the tea sector many plantations are not directly owned by MNEs; and, as they do not always have accurate information about who their subcontractors are, implementing and monitoring standards across the tea supply chain can be difficult. This is particularly the case when the sourcing of tea is predominantly done through the auction system. As found by SOMO (2011), even if plantations are certified they can suffer severe decent work deficits.

Although the codes of conduct of MNEs in the tea sector make reference to ILO Conventions, they rely heavily on local social laws and legislations, which can be weak or poorly enforced in developing countries where tea production is most prevalent. Essentially, certification schemes remain ineffective in comparison to well-implemented national law. Particularly this concerns wages, which in each of the certification schemes rely upon minimum wages in the country rather than a defined living wage.

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39 Video available at: https://vimeo.com/107051915

Hence, certification schemes should not be seen as an alternative to effective state regulation but rather as a way to complement it. Locke (2013) illustrated how the most effective private initiatives were those that were granted legitimacy and authority by the respective government regulatory authorities. Several evaluations have concluded that increased transparency and improved capacity are key to better monitoring but are most effective if complemented by government regulation (Smith and Feldman, 2003; O'Rourke, 2003). In other words, "no private code of conduct can duplicate an entire body of national labor legislation, and no monitoring program can successfully re-create a ministry of labor with its department of workplace inspection" (Anner, 2011, p. 169).

Many MNEs have Rainforest Alliance certified their tea plantations or committed to sourcing from Rainforest Alliance sources, which is arguably the lowest baseline certification scheme in terms of labour standards. In addition, impact assessments are few and far between and thus it is difficult to establish the effectiveness of these practices (Griffiths, 2011). Certification schemes continue to be seen as an indulgence by MNEs to differentiate their products. They are expensive and only the largest MNEs can hope to implement them (Mzembe et al., 2015). As they are not universal, workers who are not in or directly employed by a MNE are excluded, which is often the case when tea is produced for domestic consumption. Griffiths (2011) claims that Fairtrade, for example, does damage to those farmers who do not belong to Fairtrade certified production. In Sri Lanka, plantation owners suggest that the standards included in many of the certification schemes were already present before certification occurred. The choice of certification schemes and lack of uniformity in the tea sector can lead to the phenomenon mocked by Supiot as 'self-service normativity' (Supiot, 2004), whereby MNEs are allowed to pick and choose which certification scheme suits their needs. In addition, certification is can be seen as 'reactionary' and used primarily as a marketing tool, as illustrated in the case study of TGB. Finally, the number and choice of ILO Conventions included in certification codes of conduct are limited. For example, UTZ Certified does not even include all the Fundamental Conventions.

There is a distinct absence of capacity building interventions by MNEs in the tea sector, and thus the tea supply chain is often characterized by an 'arms-length' relationship. As found by Riisgaard and Hammer (2011), depending on the governance structure of the supply chain, opportunities for MNEs to promote decent work can be different. The researchers suggest that effective CSR practices are more likely in a closely integrated supply chain. Lakhani et al (2013) draw similar conclusions, demonstrating that relational value chain configurations result in the most desirable employment relations configurations. Close relationships, based on capacity building, can help suppliers meet and adopt CSR standards (Mamic, 2005).

MNEs which provide support to local existing structures, such as trade unions and employers, can lead to improvements in productivity and efficiency whilst improving conditions on the ground. The ILO (2006) recommends that in determining wages and working conditions, a company should seek to bargain collectively with its workers or their representatives, in particular trade unions, in accordance with national systems for collective bargaining. MNEs in the tea sector have largely ignored the role of organized labour at the local or national level leading Unilever to state that "workers and their communities have been brutally left out of the company's 'sustainable living' plan" (IndustriALL, 2013). Therefore, one of the most important aspects of the certification

schemes should be the involvement of the relevant social partners[40] and Governments should ensure that there is a regulatory environment that allows freedom of association and collective bargaining.

Research has shown that better designed compliance efforts and capability building programmes may help improve working conditions on plantations in some situations, but they "appear unable in and of themselves to resolve persistent workplace issues" (Locke, 2013). In addition, social upgrading is typically only achieved through the engagement of multiple actors, both public and private (O'Rourke, 2006).

Multi-stakeholder initiatives have been able to bring many of the large MNEs to the same table to discuss issues pertinent to the sector. However, the dearth of representation from the tripartite constituents is alarming considering their role within the tea supply chain. However, in Malawi, ETP and IDH have been working closely with the Malawi Ministry of Labour; the Malawi Congress of Trade Unions; the Plantation Agriculture Workers Union; and the employers' associations, the Tea Association of Malawi and the Employers Consultative Association of Malawi (ECAM) in improving wages for the tea sector.[41] The IUF, for example, believes that strong, independent unions are the best 'monitors' of working conditions rather than certification schemes. As they conclude, "external audits can only provide a snapshot at best of working conditions; a union would be there every day representing workers, bargaining for improvements in pay and conditions and making sure labour legislation and international standards are applied" (IUF, 2013). Fairtrade certification in particular has been criticized for threatening to replace and erode the power of labour unions (Besky, 2008). As a result, although the practices by MNEs in the tea sector, as outlined above, have led to some improvements in working conditions, their lack of capacity building and engagement with the tripartite constituents acts as a barrier to greater results.

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40 In 2015, Fairtrade and the Swedish Trade Union Confederation co-hosted a conference on 'Fairtrade and Trade Unions: Two Movements, One Purpose?'. Go to: http://www.fairtrade.net/single-view+M5b4c13888de.html

41 Go to: www.idhsustainabletrade.com/site/getfile.php?id=497

6. Conclusions

6.1 Towards responsible retailing

The tea sector has experienced a proliferation of CSR practices and private initiatives aiming to promote decent work with varying success. Certification schemes are a significant improvement over codes of conduct by MNEs, as they ensure that auditing is done by a third party and not the company itself. However, they are far removed from the effectiveness of capacity building programmes, which are still lacking in the tea sector.

A decent tea sector can help workers in rural economies move out of poverty, improve food security, provide productive employment and contribute to the local and national economy. Smallholders, plantation employers and tea workers can benefit from fixed orders and secured employment and incomes. Brands and retailers can also benefit from increased efficiency and productivity coupled with reduced reputational risk. For consumers, decent tea means that they can continue to enjoy good quality tea in the knowledge that retailers and producers are improving living and working conditions on plantations and along the supply chain. Consumers are increasingly likely to consider a company's social and environmental commitment before deciding what to buy and where to shop and are willing to switch to brands that support a good cause (CONE, 2013). While not a substitute for appropriate legislation and enforcement of labour standards, this market-based approach to promoting decent work gives producers many opportunities for training, accessing new markets, improving efficiency, and increasing income and productivity gains (TCC, 2010).

A prevailing issue for supply chain certification schemes is engaging with smallholders to ensure they are certified and thereby benefiting from CSR practices. Most certification schemes focus on plantations rather than smallholders as these schemes are easier to establish and enforce in plantations, thereby excluding a significant number of tea producers (TCC, 2010).[42] That said, in Kenya, for example, the certification process was more comprehensive because of the involvement of local partners who were able to reach out to a wide-range of smallholders and engage them in the certification process, and because smallholders were well organized through the KTDA (Grossman, 2011).

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42 Although, as illustrated previously, Unilever has begun to extend certification to smallholders.

Figure 3:5: Regimes of global labour governance

Consumer power High

Standards markets

Complementary regimes
(standards, markets &
collective bargaining)

Labor power Low   Labor power High

Governance gap   Collective bargaining

Consumer power Low
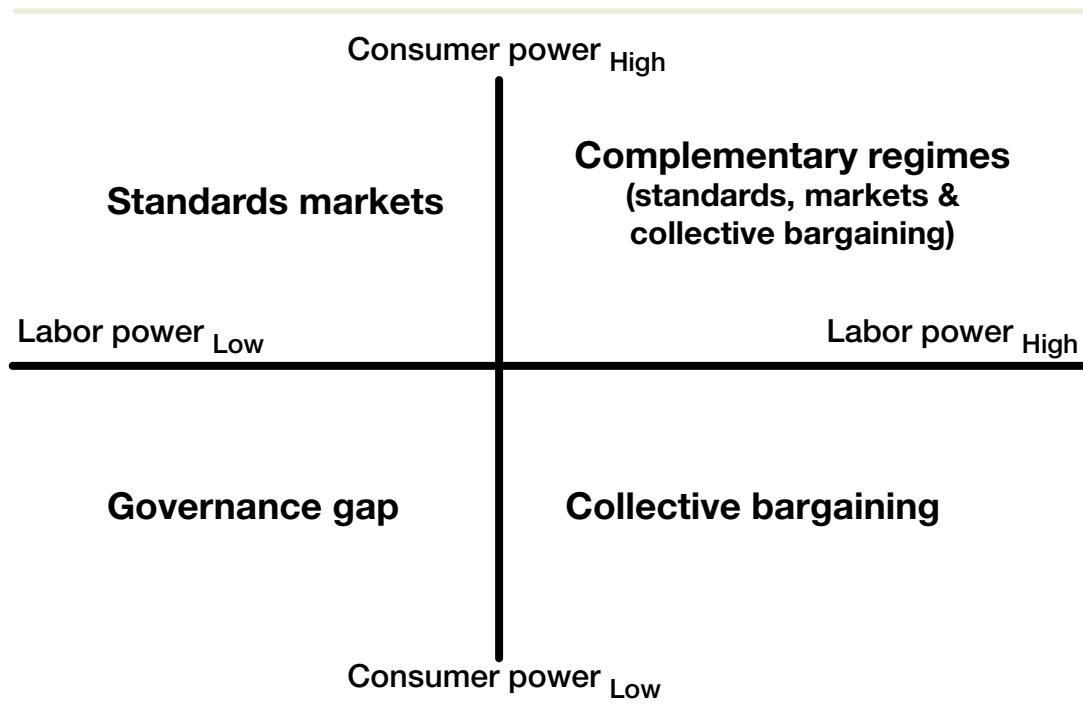
Source: Donaghey et al., 2014.

Among large tea markets, primarily due to consumer pressure, the United Kingdom has been a leader in providing good practice examples of sustainable tea sourcing.[43] Moving forward, large producers and consumers, such as China and India, need to take a more active role for certified and sustainable tea to become the norm.

Donaghey et al. (2014) suggest that consumer and labour power will result in different regimes of global labour governance, as illustrated in **Figure 3.5**. In the case of the tea sector, labour power is low but when exporting to developed nations, consumer power is high leading to the standards market which has been described above. Unfortunately, most tea production is for domestic markets where both labour and consumer power is low, leading to a governance gap. It is this governance gap which the ILO should fill by building the capacity of its tripartite constituents, leading to collective bargaining in supply chains with weak consumer power and complementary regimes in those with high consumer power.

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43 Unilever has attempted to extend sustainably sourced tea to the Indian market but has found it difficult to demonstrate sustainability in a non-branded, commodity-like, market. Market research has also shown that consumers of branded-tea in India had little interest in how the tea is produced (IDH, 2011).

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Opportunities and Challenges for the Promotion of Decent Work by Multinational Enterprises: The Freight Transport and Logistics Industry

Arran Strategy s.a.r.l.
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In today's globalized economy, transport and logistics (T and L) play an increasingly important role in value creation and national competitiveness. T and L is a substantial and growing economic sector that strongly influences the economic performance of other industries and countries within which it is based. The expansion of global supply chains has raised questions about the role of business in the global governance of social and environmental practices. The complexity and lack of visibility into multiple tiers of services providers in the T and L supply chain are associated with challenges in managing corporate social responsibility (CSR) initiatives in the sector.

Research into the social sustainability within the logistics sector is recent and limited. This study seeks to provide insight on recent developments in the logistics sector, including on the industry's increased outsourcing of logistics by large brands to specialized service providers, its connection to global supply chains (GSCs) and its working conditions. This study also includes information on social dialogue, international labour standards and opportunities for workforce skills development. The evolution of supply chain management in a context influenced by multinational logistics firms and large international buyers of T and L services (buyers) has had profound impacts for social dialogue, worker representation and working conditions in the T and L sector. Special attention should be given to the cross-sectoral nature and global dimension of logistics services and its relation to supply chains.

This report analyses CSR documentation and practices from two potential points of influence: (1) multinational enterprises (MNEs) within the T and L industry; and (2) buyers heavily relying on and purchasing T and L services. Reporting rates for logistics MNEs remain low, and when present, relate most often to addressing environmental challenges for the sector. A more limited number of logistics MNEs and Buyers also consider a wider range of issues that include labour protection issues, with safety cited most frequently. Within this context, special attention should be given to CSR and its relation to subcontracting and purchasing operations. The International Labour Organization (ILO), social partners, and other actors can provide further assistance to inform the sector about strategies to promote decent work and social dialogue in the T and L industries.

Abbreviations and acronyms

3PL	Third-party logistics
Buyers	Large international buying company, purchaser of logistics services, typically a mass retailer or brand
CLECAT	European Association for Forwarding, Transport, Logistics and Customs Services
CoC	Code of conduct
CSR	Corporate responsibility, corporate social responsibility
CTU	Cargo transport unit
EC	European Commission
ETI	Ethical Trading Initiative
Eurofound	European Foundation for the Improvement of Living and Working Conditions
FIATA	International Federation of Freight Forwarders Associations
GRI	Global Reporting Initiative
GSCs	Global supply chains
ILO	International Labour Organization
L&TCCI	Logistics and transport corporate citizenship initiative
MNE	Multinational enterprise
OECD	Organization for Economic Co-operation and Development
OSH	Occupational safety and health
SSI	Sustainable shipping initiative
T and L	Transport and logistics
UN	United Nations
UNECE	United Nation Economic Commission for Europe
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum

1. Introduction

1.1 Overview of the transport and logistics industry

Globalization has created new opportunities for growth and intensified international competition (Powell, 2001). Among determinants for foreign investment, the expected "logistics and transport responsiveness" of a country's infrastructure and services it can provide to move freight is considered important (Eurofound, 2008). Transport and Logistics (T and L) play an increasingly important role in value creation or economic upgrading within national economies and the global economy (Coe, 2014). In terms of the levels of activity and expenditure, logistics is an important growth sector in the world economy. Further, the availability and quality of T and L services strongly influences the economic performance of other industries and of the countries in which they are located.

Buyers of T and L services, typically the major international consumer retail brands and MNEs in the logistics sector depend on efficient logistics as a key strategic tool to expand markets and maximise profits (Powell, 2001). Transport, forwarding and logistics companies constitute a vital link in global supply chains (GSCs) (Kawa and Marynak, 2015).

Logistics can be defined as the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements (Council of Logistics Management, 1986). Other definitions describe logistics as the management of global supply chains (UNCTAD, 2006) or the process of designing and managing the supply chain (UNECE, 2010). Supply chain management patterns, through the choice of warehouse and manufacturing facilities, distribution channels and transport corridors, have transformed regional supply chains. An evolution towards inter-modalism has combined the use of all transport modes to achieve efficiency results.

Inter-modalism refers to how logistic companies provide seamless coordination between air freight, inland waterways, railways, road transport and shipping services. T and L service providers also take charge of transhipment, plant and terminal operations, import/export customs clearance services, warehousing and consolidation services to offer buyers and other T and L services purchasers a "one stop shop" solution.

Buyers and logistics companies alike are greatly impacted by the reliability and connectivity of warehouse and additional logistics services. The ability to efficiently navigate freight movements through T and L hubs and gateways – air, sea, road or rail – is crucial for companies in the sector (Eurofound, 2008). As such, logistics centres are often located in near proximity to gateways, and distribution centres are often located along the corridors linked to the gateway.

1.2 Global trends

The overall global logistics market represented approximately EUR 981 billion in 2011, with a regional split of 43 per cent for Asia Pacific, 18 per cent for Western Europe, 17 per cent for the United States and 22 per cent for the rest of the world (Barclays and

Roland Berger, 2014). This market is expected to grow at an average annual growth rate of 2.4 to three per cent in the next five years, and will be driven by regional and global trade volumes and an increasing share of outsourced logistics.

Logistics costs account for, on average, 10 to 15 per cent of the final cost of finished products in the developed world, including transport costs (seven to nine per cent), warehousing costs (one to two per cent) and inventory holdings (three to five per cent). In the developing world, various forms of inefficiency mean the figure is more often in the range of 15 to 25 per cent (Coe and Hess, 2013).

Coe and Hess (2013) emphasize companies may choose to position themselves at any point on an "outsourcing continuum". At one extreme is the situation of total internal asset management, whereby a company keeps the entire logistics operation in-house – encompassing management, workers, systems, buildings and transport – and does not outsource T & L services. At the opposite end, a firm may pursue total external asset management, wherein the company outsources all of its logistics operations and undertakes no capital investment, asset management or workforce management. A wide range of intermediate positions offer varying combinations of internal and external provision. Some large companies seek to strike a balance of internal and external provision for strategic reasons. However, the dominant trend is towards outsourcing (ibid).

The speed and complexity of distribution networks has led to a significant increase in the number of buyers and MNEs outsourcing their T and L functions to specialist firms. This trend started in the late 1990s as specialist logistics companies increasingly developed their distribution networks. These companies incorporated 'just-in-time' delivery practices and focused on the reliability of their services. More specialized and reliable services allowed for buyers and MNEs to have a wider geographical focus and become more dispersed as different elements of a company's operations could be outsourced or relocated (Eurofound, 2008).

After the initial increase in outsourcing and subcontracting, firms are now also trying to rationalize T and L suppliers or limit the number of subcontractors they manage. Powell (2001) these practices to the following factors:

- ❑ A shift in consumer markets to demand-led production and distribution;

- ❑ growing market expectations for extreme flexibility and responsiveness, or agility, in the ability for T and L services to react quickly and at low-cost to market signals;

- ❑ long-term competitive pressures on costs, exacerbated by the global downturn due to the 2008 financial crisis; and

- ❑ increasing accessibility of low-cost sourcing regions and the ability of buyers to shift sourcing to new production facilities according to the availability of low production costs, including wages.

Logistics services can closely resemble supply chain management network structures. For example, "moving the goods" implies a network structure including cross-functional and cross-firm processes and services, including two, three or more tiers of subcontracted suppliers and customers.

Service provision in the logistics sector involves multiple layers of services, service providers, and sub-contracting practices. Depending on a company's (buyer's) business model, it will decide to what extent it wants T and L to be integral to its own business activities or operations, or how much it wants to contractually outsource.

First party logistics (1PLs) refers to when a a shipper[44] (or a receiver) arranges fully in-house logistics functions for sold or purchased goods to be transported. Second party logistics (2PLs), third party logistics (3PLs) and fourth party logistics (4PLs) [45] refer to T and L service providers including additional supply network participants. Pricing negotiations for the transport services might take place between receivers and transportation or warehousing companies (2PLs), or large specialized logistics firms (3PLs) or logistics consulting firms (4PLs). The 3PLs and 4PLs have contact with all chain actors, including: transportation businesses, freight forwarders, including road freight operators (trucking firms with their own fleets or further subcontracted owner-operators), maritime shipping companies, ports, rail companies, warehouses, consolidators, domestic distribution or contract logistics actors, terminal manning firms, etc. They provide all actors with instructions to haul, transport, consolidate, store, or tranship the load. They can leverage their global scale, technology capabilities, brand and intellectual capital to provide global supply chain solutions to their clients (Barclays and Roland Berger, 2014).

The industry today tends towards a "total systems" approach, in which players along the same value chain no longer look at maximising their own return regardless of impact on others, but work together in tightly coordinated lines in order to ensure their competitiveness in final markets. These management approaches include sharing distribution and transport costs with competitors to incur in savings. Buyers and MNEs, especially in consumer markets, now look for more frequent orders, smaller batch runs, lower stocks and shorter lead times.

1.3 Employment trends

Employment in the freight logistics industry is composed of workers in several categories with varying skill sets. Piecyk and Bjorklund (2015) identify the following workers:

◻ workers focusing on the freight transport task (e.g., seafarer, train driver, truck driver, docker, parcel deliverer, amongst others);

◻ warehouse workers (e.g., materials handling, reverse logistics);

◻ clerical workers (order processing, inventory management, customer service); or

◻ managerial workers (demand forecasting, strategic facility location) among others.

Statistical databases do not typically disaggregate data for all categories and class of workers in the logistics industry. However, the closest categories corresponds to "transport, storage and communications" classifications. **Figure 4.1** illustrates steady growth in employment in the transport, storage and communications classification on a global basis.

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44 A shipper might involve a manufacturer, *maquiladora* or re-seller.

45 The original concept of 4PL focuses on an asset-free business model, providing comprehensive solutions for customers' transportation and logistics needs. The 4PL provider works with a range of third party providers. In its purest form the concept has not been able to gain major importance, though in some cases hybrid forms have flourished. See: Barclays and Roland Berger, 2014.

Figure 4.1: Employment for transport, storage and communications in selected countries[46] 2009 to 2013
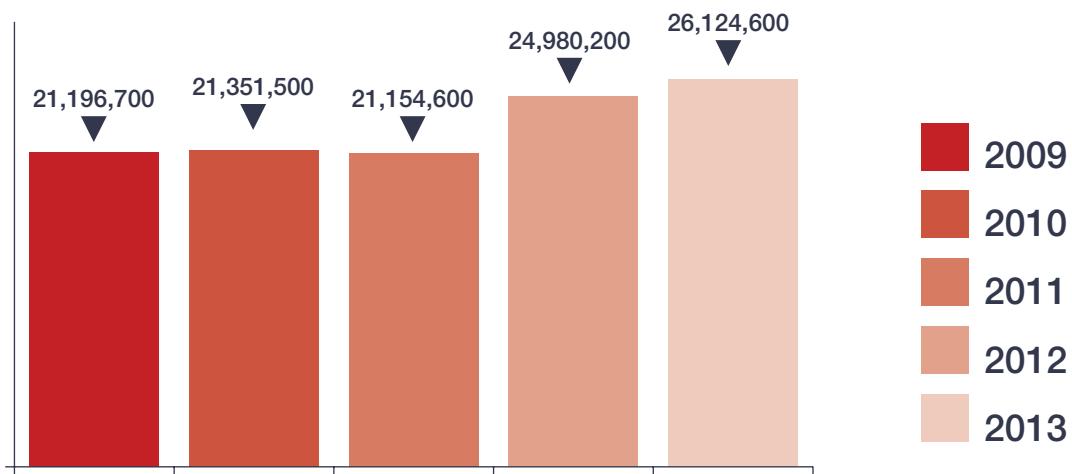
Source: ILO, ILOSTAT Database.[47]

Data on the informal provision of T and L services is not available, but can play a significant role in certain countries. Other data sources indicate that in 2007 the T and L sector[48] in the European Union (EU) employed almost 8 million workers, approximately 5 per cent of total employment that year. (Eurofound, 2008).

1.4 Regulation

Freight transport regulation plays an important role when analysing the freight logistics industry. Transport modes had been substantially regulated in terms of entry and freight rates until the 1950s -1990s in different countries. Complete deregulation in most countries took place between the 1970s and 1990s. These regulations heavily impacted cross border trade and the logistics industry. For example, the protection of rail for strategic and long-term economic reasons, as well as, safety has been used as justification for regulation. The competitiveness of road transport was believed to erode the profits of the railways. To some extent, however, the road freight lobbying efforts also supported regulation for fear that destructive competition would cause instability and bankruptcy of road freight firms while negatively affecting conditions of work (Suzuki, 1996).

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46 Countries: Argentina, Austria, Bangladesh, Belgium, Brazil, Bulgaria, Canada, Cayman Islands, Costa Rica, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Estonia, Ethiopia, Finland, France, Germany, Greece, Guatemala, Hong Kong – China, Hungary, Iceland, Islamic Republic of Iran, Ireland, Israel, Italy, Japan, Republic of Korea, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Macau – China, the former Yugoslav Republic of Macedonia, Malaysia, Malta, Mexico, Moldova, Republic of Mongolia, Netherlands, Norway, Panama, Paraguay, Poland, Portugal, Romania, Reunion, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, Uruguay, Bolivarian Republic of Venezuela, Viet Nam, West Bank and Gaza Strip and Zimbabwe.

47 Criteria for search: Employment in transportation, storage and communication for International Standard Industrial Classification of all economic activities (ISIC), Revisions 2, 3.1 and 4; all occupations. Database source: national labour force surveys.

48 T and L services include in this case passenger and freight transport, through all modes, including support activities, such as warehousing.

In the early 1970s, studies in Sweden, the United Kingdom and the United States concluded that there was insufficient reason to continue economic regulation of road transport (ibid). They suggested regulation had failed in its objective of ensuring the stability and profitability of the industry as well as protecting the public interest, while imposing substantial costs on society by controlling the number of operators and freight rates. These countries found that economic regulation had constrained competition and innovation and supported inflexible labour practices.

Deregulation coupled with the evolution of global trade and production via the operation of global supply chains has had a major impact on employment practices. Just as consumers are accustomed to ordering online, companies are also accustomed now to sourcing overseas. Just-in-time management patterns further exacerbate the demands placed on T and L actors to deliver goods to meet schedules of modern service provision planning. The fact that clients and companies may be entitled to compensation for delays incurred may encourage transport actors to disregard rules in relation to working times, occupational safety and health (OSH), or speed limits, so that they can deliver on time and remain competitive.

Trade agreements, regulatory policy relaxation, and international sourcing practices have been found to impact employment demand in different transport subsectors, as follows:

- an increase in demand can be observed in deregulated road transport markets;

- an decrease in demand for dock and rail workers as a result of railway and port reform, consolidation and technological developments; and,

- an increase in demand for shipping and air freight, as global markets have increased

Box 4.1:
Re-regulation: Chain of responsibility in Australia

With the passing of Australia's Road Safety Remuneration Act in 2008, provisions implement a policy concept named "chain of responsibility". Chain of responsibility can be described as: All who have direct or indirect control over a transport operation bear responsibility for conduct which affects compliance and should be made accountable for failure to discharge that responsibility. Thus, the current framework places legal obligations on parties across the transport and supply chain. These regulations make any stakeholder in the transport chain liable in case of a crash or accident. Amongst others, it tackles the establishment of unrealistic delivery windows, driving times or the payment of rates below standards.

Source: OECD, 2011.

2. Working in the transport and logistics industry

2.1 Employment and distribution

The evolution of supply chain management has had positive impacts for job creation, but has had detrimental impacts on social dialogue, worker representation and decent work conditions in the T and L sector. The T and L industry "move[s] the entire economy" (DHL, 2012) and is an important source of employment. Wages, occupational safety and health, regulation creating level playing fields, and decent working conditions have a direct impact on the quantity and quality of available human resources for the sector, and its competitiveness (OECD, 2002). At the regional or global scale, substantial wage differences across countries are also of concern for the promotion of decent work in the sector. Labour and skills shortages, and high turnover rates may be linked to inferior or difficult working conditions and lower wage levels prevailing in the T and L sector compared to other industries.

> **Box 4.2:**
> **Logistics clusters and job creation**
>
> Factories and high-tech hubs can promote job creation. Yet, another sustainable path to job creation can be translated into the establishment of logistics centres for transportation and distribution. Logistics clusters can generate new jobs and include "non-offshoreable" opportunities beyond logistics. As freight is distributed through these hubs, workers handling repair, maintenance, tagging, and packaging will also be needed. Increased labour, production and logistics costs are driving manufacturers and investors to nearshore or re-shore their activities. Cost-saving pressures have promoted logistics companies and public private partnerships to come up with innovative solutions for Buyers and MNEs expecting high service levels, and efficient logistics capabilities. Established in 2003, the Zaragoza (Spain) logistics hub is one of the many examples of this phenomenon.
>
> *Source:* Brown, 2014.

Growth in demand and prospects for employment in the industry are closely linked to gross domestic product and population numbers. Employment requirements include a growing demand for qualified clerical, technological and managerial staff. Competition in the sector has intensified. For example, Asian T and L MNEs have seen in recent years their market shares decline as new low-cost competitors enter the market (The Economist Intelligence Unit, 2012). In addition, shortages of workers in certain transport tasks have also been reported. For example, a shortage of truck drivers has been observed in Australia, Canada, and the United States.

Figure 4.2 shows the distribution of the freight logistics services[49] employment (8,446,900 workers) in the European Union 27 in 2009. While some T and L companies already employ staff from different cultural backgrounds and diverse age groups, compared to other sectors, it is still a largely male-dominated industry. Recent

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49 Employment for pipeline transport mode was excluded.

surveys suggest that globally the number of women participating in the industry is between 20 to 30 per cent (PwC, 2015). For example, in 2011, the average women's share of the workforce for the T and L industry was approximately 22 per cent in the European Union (Stojanovic et al., 2015). Gender imbalance is present at all levels, including for managerial and leadership roles.

Figure 4.2: **Distribution of freight logistics services employment in the EU 27, 2009**

- Road
- Railways
- Inland water transport
- Sea transport
- Air transport
- Warehousing and support activities
- Postal and courier activities
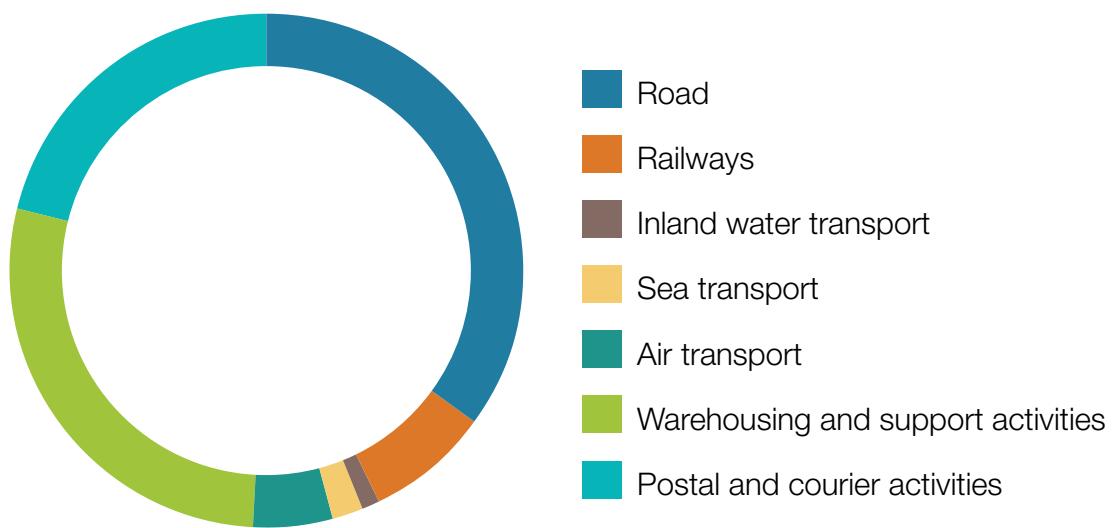
Source: European Commission (EC), 2012.
Note: Railway workers, air transport workers and seafarer data include employment for passenger and freight services, as no disaggregation for employment was available for these modes.

2.2 Working conditions

Recent trends and growth of the logistics industry, including reshaped patterns of global production and distribution of goods, have had significant consequences for the industry's workforce (Bonacich and Wilson, 2012).

2.2.1 Wages

Although higher wages in the sector can result from collective bargaining agreements, generally global competitive processes have placed downward pressure on wages and working conditions. This is especially prevalent for road transport workers. In the case of the rail industry and ports, private sector participation seems to have resulted in fewer and, in some cases, better paid positions. Nonetheless, increased productivity has been requested from workers. In the case of seafarers, the ILO Subcommittee on Wages of Seafarers of the Joint Maritime Commission establishes minimum wages in the shipping sector.

2.2.2 Occupational Safety and Health

According to Copsey et al. (2012) and EU-OSHA (2009), higher than average exposure to many physical risk factors in transport and warehouse activities may include:

☐ Ergonomic: exposure to vibrations, prolonged sitting, standing for long hours (development of back problems);

☐ manual handling during loading and unloading, pulling lifting;

☐ exposure to loud noise sources and to extreme temperatures;

☐ fatigue and a correlation with negative cognitive aspects, stress;

☐ inhalation of vapours and fumes like exhaust fumes at terminals and stops, while loading and unloading, preparing a vehicle, chemicals for on-board, filling up the vehicle, road dust;

☐ handling dangerous substances;

☐ dangers derived from conveyor belts, forklift trucks, and the need for protective equipment; and

☐ irregular shifts, hours of work.

2.2.3 Safety

The transport sector, along with construction, agriculture, fishing, and health and social services, continues to be a sector which is particularly dangerous. Although rates have been decreasing, workers in transport have a much higher accident rate (almost five-fold for fatal accidents, 1.7 times higher for serious accidents in the EU region) than workers in other sectors (Copsey et al., 2012).

2.2.4 Wait times for road transport sector workers

Unlike seafarers and aircrews, professional truck drivers do not benefit from global arrangements for the issuance of visas to undertake international transport operations. Visa issuance regulation is at the centre of the national security and competitiveness dichotomy. Thus, international freight transport operations are greatly affected by general policies pursued by governments in areas like visa issuance, security rules, and insurance regulation concerning the driver, the transport operator, the vehicle, the cargo, and specific transport operations (Kunaka et al., 2013).

2.2.5 Informality

In some countries, the logistics industry workforce seems to rely heavily on informal workers. Informality might pose challenges to the improvement of working conditions.

2.3 Social dialogue

MNE and buyer-driven supply chain contexts, involving outsourcing and an increase of independent contractors, have led in some cases to the dissociation of important actors and members from workplace collective bargaining and social dialogue (Papadakis, 2008). A result of this disconnection trend has translated into a decline in collective bargaining, works council coverage of T and L services workers, as well as the lack of employers' associations mandate to negotiate collective bargaining

agreements. Special attention should be paid to the cross-sectoral nature and global dimension of logistics services and its relation to supply chains (ibid).

2.3.1 Focus on representativeness and density

Railway workers, dock workers and seafarers seem to have higher unionization rates than workers in the road transport sector. However, a general logistics industry challenge includes the lack of single categories or job definitions that are similar, including white collar, blue collar, or migrant workers. This situation might pose challenges to unionization, representation and organising efforts. For example, in the European Union few unions have the same designations as defined in the logistics sector (Eurofound, 2015).

Statistical definitions of business activities in the road T and L sector differ from the way that employees identify their interests. Thus, sectional overlap can occur and be a dominant pattern in the sector. This means, collective bargaining negotiations might seek to cover part of one sector plus workers on one or more additional sectors. This circumstance usually derives from focus areas that represent only certain categories of workers organized across several sectors, including activities outside the road T and L sector. In other cases, union membership might not be congruent with statistical or sectorial demarcations. On the employer side, many trade associations and organizations exist for the T and L industry. A large majority cannot or choose not to become involved in collective bargaining and social dialogue in the road T and L sector (Eurofound, 2015).

Box 4.3:
Freight logistics federation and EU associations

The International Federation of Freight Forwarders Associations (FIATA) was founded in Vienna, Austria in 1926. FIATA, a non-governmental Organization, represents an industry covering approximately 40,000 forwarding and logistics firms employing around 8 to 10 million workers in 150 countries. FIATA has consultative status with different UN bodies such as the Economic and Social Council, the United Nations Conference on Trade and Development, and the Commission on International Trade Law. The association represents the freight forwarding industry with other governmental Organizations, governmental authorities, and private international Organizations in the field of transport such as the International Chamber of Commerce, the International Air Transport Association, the International Union of Railways, the International Road Transport Union, the World Customs Organization, and the World Trade Organization. Although FIATA publishes transport policy positions and works closely though partnerships and memoranda of understanding with other associations, it does not participate directly in social dialogue efforts. The European Association for Forwarding, Transport, Logistics and Customs Services (CLECAT) and the European Road Haulers Association constitute reference Organizations at EU level representing the interests of logistics at large, freight forwarding, transport and customs and related services. In some cases, they have been involved in the work led by the European Commission in matters of transport but are not an official partner in sectoral social dialogue. An in-depth 2015 Eurofound study analyses collective bargaining powers for EU union and employer associations.

Source: FIATA, undated; CLECAT, undated; Eurofound, 2015.

2.3.2   EU sectoral social dialogue

European social dialogue refers to discussions, consultations, negotiations and joint actions involving Organizations representing social partners in an industry (employers' and workers' representatives). Sectoral social dialogue brings together trade unions and employers' Organizations in a specific sector (e.g., road transport, aviation, rail, inland waterway, shipping) and is conducted though committees. Topics covered by this mechanism include Occupational Safety and Health (OSH), vocational training, skills, equal opportunities, mobility, corporate social responsibility, working conditions and sustainable development (EC, 2010). EU sectoral social dialogue is a useful tool that has led social partners and EU Members to agree on important topics to guide legislation, policies, and facilitate new member accession.

2.3.3   Logistics industry specific efforts

The operational capacities of logistics service providers have a direct impact on logistics performance in a country. Freight forwarders, multimodal transport operators and logistics service providers can be on the one hand small in size and pertaining to a fragmented industry. Professionalism and competitiveness of logistics service can lead to the establishment of minimum standards and codes of conduct in the industry, as was the case for the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) region.

In 2007, UNESCAP member States published a Regional Action Programme for Transport Development in Asia and the Pacific, phase I (2007-2011) and the Bangkok Declaration on Transport Development in Asia. These documents called for the publication of guidelines for minimum standards and codes of conduct for freight forwarders, multimodal transport operators and logistics service providers. The Guidelines seek to provide governments and industry representatives of member countries with a tool for formulating, reviewing and revising relevant regulations in order to enhance the professionalism and competitiveness of freight forwarders, non-vessel operating common carriers and multimodal transport operators in the region. Chapter 5 of the guidelines establish requirements for staff and professional training within the industry.

2.3.4   ILO efforts for workers in the transport sector

Social dialogue plays a critical role in achieving the ILO's objective of advancing opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. The Sectoral Policies Department promotes decent work by addressing social and labour issues in specific economic sectors, both at international and national levels. ILO tripartite sectoral international meetings, meetings of experts and global dialogue forums build consensus and promote social dialogue among sectoral constituents at regional, national and global levels to reach policy and action-oriented recommendations in relation to emerging topics of special importance for the sectors. Efforts include addressing challenges in the transport and maritime sectors.

> ### Box 4.4:
> ### IMO/ILO/UNECE: Code of practice in the packing of cargo transport units
>
> Incidents in the transport sector are frequently attributed to poor practice in the packing of cargo transport units (CTUs). This is a concern for employers, as well as for transport workers and the general public, who may be exposed to the physical hazard of poorly secured or overweight containers. The IMO/ILO/UNECE Code of Practice for Packing of Cargo Transport Units (CTU Code) has been designed to help protect the lives and safety of these workers and the public as a whole. The Code contains advice to both the workers responsible for the packing and securing of cargo, and the trainers who instruct workers to carry out such tasks. It outlines also contains theoretical details for packing and securing cargo, as well as practical measures to ensure safe practice. The Code also provides information and advice to parties involved along the supply chain, broadening the scope of the 1997 Guidelines. The CTU Code is not a legally binding instrument, nor is it intended to replace existing national legislation on packing and securing cargo, in particular national regulations which apply to a single mode of transport. Instead, it offers practical recommendations, providing guidance to the transport industry on how to improve industry practices and ensure worker and public safety.
>
> *Source:* ILO, 2015.

2.4 The application of international labour standards

International labour standards cover a wide range of issues related to working conditions and social policy. The ILO supervisory system is designed to address issues in their application at the national level. **Table 4.1** includes a summary of sector-specific ILO standards addressing working conditions in the transport and maritime sectors.

Table 4.1: Sector-specific ILO standards for transport workers

Type	Sector-specific standards for transport workers
Dock workers	The Dock Work Convention, 1973 (No. 137) deals with new methods of work in docks and their impact on employment and the organization of the profession. It has two main objectives: first, to afford protection to dockworkers in their professional life through measures relating to the conditions of their access to and performance of work; and second, to foresee and manage in the best possible manner, through appropriate measures, fluctuations in the work and the workforce required for it. The Occupational Safety and Health (Dock Work) Convention, 1979 (No. 152) convention requires ratifying states to take measures with a view to providing and maintaining workplaces, equipment and methods of work that are safe and without risk of injury to health; providing and maintaining safe means of access to any workplace; providing information, training and supervision necessary to ensure protection of workers against risks of accident or injury to health at work; providing workers with personal protective equipment and clothing and any life-saving appliances reasonably required; providing and maintaining suitable and adequate first-aid and rescue facilities; and developing and establishing proper procedures for emergency situations which may arise.
Railway workers	There are no sector-specific ILO conventions or recommendations for the railways sector. The promotion of social dialogue in the sector has been addressed in meetings and numerous publications since the first International Railwaymen's Congress in 1920. The last two tripartite meetings hosted by the ILO related to the rail sector were in 1994 and 1999. In 1994, the ILO hosted a Tripartite Meeting on Consequences for Management and Personnel of the Restructuring of Railways, which concluded that the ILO should promote the application of core labour standards, and should continue to monitor the labour and social consequences of the changes in the industry and the policies and modes of collective bargaining brought about by these changes. In 1999, a cross-sectoral tripartite symposium was held on the Social and Labour Consequences of Technological Developments, Deregulation and Privatization of Transport.
Road transport workers	The Hours of Work and Rest Periods (Road Transport) Convention, 1979 (No. 153), and the Hours of Work and Rest Periods (Road Transport) Recommendation, 1979 (No. 161), currently establish a standard for the sector. Nonetheless, a number of States parties, national laws and regulations were not fully in compliance with the provisions of the Convention on issues such as its scope, maximum hours of work or mandatory breaks. Compliance issues also arise from the fact that the provisions of the applicable EU Directive and the European Agreement Concerning the Work of Crews of Vehicles Engaged in International Road Transport (AETR) differ from the corresponding provisions of Convention No. 153.
Seafarers	The Maritime Labour Convention, 2006 establishes minimum working and living standards for all seafarers working on ships flying the flags of ratifying countries. The Convention is comprehensive and sets out, in one place, seafarers' rights to decent working conditions. It covers almost every aspect of their work and life on board including: minimum age, seafarers' employment agreements, hours of work or rest, payment of wages, paid annual leave, repatriation at the end of contract, on-board medical care, the use of licensed private recruitment and placement services, accommodation, food and catering health and safety protection and accident prevention and seafarers' complaint handling.

Source: ILO, 2015; ILO website.

More than 40 ILO standards directly or indirectly deal with Occupational Safety and Health (OSH) issues.[50] Of interest, Convention No. 155 and Recommendation No. 164 set forth the basic principles and methodology required for improvements in OSH management. They apply to all branches of economic activity, including transport, and stipulate the formulation, implementation and periodic review of national OSH policies aimed at the prevention of occupational accidents. Together, these two instruments also foresee the definition of national institutional responsibilities and the duties and rights of employers and workers and their representatives.

The relationship between national policy, working time, Organization of work and safety and health is described in Articles 4 and 5 of Convention No. 155 and Paragraphs 4 and 10 of Recommendation No. 164. When drafting new policies, governments should place special attention to policy coherence and the links existing between safety and health, on the one hand, and hours of work and rest breaks on the other. Thus, as set out in Article 5(b) of Convention No. 155, a national policy on OSH and the working environment emphasize governments should take into account "relationships between the material elements of work and the persons who carry out or supervise the work, and adaptation of machinery, equipment, working time, organization of work and work processes to the physical and mental capacities of the workers." Additional technical and practical guidance on the application of this Article of the Convention is provided under Paragraph 4 of Recommendation No. 164, which foresees that the competent authorities should issue or approve regulations, codes of practice or other suitable provisions on OSH and the working environment while accounting for links between safety and health, on the one hand, and hours of work and rest breaks, on the other. Paragraph 10 of the Recommendation provides that employers' obligations at the level of the undertaking might ensure that work organization, particularly with respect to hours of work and rest breaks, does not adversely affect OSH. Working time constitutes an OSH preventative element that has to be taken into consideration both by the competent authorities and by employers.

2.5 Skills development

Logistics services require trained workers. Despite extensive mechanization and automation, logistics remains intrinsically a "people business" and are labour-intensive at the operational, supervisory and managerial levels (McKinnon, 2015). This makes the logistics performance of companies and countries highly dependent on the quantity and quality of the workforce.

According to McKinnon (2015), mounting evidence documents a global shortage of workers and a talent gap necessary to meet the needs of the logistics industry. For example, studies in China, India, the Republic of Korea, the United Kingdom, the United States, and Vietnam have reported that logistics businesses are having difficulty recruiting staff with the required skills in logistics and supply chain management. A United Kingdom initiative called Skills for Logistics (2015) identified the following categories for job and skills development:

- ☐ elementary handling and storage occupations

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[50] Amongst others, these include: the Occupational Safety and Health Convention, 1981 (No. 155), and Occupational Safety and Health Recommendation, 1981 (No. 164); the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), and Promotional Framework for Occupational Safety and Health Recommendation, 2006 (No. 197); and the Occupational Health Services Convention, 1985 (No. 161), and the Occupational Health Services Recommendation, 1985 (No. 171).

- ❏ forklift truck drivers

- ❏ importers / exporters

- ❏ large goods vehicle drivers

- ❏ postal workers, mail sorters and couriers

- ❏ purchasing managers and directors

- ❏ storage and warehousing managers and directors

- ❏ transport and distribution managers and directors

- ❏ transport and distribution clerks

- ❏ van drivers

Skill shortages and talent gaps extend from a lack of truck drivers to problems in filling senior supply chain management posts (McKinnon, 2015). The problem is not simply confined to recruitment. Retention and skills development are also becoming the most prevalent human resource concerns. The logistics sector's recruitment potential is often constrained by its relatively poor image. Career planning can also be deficient, resulting in high-calibre operatives and managers abandoning the logistics industry for other sectors (ibid).

Box 4.5:
LOGISMED

LOGISMED training activities is a project endorsed by 43 member countries of the Union of the Mediterranean. The project is promoted by the European Investment Bank and was funded by the EC. The objective of the programme is to tackle the current lack of qualified staff, adequate training programmes and harmonized logistics systems. These training component of the LOGISMED programme aims to increase the qualifications and skills of logistics platforms' operators and managers while improving the performance of the logistics sector in the entire Mediterranean region. Beneficiaries of the programme include staff (e.g. transport regulators, freight forwarders, transport operators, customs and border agencies, etc.) and national administrations.

Source: Union for the Mediterranean, 2013.

3. Study design

3.1 Methodology

A first step to understanding a company's CSR policy is to look at whether and how the policy is communicated. Companies may be reluctant to approach and publish CSR policies and documentation because of a degree of accountability for objectives not achieved or shortfalls (Business Social Compliance Initiative, 2014).

For this study, research was conducted during the first half of 2015 to collect information and gain knowledge on the CSR initiatives carried out and documents published by T and L services companies. Appendix 1 of this report includes a table summary and assessment of CSR initiatives, based on documents published online by individual logistics services companies.

The data was collected and analysed from the CSR reports, annual reports and other corporate information for nine leading T and L MNEs. The sample included data from the global top four companies in the sector: DHL, UPS, FedEx and Maersk Group; and, five other companies included in the global top 50 ranking of logistics service providers, Agility, Bolloré, Kuehne & Nagel, NYK Group and Panalpina.

The sample reflects a variety of approaches to corporate responsibility. A criterion for the selection included the capacity and power of these companies to act as market leaders and set an example for the sector. Another important criterion included the willingness of most Buyers to contract exclusively with these industry leaders. The sample also included a selection of companies from different geographical locations, and with varying core business segments (e.g. shipping, courier services, 3PL).

Data was compiled from public sources and corporate websites. It compares the companies' respective approaches to the social component of sustainability and to CSR. These include human rights, working conditions and decent work. Twelve criteria were selected in order to analyse CSR documentation. The criteria covered many of the initiatives and processes that a company can put in place to structure and reinforce policy to further decent work, including policy on human rights and working conditions, code of conduct (CoC), frameworks for stakeholder engagement, and CSR reports.

All selected logistics services companies fulfilled the following four criteria:

1. The company has a corporate responsibility policy which covers human rights and/or working conditions;

2. The company has a CoC that includes a working conditions policy;

3. The company produces a CSR report; and

4. The company explicitly lists key focus areas for its policy.

3.2 Previous research on CSR in the transport and logistics Sector

This study adds to the body of existing research, taking note of three previous surveys on CSR and social sustainability in the logistics services sector:

- Carter and Jennings (2002), pioneering research on the topic in this sector, conducted interviews with purchasing, transportation and warehousing managers from 26 companies in diverse industry sectors in the United States. The researchers identified barriers, drivers, and consequences when implementing logistics social responsibility, and put forward an implementation framework for managers in the industry.

- Tong and Moussa (2012), two master students at Jönköping University undertook desk research and analysis of a sample of 50 "well-known" logistics companies. Within the 23 companies that did have CSR policies in place (whether in a separate CSR report or embedded in their annual report), all of them addressed environmental issues. Although 18 companies did mention social initiatives within their documentation (with only one producing a different social and sustainability report), it was not clear from this report whether any included information about subcontracting and decent work challenges. References to employment did not include labour conventions, but were limited to: (1) an employee satisfaction index (Hanjin Shipping), (2) management practices incorporating safety committees for shipping operations (COSCO), and (3) policies on drugs and alcohol applicable to sub-contracted truck drivers (Ryder Trucks).

- Piecyk and Bjorklund (2015), two European academics, stressed the importance of reporting social sustainability within the logistics sector. From an ambitious sample of 350 logistics companies, only 45 were found to publish formal CSR information (34 companies on separate CSR reports and 11 through a CSR chapter within the company's annual report). Their findings of indicators related to employment practices and decent work include: (1) training and education for 87 per cent of CSR reports; (2) OSH for 69 per cent of reports; (3) employment statistics for 67 per cent of reports; and (4) diversity and equal opportunity for 58 per cent of reports.

4. Good practices for promoting decent work

4.1 Good practices by logistic MNEs and buyers

In order to assess good practices of MNEs[51] in promoting decent work in the logistics services industry, it is important to clarify the roles of different actors in the sector. The prevalence of dynamic and strategic alliances between MNEs or large buyers with MNEs in the logistics industry (Hall, 2015) seems to support a two-prong approach to study good practices in the logistics industry.

This study identifies two types of influence for addressing decent work opportunities and challenges in the logistics services supply chain. First, a principal-agent relationship between the 3PL company and transport, warehouse and other service providers can incorporate good practices within its purchasing and outsourcing patterns. Second, a principal–agent relationship between MNE shippers, receivers or buyers and the 3PL company can incorporate good practices within its logistics services purchasing and outsourcing. Other stakeholders, such as the insurance industry, governments, employers organizations or industry associations, workers and trade unions, consumers, the media and financial institutions can play a role in promoting good practices within the logistics industry.

This study provides examples of good practices and opportunities for promoting decent work within the logistics services industry, as well as the contextual frameworks which can favour their emergence. Section 5.1 includes information based on desk-research analysis regarding good practices of MNE logistics service providers. Section 5.2 provides information sourced from buyers, through their websites and interviews, which can influence the emergence of good practices in the logistics industry.

4.2 Good practices within the transport and logistics sector

Logistics social responsibility is a term often used to examine CSR issues in relation to logistics management. It typically comprises employee training, environment, health and safety, working conditions, workplace diversity, urban renewal, ethics, human rights, community issues and philanthropy (Piecyk and Bjorklund, 2015). Despite the importance of incorporating social responsibility into logistics, knowledge and research within the field is still relatively sparse (Coe and Hess, 2013). Environmental issues, and more particularly the greening of logistics through the reduction of greenhouse gas emissions, appear to be the most prominent aspects of CSR discussed in recent academic literature. The rise in environmentally responsible logistics operations has been the result of governmental regulations, economic considerations and increasingly strong market signals from environmentally conscious consumers (Piecyk and Bjorklund, 2015).

Social issues addressed by CSR are related to different aspects of decent work. Good practices can be analysed based on the three main activities found in T and L:

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51 For the purpose of this paragraph, MNEs can encompass MNE receivers (Buyers), MNE shippers, and logistics industry MNEs.

purchasing, transportation, and warehousing (Carter and Jennings, 2002).[52] Missed opportunities to promote decent work include (Carter and Jennings, 2002; Tong and Moussa, 2012):

- ❑ Purchasing management: Not purchasing from minority suppliers; collaborating with suppliers who use unacceptable forms of work, child labour, offer low wages, or operate in unsafe locations (i.e., warehouses);

- ❑ Transportation activities: Lack of policy encouraging further use of minority carriers, discriminatory hiring and promotion practices, long or inadequate operating schedules for drivers, or payment of low wages;

- ❑ Warehouse management: Discriminatory hiring and promotion practices, failure to provide adequate maternity protection, failure to address work-life balance, inadequate safety training, or failure to provide adequate and appropriate personal protective equipment.

5. Findings

Initial screening of company policies (Appendix 1) indicated that all the selected companies in this study mentioned safety as one of their key focus areas, whether under the general OSH umbrella, or more specifically under workplace and/or road safety.

Seven out of the eight companies: (1) mention having a system in place to allow employees to signal issues with and/or breaches of the CoC; and (2) either explicitly specify that their CoC applies to their own suppliers, or have a specific code addressing working conditions issues within their suppliers. Fulfilment of these two criteria (a feedback mechanism and explicit code implementation among suppliers) could be interpreted as a wider understanding and acknowledgement of the need to also implement and apply company policies on human rights and working conditions to their suppliers (and subcontractors).

The majority of the companies analysed fulfilled more than six criteria potentially suggesting that, among this sample, logistics services companies show willingness to progress beyond the point of publishing a CSR policy. However, the criteria on communication, on collaborative efforts, and on stakeholder engagement were not fulfilled by most companies. This would suggest that while progress has evidently been made, it remains patchy and uneven. The deficit in fulfilling these criteria indicates that the industry can still collectively address social conditions for workers in the sector. Encouragingly, the analysis documents that sample companies have begun to integrate these concerns, suggesting that awareness of the social component of CSR within this industry could be growing and should be measured for additional signs of progress in the future.

Other conclusions that might be inferred from the desk analysis of sample companies' CSR documents include:

Safety and security: the industry's impact on the environment and questions of safety and security appear as CSR priorities for leading companies. Most T and L MNEs

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52 Other activities might include customer service, order processing and warehouse selection process.

seek to excel in road safety and freight security. Many take care to earn and show certification in a variety of specialisations and skills in these areas.

☐ Recent acknowledgement of the importance of social performance: a small number of companies are seeking to advance monitoring of working conditions in both their own operations and in their supplier base. Nonetheless, most companies included in the sample appear to have only recently begun to integrate or report on questions of human rights and monitoring working conditions. Most use Global Reporting Initiative (GRI) as a basis for reporting, but focus more on the other two pillars of sustainability (economic and environmental sustainability). A structured approach, (e.g. management systems) to systematically tackle fundamental requirements in human rights and decent work within their own supply base seems to be lacking.

☐ Subcontracting: extensive recourse to subcontracting should call for additional responsibility for proactive monitoring practices of social compliance in a company's own supply chain. At present, most companies only request contractual compliance without adequate verification mechanisms in place.

5.1 Collaborative industry initiatives

There are a limited number of multi-stakeholder sustainability initiatives driven by the T and L sector. Campos et al. (2015), for example, identified leading initiatives in the ocean, rail, and logistics industries.

5.1.1 The Sustainable Shipping Initiative (SSI)

The Sustainable Shipping Initiative (SSI) is a coalition of shipping companies from around the world seeking to make practical improvements in the industry. The group represents ship owners and charterers, shipbuilders, engineers and service providers, banking, insurance, and classification societies. In the first stage, members launched a Case for Action in May 2011. It analyses the social, environmental and economic challenges the shipping industry faces and how best to react to them, and calls on the industry to take far-reaching action.

The focus of the Case for Action includes four working areas: global economy, ocean governance, changing climate and sustainability regulation. SSI wants the shipping industry to be able to provide "safe, healthy and secure work environments so that people want to work in shipping, where they can enjoy rewarding careers and achieve their full potential." The 2015 SSI priorities have included addressing labour conditions and environmental standards in ship recycling (SSI, 2015).

5.1.2 Railsponsible

EcoVadis, a CSR firm existing since 2007, services collaborative platforms providing supplier sustainability ratings for global supply chains. One of these collaborative platforms includes Railsponsible, an initiative founded by European companies Alstom Transport, Bombardier Transportation, Deutsche Bahn, Knorr-Bremse, Nederlandse Spoorwegen and SNCF. Efforts have included the launching of a procurement initiative to drive sustainability throughout rail supply chains. Efforts include addressing governance issues, providing a forum to share best practices and voluntary transparency on supplier assessment.

5.1.3   Clean Cargo Working Group

BSR, a global non-profit organization founded in the mid-1990s, works with a network of more than 250 member companies. Among its member initiatives, the Clean Cargo Working Group includes 23 ocean carriers that represent more than 85 per cent of global ocean container capacity. The group has mostly focused on environmental issues.

5.1.4   World Economic Forum (WEF): L&TCCI

Two notable references to sustainability in logistics services and their supply chains are (1) the Logistics and Transport Corporate Citizenship Initiative (L&TCCI) active during the period 2003 – 2006, and more recently, (2) the Global Agenda Council on the Future of Logistics and Supply Chains, 2014-2016. Among the two, the L&TCCI more directly addressed CoCs in the industry, while the second initiative is only now forming with less emphasis on social responsibility.

The L&TCCI was a three-year initiative launched in 2003 at the World Economic Forum's annual meeting to proactively contribute towards sustainable development in the sector. Among others, the L&TCCI used core competencies in T and L to address social development goals and humanitarian crises. A document detailing Principles of Corporate Citizenship was built on concepts of international law and covers aspects of the L&TCCI's work, and its sphere of influence. Principle 4 dealt with employment and promoted "social justice in the workplace", including the right to collective bargaining; and, Principle 5 included respect for human rights. L&TCCI Membership by 2006 included a cross-section of leading companies in the T and L sector: DHL, Exel plc, Ferrovie dello Stato SpA, Stena AB, Swiss Post, TPG NV, Transnet Ltd., Christian Salvesen, COSCO, FedEx Corp, Fiege Group, La Poste, Poste Italiane, Royal Mail, and UPS. The group also explicitly included customers as stakeholders. A consultation process led in 2004 included 75 logistics services customer companies. An objective was to understand what expectations customers had in terms of business ethics and of social and environmental requirements within the T and L sector.

The Global Agenda Council on the Future of Logistics and Supply Chains, launched recently, includes among its priority topics, to also address sustainability, highlighting innovative practices supply chain practices that also support environmental, social and economic outcomes (WEF, 2015).

5.2 Buyers promoting decent work in the transport and logistics sector

While the previous section explored the initiatives undertaken by actors directly engaged in the T and L sector, this section draws on the feedback obtained from interviews with major Buyers that heavily rely in the use of logistics services. The interviews sought to determine (1) what influence the Buyers feel they have or could have on logistics service providers, (2) the extent to which decent work is a criteria for selecting contractors, (3) overall perceptions of the Buyers about current decent work practices of logistics service providers, and (4) Buyer perceptions on the future outlook for decent work among the logistics service providers. Finally, two case studies of good practices driven by Buyers are presented (IKEA and Tesco).

A total of 21 Buyers in the broader consumer goods and retail industry were consulted. The companies were selected as a representative cross-section of a variety of sectors in which they operate, including: garment, electronics, food and retail, footwear, furniture, health and beauty, media and entertainment, and primary production. The selection specifically encompassed companies sourcing on a global scale (including their own region), and operating ethical sourcing programmes. Interviews were conducted with corporate responsibility and social compliance executives from all companies listed in Appendix 2. Anonymity was requested by Buyer officials in all cases as a condition for participation. However, two companies brought forward good practice examples, IKEA and Tesco, as highlighted at the end of this section.

5.2.1 Buyers influencing policies and practices

The degree to which Buyers currently influence decent work practices in the procurement of T and L services varies widely, and is overall at a nascent stage:

- Overall, Buyers reported that they have actively started addressing social issues in their supply chain, primarily at production or manufacturing sites (farms, factories). These efforts have included reviewing working conditions for subcontractors, however, logistics service providers are less likely to be included in these initiatives (partially for reasons mentioned below).

- Based on their own supply chain governance values and experience, some Buyers' are aware that as customers they can influence the policies of their suppliers' chains. Some Buyers have integrated social performance to their indirect or non-trade purchasing activities. T and L would fall under this procurement category. However, for most Buyers, the goods transported by logistics companies represent their primary commercial objective. Thus non-trade or indirect services are seen as a cost within the goods but not necessarily considered as their main operational activity and concern.

- Some Buyers are aware that recent shifts from in-house logistics management (transport and distribution) to sub-contracting can translate into less control to monitor working conditions in the logistics chain. Increased competition makes distribution and transportation asset ownership uneconomical for Buyers. Consequently, some Buyers have also become dependent on logistics companies' place in the T and L sector, and may not have much influence over their internal policies.

- Others expressed that they have become dependent on logistics service providers and might not have enough leverage to influence decent work policies within their preferred logistics company. A respondent mentioned that even large Buyers can represent only a small fraction of the sales of an equally large logistics supplier. The regulatory context and their practices have evolved considerably over the last 20 years.

5.2.2 Buyers contracting and monitoring practices

Buyer interviews confirm that the main incentives for contracting with T and L companies are price and convenience. Most Buyers contract only with a handful of the leading, well-known 3PL providers. Companies such as Maersk and DHL were most frequently mentioned by respondents when asked about their views on logistics services companies' policies and good practices in monitoring working conditions. Buyers expect and rely on the largest companies to comply with standards, laws and regulation as part of their contractual obligations. Some Buyers include contractual requirements on compliance with their own CoC for logistics providers. Others specify

social and decent work requirements in their requests for proposals. Nonetheless, compliance on social and decent work requirements does not often constitute a determining factor in awarding logistics services contracts.

Current practices include monitoring through frequent verification of certificates. This method is useful for environmental or OSH compliance. However, according to Buyer respondents other elements of decent work are not necessarily "certifiable", thus making monitoring more challenging for their T and L service providers.

Decent work stipulations and requirements are included as part of the general terms and conditions of Buyer purchasing contracts. Some companies do implement certain degrees of monitoring. However, within the organization, logistics purchasers and managers are not the same executives managing operational relationships with other providers, resulting in an opportunity to improve the gap in this area. An example of good internal practices includes ensuring regular communication channels between the purchasing department, the operational management department and the department responsible for monitoring and improving social performance.

The challenge of exhaustively tracking and monitoring working conditions within and between each link of the supply chain and the logistics chain was seen to involve a "colossal" task. More collaborative work, as well as more concerted encouragement from all stakeholders, would be needed for social policies and monitoring to be embedded beyond the first tier of subcontractors.

5.2.3   Buyers' perspectives on the transport and logistics industry

Buyers are aware that the logistics industry encompasses a wide array companies in terms of ownership, size, maturity and sophistication. Most choose to contract solely with large, well-known logistics providers. Some Buyers noted that good practices are not limited to large providers and can be found in different types of logistics companies. For example, some small, privately-owned enterprises have an interest in providing stable and robust services including longer term contracts with key customers. Consequently, they are known to "take good care" of their employees and provide them with decent jobs. This in turn constitutes a stabilising factor, thus providing them a competitive advantage over other logistic companies.

Buyers noted that they felt that United States and European Union regulations were generally applied by logistics MNEs – with a notable exception for road transport operations. A couple of respondents cited that they generally expected decreased levels of working conditions when contracting logistics services in Latin America and Central Asia. Even within leading logistics suppliers, Buyers felt different levels of compliance applied and coexisted within the same company depending on the region of operation.

All Buyer respondents noted that the complexity of the T and L industry and the nature and levels of contractual relationships make it almost impossible to have any visibility beyond the first tier of suppliers, whose suppliers in turn are highly fragmented and transnational in scope. A primary producer Buyer noted that their supply chain processes can involve many different stages of varying sophistication and social performance. These range from tightly controlled and highly efficient farms, distribution centres, ports, and ships, to owner-operated trucks (whose operations are virtually unregulated or unmonitored).

Thus, the complexity of the T and L sector was blamed by most respondents as a reason for the difficulty in monitoring suppliers. Moreover, logistics suppliers vary according to industry, goods, geography and even individual companies, thus a common approach would be difficult to implement. A lack of familiarity on how the industry worked was cited as another factor for limited visibility and tracking activities carried out by different tiers of subcontracted suppliers. Some Buyers acknowledged that there would be scope to expand the coverage of risk assessments in order to cover logistics suppliers and their operations more extensively.

An additional layer of complexity in the industry arises from the overwhelming regulatory framework for each transport mode. Additional national or international differences and sets of regulations further complicate T and L operations. Shipping regulation and the Maritime and Labour Convention were cited as good examples by most respondents. A respondent however noted that the determination of jurisdiction in situations when vessels operated under a "flag of convenience" with migrant labourers in high seas amounted to a "no man's land nightmare".

Even large logistics companies with well-established policies in place to internally monitor working conditions depend heavily on external service providers. Awareness of the extensive recourse to sub-contracting practices by logistics companies was mentioned by all Buyer respondents. One respondent mentioned that the same subcontracting practices are also mirrored in Buyers, and estimated that as much as 30 per cent of the company's supply chain providers could change on any given day.

5.2.4 Buyers identifying future trends

Buyers reiterated that complexity, lack of visibility, sub-contracting and leverage issues constituted obstacles for exerting lasting and consistent influence by the Buyer on the T and L suppliers. However, two developments are driving Buyers to focus more on working conditions in this segment of their operations:

1. Scrutiny and increasing pressure on MNEs and their social impact around non-trade purchasing; and

2. Heightened consumer awareness and overall compliance demands to improve the security and safeguarding of product integrity in the supply chain from producer to consumer.

Most respondents reported already having plans in place to strengthen monitoring of working conditions among their T and L suppliers or expected planning and policy implementation would be happening in the near future. A respondent suggested that one collaborative initiative, the Electronics Industry Collaborative Coalition, could be further used as an effective mechanism by expanding its coverage to include T and L companies. It was also pointed out that if T and L suppliers more regularly used certificates (e.g. SA8000), this could constitute a point of differentiation amongst them.

Monitoring and know-how are perceived as a progressive step-by-step process. Buyers have learned while monitoring their own supply chains that an essential component includes informing, training and educating their workforce on how to promote and implement decent work practices.

5.2.5 Buyers promoting decent work in their logistics supply chain

According to interviews, progressive steps towards addressing working conditions in the T and L sector are already taking place for the Buyers IKEA and Tesco. According to the company officials interviewed, IKEA began monitoring working conditions in its logistics supplier chains in 2005; and, at Tesco in 2009. Both companies confirm they have been confronted with extreme challenges to monitor beyond their suppliers' second tiers of subcontracting. The large-scale migration to subcontracting in the logistics industry translates into opacity and monitoring challenges. Both companies also emphasized that labour inspection and compliance enforcement is weak in many countries.

IKEA's IWAY CoC lays down the foundation and requirements the company should aim for vis à vis the sourcing of products and services. Suppliers are made responsible to communicate the content of the IKEA's CoC to their co-workers and sub-suppliers. First tier suppliers are also made responsible for ensuring these measures are implemented within their own operations. Monitoring and audits are part of the process. Safety is a major focus of the monitoring process for logistics sourcing. However, the company is aware of the lack of control when its direct suppliers resort to sub-contracting. In spite of its size, IKEA places itself as having little leverage within the T and L market, and indicates that more efforts should be carried out, both by governments and by the industry collectively, to effectively tackle social and working conditions in supply chains. IKEA is a founding member of some industry initiatives promoting sustainable practices in the logistics services sector,[53] but notes that most efforts primarily emphasize environmental concerns leaving room for improvement in allocating more time and resources to social issues.

Tesco's strategy for addressing social issues within its T and L sourcing applies the same ethical standards to all its corporate group procurement, including services (e.g. cleaning contractors, engineers, fitting and maintenance), and T and L (but excludes some professional services like legal, accounting or consulting). Tesco is a co-founder of the Ethical Trading Initiative (ETI), and it heavily relies on ETI's base code. Tesco recognizes that procurement is varied and diverse. Consequently, this Buyer has approached extending social procurement policies progressively, taking into consideration first its closest suppliers and then moving on through different layers of sub-suppliers. Haulage suppliers are already within scope of their ethical procurement programme, and it has been progressively extended to include shipping companies as well. Tesco has also concomitantly informed, and educated its suppliers. Moreover, Tesco has launched an internal feedback mechanism to ensure that both the operational managers of logistics suppliers and the purchasers of logistics services working in different Tesco departments are involved, and keep each other informed on the implementation of the ethical procurement policy.

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53 Clean Cargo/BSR, Smart Way, Green Freight Europe, and Green Freight Asia.

6. Conclusions

6.1 Assessing the effectiveness of CSR practices in the transport and logistics sector

The expansion of global supply chains has raised questions about the role of business in global governance of labour practices. Within the T and L sector, initiatives that specifically address decent work are limited, and when social conditions are at all present in sustainability provisions, may mention safety, but commonly do not address ILO fundamental Conventions. Within this sector, climate change and the high level of public concern about emissions from transport may have a crowding out effect, as logistics industry initiatives are found to focus primarily on environmental sustainability.

Logistics MNEs and Buyers could influence their supply chains to enhance both economic and social development (Holland, 2010). One shortcoming is the lack of understanding of how logistics decision making can influence companies' social responsibility (Coe and Hess, 2013). This was the case with those companies interviewed for this study, including Buyers and logistics MNEs, whose procurement and logistic managers can feel powerless to influence other actors in the supply chain. Visibility and complexity of the T and L industries are often associated with challenges in managing CSR. At the same time, given the significance of freight costs to product margins, competitiveness considerations result in a downward pressure on pricing, and may be at odds with responsibility goals.

The issue of visibility may place large 3PL MNEs in a better position than Buyers to start addressing second and lower-tier subcontracted suppliers. Although Buyers are further removed from that relationship, pressure can be brought to jump-start compliance requirements throughout their own supply chains. The transnational character of the T and L sector means an equally parallel international effort will be required. Continued awareness-raising and public pressure is needed to escalate social issues into the forefront of existing and future company and industry initiatives.

Social dialogue, representativeness and unionization rates should be strengthened in the sector. The momentum of the analysis of environmental and 'greening' of the logistics supply chain could provide for opportunities to incorporate social upgrading.

The current literature on social dimensions within the logistics industry is both recent and not wide. Evidence-based research can help identify the most effective entry points for promoting and monitoring decent work in the T and L supply chain, and investment in this research should be strengthened, coupled with increased multi-stakeholder engagement by social partners.

From the perspective of developing countries, social upgrading will require coordinated action by both state and corporate actors. The ILO can assist in providing technical assistance and policy coherence on labour market regulation to the logistics sector. Government involvement is also of paramount importance with regards to the promotion and enforcement of standards and regulations in support of decent work, and to provide enabling conditions for effective inspection mechanisms to be put into place. Analysis of logistics employer associations' collective bargaining mandate and involvement could also provide further insight.

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The ILO is encouraged to continue efforts to seek policy coherence at the international level regarding the relevance of human and labour components. Decent work principles need to be further highlighted and acknowledged by platforms and in tools, such as the OECD's International Transport Forum or the World Bank's Logistics Performance Index indicators.

6.2 Future research

As identified by this study, more evidence-based research in promoting decent work through the multiple-tier T and L sector is needed to identify effective practices in voluntary initiatives and regulatory policies. As illustrated in Section 5.1 and outlined in Appendix 1, large 3PL MNEs are beginning to include labour practices in their own initiatives and codes of conduct, and request the same of their suppliers. More frequent, systematic, and in-depth monitoring and independent validation of reporting on these outcomes is one proposed method for following trends. Importantly, application and monitoring of these codes should be the same across operational territories and subsidiaries (Coe, 2014).

Given the overall influence of the T and L industry on the global economy, including its value to primary producer and national competitiveness, research priorities to promote social upgrading in the industry should have a multi-pronged approach. (1) The impact of potential upgrading (or down-grading) within large 3PL MNEs as more consolidation and large players emerge; with attention to geographical division of labour; and (2) how to achieve 'upgrading', or higher levels of promotion of good practice through Buyer initiatives, given the prevalence of subcontracting and outsourcing.

More T and L sector data may become available through related research, as global value chains become the focus of political economy discourse. For example, the current Governance of Labour and Logistics for Sustainability (GOLLS) project implemented by Brazilian and Dutch researchers, provide an opportunity to gain insights into the role of logistics providers in global value chains (see **Box 4.6**).

Box 4.6:
Current research in Brazil

The objective of the Governance of Labour and Logistics for Sustainability (GOLLS) project is to promote labour rights and human security along and within global value chains linking Brazil and the Netherlands. The ultimate aim of the research project is to promote more equitable and sustainable outcomes for labour and communities as a result of their inclusion in global chains. Both social and environmental sustainability are central to this project that is jointly implemented by a Brazilian and a Dutch university. The project started in 2014 and seeks to tackle – though studies and publications - labour outcomes within chains, particularly, where chain governance is most hierarchical (e.g. Buyer-driven situations). It seeks to generate considerable policy guidance for government and social partners. Studies and knowledge generated will deepen the understanding of labour outcomes due to South communities' insertion in chains. Case studies research will integrate a consideration of labour, logistical processes and sustainability into their analysis. As of July 2015, the GOLLS project had developed studies on orange juice (Santos), furniture (Rio Grande) and acai (Belem/Manaus).

Source: International Institute of Social Studies, 2015.

The ILO, with support of member states and social partners, are uniquely positioned to undertake qualitative and quantitative research in this area need to provide important policy guidance.

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Appendices

Appendix 1 | Comparative Table of Transport and Logistics Codes of Conduct

Criteria

1. Company has a corporate responsibility policy which covers human rights and/or working conditions

2. Company has a Code of Conduct (CoC) covering working conditions policy

3. Company has a system in place to allow employees to signal issues or breach of the CoC

4. Company communicates on progress

5. Company is involved in initiatives dealing with human rights and/or decent working conditions

6. Company's CoC applies to suppliers

7. Company has a specific code for working conditions at suppliers

8. Company addresses labour relations

9. Company produces a CSR/CR report ('partially' indicates that the CSR report is integrated In the Annual Report)

10. Company uses a recognized framework to report (named where possible)

11. Key focus areas (based on materiality analysis when available or CSR report)

12. Company has a framework for stakeholder engagement (named where possible)

Criteria fulfilment by company

✓   Yes

✗   No

Ø   Partially

Table abbreviations

GRI   Global Reporting Initiative
IMO   International Maritime Organization
UNGC   United Nations Global Compact
WBCSD   World Business Council for Sustainable Development
WEF   World Economic Forum

Company Name /Info	1	2	3	4	5	6	7	8	9	10	11	12	Issues covered in Code of Conduct	Key Focus Areas
Agility Kuwait & Dubai Operations: 100+ countries Employees: 20,000+	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	GRI	Ecovadis WEF	■ No discrimination ■ No harassment ■ Protection for complainants ■ No forced labour (ref. ILO convention) ■ No child labour (ref. ILO convention) ■ Work hours and wages ■ Health & Safety Policy	■ Diversity in the workforce ■ Integrated approach to human capital management ■ Human rights issues (e.g Protecting Migrant Workers in the Middle East) ■ Health & Safety ■ Training & Education ■ Employee engagement
Bolloré Group T AND L France Operations: 90 countries Employees: 10 000	✓	✓	✗	✗	✗	✗	✓	✗	✗	✓	✗	UNGC	■ No direct or indirect child labour or forced labour practices. ■ Equal opportunities and no discrimination ■ Promotion of social dialogue ■ Safe and secure working conditions free of violence, victimization, harassment and threats	*Bolloré Logistics:* ■ Human Rights ■ Responsible purchasing ■ Dialog with the workforce ■ Dialog with stakeholders ■ Working conditions ■ Health and safety *Bolloré Africa Logistics:* ■ Human Rights ■ Dialog with stakeholders ■ Responsible purchasing ■ Working conditions ■ Skills

Company Name /Info	1	2	3	4	5	6	7	8	9	10	11	12	Issues covered in Code of Conduct	Key Focus Areas
Deutsche Post DHL Group Germany Operations: 220 countries Employees: 275,000	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓ GRI	Econsense UNGC WEF WBCSD Ecovadis	■ Elimination of all forms of forced or compulsory labour and to the effective abolition of child labour ■ Health and Safety at Work ■ Corporate Diversity & Inclusion Statement ■ Corporate health policy ■ Mentions support of UNGC principles and 1998 International Labour Organization "Declaration on Fundamental Principles and Rights at Work"	■ Road safety & transportation ■ Respect & support workers' rights and labour relations ■ Sustainability strategy, diversity & equal opportunity ■ Training & education ■ Health management, occupational health, safety & well-being ■ Human Rights due diligence ■ Respectful treatment of employees ■ Elimination of child & forced labour
Fedex USA Operations: 230+ countries Employees: 300,000+	✓	✓	✓	✓	✓	✓	✗	⊘	✓		GRI	✗	■ Prohibits harassment, bullying and discrimination, ■ No child labour ■ No compulsory and forced labour and trafficking ■ Health & Safety	■ Workplace safety ■ Social (& environmental) impact on communities ■ Diversity and inclusion ■ Workforce development

Company Name /Info	1	2	3	4	6	7	8	9	10	11	12	Issues covered in Code of Conduct	Key Focus Areas
Kuehne + Nagel Germany Operations: 100 countries Employees: 63,000+	Ø	Ø	✓	✗	✗	✗	✗	✗	Ø	✗	✗	■ Respect and support for cultural diversity, open and honest team co-operation and an environment free from intimidation and harassment ■ Highest possible levels of safety, health and security ■ Professional development opportunities on a global scale	■ Health & safety ■ Development & training of staff
Maersk Group Denmark Operations: 130 countries Employees: 89000+	✓	✓	✓	✓	✓	✗	✓	✓	✓	GRI (partially – uses the principles only)		■ Health, safety & security ■ Equal opportunity & diversity ■ No child labour ■ No forced labour ■ Freedom of Association and Collective Bargaining ■ Working hours ■ Compensation ■ Fair procedures	■ Labour relations and standards ■ Health & safety ■ Supplier conduct ■ High-risk suppliers ■ Personal safety ■ Training & skills
NYK Group Japan Operations: 37 countries Employees: 1,590 (Land: 1,269, Sea: 321)	✓	✓	✓	✓	✓	✗	✓	✗	Ø	Mix of indicators: UNGC, GRI & ISO26000		■ Adherence to social mores ■ Respect human rights, human local customs and practices, ■ Concerns and interests of the stakeholders ■ Respect the diversity, individuality, and humanity of employees and facilitate the activities of a diverse workforce make every effort to preserve favourable work environments	■ Human capital development incl. respect for Human Rights ■ Advancement of women ■ Training, skills

Company Name /Info	1	2	3	4	6	7	8	9	10	11	12	Issues covered in Code of Conduct	Key Focus Areas
Panalpina Switzerland Operations: 70+ countries Employees: 16,000+	✓	✓	✓	✓	✓	✓	✗	⊘	✓	GRI	✗	■ Committed to providing equal opportunity in all aspects of employment and welcome differences regarding race, gender, language, education etc. ■ No discrimination and harassment ■ Applicable laws and regulations governing fair employment practices for example those related to compensation and benefits, child labour, forced labour and freedom of association ■ Health and safety	■ Occupational health and safety training and education ■ Supplier assessment for labour practices ■ Labour practices grievance mechanisms ■ Labour/management relations
UPS USA Operations: 120 countries Employees: 435,000 (354,000 U.S.) 81,000 International)	✓	✓	✓	✓	✓	✓	✗	✓	✓	GRI		■ Equal opportunity and fair treatment ■ No discrimination ■ No harassment ■ Workplace health, wellness and safety ■ Basic Human Rights (equality among people, employee well-being and security, personal freedom from persecution, and economic, social, and cultural freedom)	■ Procurement practices; ■ Labour/management relations ■ Freedom of association & collective bargaining ■ Human Rights grievance mechanisms ■ Labour practices grievance mechanisms ■ Diversity and equal opportunity ■ Equal remuneration for women and men ■ Health and Safety Training and Education ■ Supplier assessment for labour practices, supplier Human Rights assessment

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Sinotrans (http://www.sinotrans.com/col/col3941/index.html)

TNT (http://www.tnt.com/corporate/en/site/home/about_us/corporate_responsibility.html)

UPS (http://www.sustainability.ups.com/media/UPS-GRI-Index-Infographic.pdf,

http://www.pressroom.ups.com/Article/UPS+Adds+Human+Rights+to+Code+of+Conduct and http://www.sustainability.ups.com)

Appendix 2 | Buyers interviewed

Adidas, Germany

Aeon, Japan

Amazon, USA

Auchan, France

Avon, USA

Best Buy, USA

B&Q, UK

C&A, Germany

Carrefour, France

Chiquita, Costa Rica / USA

Costco, USA

Delhaize, Belgium/USA

El Corte Inglés, Spain

H&M, Sweden

IKEA, Sweden

Levis, USA

NBC Universal, USA

Royal Ahold, Netherlands

Tesco, UK

Wal-Mart, USA

Woolworths, Australia