Message lost in the crowd?

By Rajesh Chhabara, Asia editor

A proliferation of voluntary initiatives in corporate social responsibility over the past decade has resulted in confusion, clutter and chaos in the market

The explosion in voluntary initiatives and codes of conduct for sustainability in the past 10 years has increased global awareness of corporate responsibility. But concerns have been raised about the effectiveness, motives, credibility and transparency of many initiatives. Add to this thousands of codes of conduct introduced by companies themselves and the sheer number of sustainability clubs open to modern business is mind-boggling.

Voluntary initiatives are collective programmes addressing a variety of issues including social and environmental responsibility, supply chain ethics and human rights. Numerous initiatives have been launched in recent years responding to stakeholders' demand of accountability from businesses. All of them offer codes of conduct, guidelines or standards that are almost identical, as they all address similar social, ethical and environmental concerns. But the similarity ends there.

A Guide to Voluntary Sector Initiatives in CSR is a research report recently published by Ethical Corporation Institute, the research arm of Ethical Corporation. It finds that key factors driving the rise of sector initiatives include campaigning by non-governmental organisations to highlight supply chain abuses; media broadcasting of problems facing particular sectors; several governments, universities and religious institutions introducing ethical sourcing policies; and consumers demanding socially responsible and green products.

Some of these initiatives are multistakeholder, some are industry driven and some are driven by campaigners. In the area of supply chain ethics, for example, the Ethical Trading Initiative (ETI) is a multistakeholder group; the Business Social Compliance Initiative (BSCI) is an industry grouping; and the Clean Clothes Campaign is led by activists.

Some industry driven initiatives have hand-picked civil society representatives on the governance board. Examples of this include Worldwide Responsible Accredited Production (Wrap) and International Council of Toy Industries' Care Process (ICTI Care). Others such as the Electronics Industry Citizenship Coalition (EICC) and BSCI exclude civil society representatives from the board.

An effective sector initiative

Experts that Ethical Corporation spoke to list the following success factors for a credible voluntary sector initiative.

- Involve **civil society** in the governance of the initiative.
- Comprehensive **coverage** of the sector.
- Include all **major players**.
- Ensure that truly representative **stakeholders** are involved in the initiative.
- Engage **internal and external** stakeholders while developing the processes.
- Subject matter **experts** are on the board.
- A good **governance** structure.
- **Transparency** throughout the process.
- Prioritise the most **material issues** rather than trying to address all the challenges at once.
- Develop the **healthy relations** among stakeholders that are necessary for moving towards a common objective.
- Include **suppliers** in the governance of supply chain initiatives.
- A transparent complaint handling mechanism. Make the **findings public**.
- A **transparent methodology** to measure members' performance. Those that are below certain performance should be asked to leave the initiative.
- An annual **reporting system** that should include relevant disclosures and information and statistics on the progress made including failures.
- Make **efforts to engage** with local governments.

Sector specific

A large number of initiatives are sector specific, such as the Equator Principles for project finance, ETI and BSCI for retailer supply chains, the International Council on Mining and Metals and the Roundtable on Sustainable Palm Oil. Others cut across industry sectors and include the United Nations Global Compact, SA 8000 and the Global Reporting Initiative guidelines on non-financial reporting.

Some initiatives are certification-based while some are audit and monitoring-based. Still others label themselves only as guidelines and do not involve certification or audits.

Though retail is the most crowded sector where there are several competing and overlapping initiatives, almost every global company is expected to join multiple initiatives to meet stakeholder expectations. This creates a lot of work for suppliers.

A medium-size retail supplier in a developing country has to follow at least a dozen codes of conduct and tens of audits a year mandated by different brands – all looking at the same social, labour and environmental issues in the same factory but in a different way.

"We fully acknowledge that there is a major problem now with audit fatigue, duplication and resulting confusion," says Auret van Heerden, chief executive of the US-headquartered Fair Labor Association, a multistakeholder supply chain monitoring initiative that was born out of a meeting of retailers with US president Bill Clinton in 1996. "But most confusion comes from those companies which are not at the table. There is a tremendous amount of cookie cutter auditing taking place particularly by large retailers who just want a piece of paper to say we did do due diligence," Heerden says.

Brands are starting to source energy from green sources to reduce their carbon impacts

Alice Tepper Marlin, president of Social Accountability International, the accreditation body for SA 8000 certification, says: "Multiple initiatives are making it difficult for consumers to distinguish between which brands are reliable and which ones are not."

Companies' dilemma

Companies, on the other hand, face difficulty in deciding whether to go ahead alone with their own code of conduct or join a sector initiative. Many end up doing both, making the landscape very complex. Companies also need to decide which sector initiatives to join.

"Companies need to know their material issues, risks and priorities. Then they need to analyse each sector initiative to see if they have representative stakeholders, support of key players and the needed expertise," says Sean Ansett, managing partner of At Stake Advisors, a Madrid-based corporate responsibility consultancy. "A company should also consider whether it has internal capabilities to meaningfully engage in the initiative."

Mark Goyder, director of UK-based sustainability thinktank Tomorrow's Company, says important points to consider are whether the initiative includes collaboration with civil society, whether all the key players are involved in the initiative and whether the initiative has teeth so that it can kick out any member who fails to comply.

But not all companies agree with the multistakeholder approach. Many of them prefer industry-driven initiatives. The electronics industry decided to launch its own initiative, the EICC, in 2004 rather than joining an existing initiative. "In the electronics sector, we generally share a large number of suppliers. So we thought a sector approach will be more relevant," says John Gabriel, chairman of the EICC who is also supply chain responsibility manager for IBM.

Addressing why the EICC is not a multistakeholder initiative, Gabriel says: "We had full understanding of our supply chain issues and we knew our suppliers well. We were not in a situation where we needed education from others." But he adds that the EICC regularly consults NGOs and other stakeholders even though they are not part of the governance.

Goyder contends that if civil society is not involved in the initiative, it makes it less likely that it will succeed. "The history of bad governance, high risk and corporate disasters is riddled with examples of no challenge. The challenge is the absolute essence of governance. If you are not including external stakeholders in the governance, you are foregoing the value of real challenge."

Though a multistakeholder approach remains a touchy area for many companies, working together has caught on in recent years. The founding members of the EICC including IBM, Dell and HP each had a supply chain social responsibility programme of their own before they decided to come together and launch the sector initiative. "Companies are working on a global basis. It's a big challenge even for major companies like IBM to go out and work on these issues on their own. Most large companies understand that it's better to pool resources," says Gabriel.

He says the joint initiative also saves duplication of audits in the supply chain as most electronics suppliers are shared by multiple members who can rely on one audit.

The International Council of Toy Industries that represents dozens of toy trade associations from around the world launched the ITCI Care Process, a supplier audit programme, six years ago. Frank Clarke, head of the US-based ICTI Care Foundation secretariat, which manages the initiative, says: "It made sense to go our own way rather than to tie-in with someone else. Most of the toy factories are concentrated in one area in south-east China. We felt toy industry issues were unique to our industry and we should have a trained audit workforce for our own kind of code."

A global solution

The need to move jointly prompted ten global banks including Citigroup, ABN Amro, Barclays, Credit Suisse and Westpac in 2003 to launch the Equator Principles – social and environmental standards for project financing. "Citigroup and other banks were investing in large infrastructure projects. But there wasn't a common set of standards by which to judge the environmental and social due diligence of those deals," says Shawn Miller, Citigroup's director of environmental and social risk management. By now, more than 65 banks have signed up to the Equator Principles.

Sector initiatives can be instrumental in minimising unfair competition if all major companies play by the same rules. Leonie Schreve, head of ING's environment and social risk management, says: "The Equator Principles have created a level playing field among the banks. It has become a global standard. It's almost impossible now to do a project that does not comply with the EPs."

Karen Wendt, vice-president for extra-financial risk advisory at UniCredit, one of Europe's largest banks, agrees: "The EPs have become a passport to successful syndication." She says banks now need to do a good job on assessing the environmental and social risks of a project otherwise the deal will not get syndicated as one or more signatories to the EPs are generally part of the consortium for large projects.

Citigroup, ING and UniCredit agree that signing up the Equator Principles has significantly reduced their project finance portfolio risk.

Companies participating in a joint initiative can reduce costs by sharing resources. Jan Eggert, secretary-general of Brussels-based Foreign Trade Association, which launched the Business Social Compliance Initiative to monitor supply chain of member retailers, says: "Retailers joining our programme get access to audit tools, including an audit database of currently 500 suppliers, training and solutions to problems they face on the ground."

Companies working together can also hope to address complex issues more effectively. "For example, instead of individually each company trying to cope with hours of work in China, they can work collaboratively with their peers," says FLA's van Heerden. "You also get to engage with stakeholders who enrich the process, add integrity and credibility."

The proliferation of voluntary initiatives has prompted a debate whether there is a need for greater collaboration and convergence

But many companies still prefer to go on their own rather than join a group initiative. "A company goes alone if it has first-mover advantage and the market rewards for performance," says Peter Lacy, Accenture's London-based sustainability practice head for Europe, Africa and Latin America. Lacy says that companies tend to collaborate at industry-level when there is a first-mover disadvantage. He says that another option for companies is to collaborate in targeted clusters without necessarily engaging the entire industry. "They do that because they do not have the capability to secure competitive advantage by themselves."

Equator Principles have built bridges

Experts say some companies go their own way because they don't want to submit themselves to the scrutiny of multi-stakeholder initiatives. Not all US retailers have joined the FLA and some of them dragged their feet for years before signing up. Van Heerden says: "The FLA is an extremely demanding system. It's the only system in which companies have to account publicly. This involves unannounced external verification of audits conducted by retailers and the results are published. So any company signing up has to be very, very sure that they are doing what they are agreeing to do."

Lacy, however, warns that companies should be careful that there is an appropriate balance between competition and collaboration. "Companies need to recognise that collaboration with industry initiatives is actually part of competitive strategy," he says. "You don't collaborate with the end goal of collaborating. You are collaborating in order to create a level playing field and then go on to compete."

But the chaotic proliferation of voluntary initiatives has prompted a debate whether there is a need for greater collaboration and convergence. "There is a huge need for convergence but that does not mean we

merge our organisations," says FLA's van Heerden. He points out that various sector initiatives may be addressing the same issue but their approach is different. "For example, the Ethical Trading Initiative is a learning forum, SAI is a certification system, FLA is a brand accountability system and the Clean Clothes Campaign is a campaign group."

Common code

FLA is involved in a collaborative effort with ETA, the Clean Clothes Campaign, Fair Wear Foundation, SAI and the Workers Rights Consortium to develop a common code of conduct since 2003. The group piloted a draft common code in Turkey in 2005-06 but has so far failed to come up with an acceptable common code and audit process, though the group continues to meet.

Analysts point to several factors that make it difficult for sector initiatives to collaborate such as politics, including a desire to dominate the process, protecting own turf, and disagreements on processes and methods.

Other examples of collaboration among initiatives include a recent tie-up between the BSCI and the ICTI Care process which allows BSCI members to accept audits by the latter. BSCI has also partnered with the SAI, exempting members from audits if they obtain the SA 8000 certification.

The UN Global Compact and the Global Reporting Initiative are collaborating to develop reporting mechanisms for Compact signatory companies. The Supplier Ethical Data Exchange or Sedex, a UK-based non-profit initiative, has brought together companies that can share their supplier audit database through a web-based system. The initiative helps reduce the burden on suppliers by avoiding the need for multiple audits. Wrap has partnered with Sedex to provide a list of certified factories on the Sedex website. The US-based Fair Factories Clearinghouse is another initiative which allows member companies to share supply chain audit information.

Steven Jesseph, chief executive of Wrap, which has partnered with the Fair Factories Clearing House and the Global Social Compliance Programme as well as Sedex, says: "We are very supportive of collaboration."

Apart from the perils of proliferation, voluntary initiatives also face criticism about inadequate transparency and credibility. Many initiatives are accused of allowing "free riders" where companies join the initiative to boost their own PR but not really living by the standards.

The UN Global Compact was recently criticised by more than 80 civil society organisations for allowing PetroChina, the publicly traded arm of China National Petroleum Corporation, to become a member. Campaigners accuse the company, which is Sudan's largest oil industry partner, of being complicit in genocide by financially supporting the Sudanese government. The Global Compact had been previously criticised when it was discovered that several companies which joined it had not provided any report on their performance on the Global Compact's principles. The criticism prompted the compact to flag hundreds of companies as "inactive".

Companies should be careful that there is an appropriate balance between competition and collaboration

The Global Compact's spokesman Mathias Stausberg says: "The commitment to [our] principles is the first step, but the real challenges are implementation and appropriate disclosure. We provide as much practical guidance as we possibly can, working through local networks and with other stakeholders to translate the Global Compact principles into action. Ultimately, creating motivation requires showing that it is in the best business interest to act responsibly."

Slow movement

Observers point out that some sector initiatives are not enforced strongly enough and participating companies' performance may greatly vary from each other. Philipp Ruehle, information and technology analyst at Germany-based Oekom Research, a leading rating agency for sustainable investments, says: "We reckon there is a very slow movement towards better-audited supply chains in the electronics industry. But we are still missing clear statements of the individual companies as well as of the EICC as a coalition to change their procurement policies." He adds that in order to be credible, the EICC standards need to include the core International Labour Organization principles and be more binding such as in the case of working hours, which is a major issue in the electronics supply chain.

Deborah Leipziger, lead researcher of the Ethical Corporation Institute report, advises companies to open up and broaden their stakeholder engagement rather than just meeting with a few selective stakeholder groups physically once or twice a year. Business should make the most of technology, such as webinars – online seminars – to talk with much broader groups.

Experts also say that most voluntary initiatives do not have robust or transparent complaint mechanisms. They say for a mechanism to receive complaints against erring members, documenting them and making this available publicly with actions taken would boost the credibility of an initiative.

Ansett says it is time for reflection, particularly for those initiatives that have been around for more than five years. "Their honeymoon is over. People are now looking at them more critically including some of their stakeholders within the initiative such as NGOs and trade unions," he says. NGOs and unions used to have strained relations with companies. But some of them eventually joined these initiatives in a major paradigm shift, abandoning confrontation. Ansett says if these groups feel they are not getting results by engaging, they will go back to their traditional activist roles. ■