2010 OECD CONFERENCEON CORPORATE RESPONSIBILITY

30 June 2010

About BSR

We work with business to create a just and sustainable world

We have worked in more than 70 countries from six offices in Asia, Europe, and North America

San Francisco
Beijing
Guangzhou
Hong Kong
New York
Paris

Languages & Dialects Spoken:

Cantonese	Japanese	Spanish
Dutch	Kannada	Swedish
English	Lao	Tagalog
French	Mandarin	Taiwanese
German	Portuguese	Thai
Guarani	Russian	Urdu
Hindi	Shona	Vietnamese
Italian		

BSR®

Member Network: More than 250 BSR member companies

Sample member companies include:

Alcatel-Lucent	IKEA	Pfizer
Aramex	Kraft Foods	Shell
AREVA	Levi Strauss & Co.	SAP
Cisco	Li & Fung, Ltd.	Sodexo
The Coca-Cola Company	Marks & Spencer	Sony
COSCO Container Lines Co.	McDonald's	Starbucks
Duke Energy	Microsoft	Wal-Mart
Ford	Nike	The Walt Disney Company
GE	Novartis	Wells Fargo & Company
IBM		

BSR

BSR Projects look at supply chain issues from several angles

Buyer Alignment: Dell Scorecard for integrating CSR into procurement, Wal-Mart Energy Efficiency Work

Supplier Ownership: BSR's China Training Institute (CTI)

Government Engagement: Better Work

Worker Empowerment: HER (Health Enables Returns)

Corporate tools and practices for managing supply chain risks: *A perspective from China*

Scott Chang
BSR Beijing

Why use China as an example?

- Renowned as 'the world's manufacturer,' the application of OECD guidelines will inevitably impact how companies source products from China

- The history and development of CSR in Chinese manufacturing has some interesting lessons for OECD to consider

BSR

1949-2000: Shifting Ideologies

- Socialist ideal of "companies as society": a planned economy where companies are simply economic engines that provide for society

- "To get rich is glorious" – Deng Xiaoping

BSR

2000-2007: The Sweatshop Scare

- **Trend**
  - Series of scandals make buyers wary of factory conditions in China.

- **Impact**
  - **Increased Audits.** Attempts at risk mitigation brings many buyers into the audit game
  - **Gaming the Audit System.** A 'cottage industry' of double books and a culture of opposition between buyers and suppliers, developed and developing countries
  - **Political Posturing**
    - Gov't saw SA8000 and CSR as a de-facto trade barrier (2005)
    - Government taking action to try and control the standards themselves (CSC9000T)
  - **New Trends:** Training and CSR as Soft Competitiveness

2008-2010: Changing Domestic Priorities

- **Trends**
  - Employing (and protecting) the People – the Labour Contract Law
  - Changing worker expectations
  - Balancing labor intensive industries and the value add of innovation
  - Call to action (politically and commercially) on climate change

- **Impact**
  - A more proactive stance on labor issues and environmental protection by business and government
  - Increased "public accountability" via the media

"Today, the business philosophy has changed. … Cost, quality, and availability have become minimum requirements. Business ethics and social responsibility have become the key factors in enhancing competitiveness and sustainable development."

—Wang Zhongyu, President, China Enterprise Confederation (June 23, 2010)

Challenge: "trends-oriented" approaches

- Sweatshop scare
- An Audit Era

- Audit Fatigue + Trade Barrier scare
- A Training Era
- Training fatigue

- Politicization and prioritization of climate change
- The Energy Efficiency Era


- …?

Potential Learning for OECD

Observations

- "Force feeding" any standard or approach can easily be misinterpreted or cause an unwanted reaction
- Extremely diverse and complex issues
- Multiple stakeholders create the problem, they should be taken into account thinking when developing the solution
- This isn't just about one China or any one country – but complex interactions between many countries

Implications

- A prescriptive single-focused approach may not work
- Embrace complexity
- Think about a set of guidelines that includes many stakeholders
- There is no "silver bullet!"

- ***A comprehensive approach is needed, one that looks at business risk mitigation, value creation, as well as larger societal impacts***

BSR

Companies taking action to manage supply chain risks
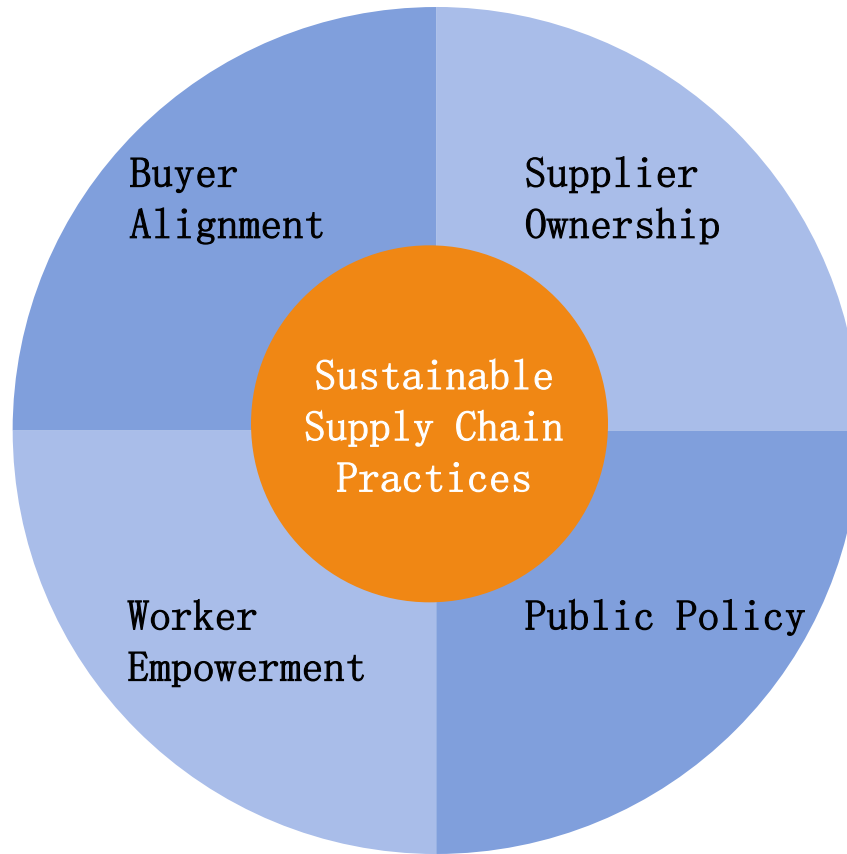
Auditing: a very useful tool when used in a bigger "system"
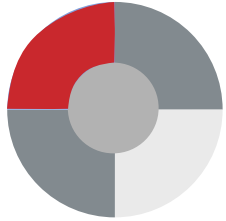
Buyer Alignment

example:

Benefits:

    – Great baseline data: No better tool for tracking social and environmental performance at a factory level over time
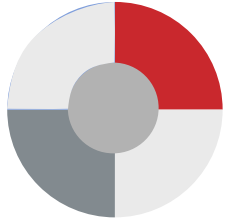
Limitations:

    – Auditing identifies problems, it does not solve them

    – Excessive auditing is inefficient

    – Can be an overly prescriptive tool when used alone

Opportunity:

    – Ideally, the OECD Guidelines for MNEs should help companies understand auditing as one tool within a bigger "sourcing system," a system that creates real incentives and consequences for CSR performance

Training: invest time to discuss what CSR means on the factory floor

Supplier ownership

example:

Benefits:
- Provides suppliers with needed practical guidance on how to implement a code
- Builds peer networks and creates opportunity for regular buyer-supplier engagement

Limitations:
- Difficult to develop scale-up effective training
- Particularly as some buyers are increasingly "brand managers" and less manufacturing experts, it can be challenging for a buyer to be a "supplier CSR consultant"

Opportunity:
- OECD Guidelines for MNEs can make companies aware that implementing CSR in global supply chains may mean that they will need to invest in helping their suppliers find practical ways to address challenges

Challenging ground: engaging in public policy discussion
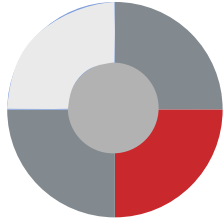
Public policy

examples:

Benefits:

– Government solutions—when they work–can result in long term, systemic solutions
– Could potentially augment existing in-country government relations efforts

Limitations:

– Government engagement is a time and labor intensive, with limited immediate tangible returns
– Outside of a buyer's home country, direct public policy engagement can be very politically sensitive

Opportunity:

– OECD Guidelines for MNEs can acknowledge that managing some CSR issues fall well-outside of a company's control, but where it is strategic and safe, corporate contribution to public policy discussion can lead to systematic change that alleviates supply chain risk and creates long term value

Worker empowerment: directly supporting workers' rights
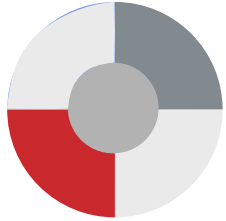
Worker empowerment

example:

Benefits:

- Direct benefit to disadvantaged group
- Empowered workers are arguably the best defense against abusive workplace practices
- Can be a positive way to engage with suppliers: worker programs are something a factory owner could be proud of

Limitations:

- Unionization is in some instances a sensitive issue for some businesses to advocate
- Effective programs can require a large time investment, a potential strain on limited resources

Opportunity:

- OECD Guidelines for MNEs should acknowledge that "preventing abuse" is about risk-mitigation, while direct efforts to improve workers' lives is about creating real value

Complex challenges require multi-dimensional solutions

- In order to promote the adoption of the latest "new solution" in ethical sourcing, we often find ourselves criticizing and discarding previous models and opting for the new one
- This can lead to an oversimplified approach to solving a complex challenge
- Improving CSR in global supply chains is *both* a risk mitigation and value creation exercise; it is a project about worker empowerment *and* improving buying practices
- Addressing these CSR issues in global supply chains will take us in multiple directions to achieve multiple objectives: to treat workers with dignity, to protect natural resources, and to benefit the bottom lines

BSR®