



Sourcing Standards: Concerns for Investors

Enhancing Shareholder Value through Supply Chain Monitoring and Reporting

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Amalgamated Bank

Christian Brothers Investment Services

Connecticut Pension and Retirement System

Interfaith Center on Corporate Responsibility

New York City Employees Retirement System

Executive Summary

An Introduction to Sourcing Standards: What We Want

- Apparel manufacturers and retailers frequently purchase or *source* finished garments or components through the use of contracts with foreign manufacturers. In the sourcing relationship, the purchasing firm has a high degree of control over production.
- Through application of strong labor standards, independent monitoring and reporting to stakeholders, companies can reduce the likelihood of labor standards violations taking place in their supply chain and enhance their long-term profitability.

As investors, we urge companies to:

- Develop strong codes of conduct that incorporate United Nations conventions.
- Actively enforce codes through third-party monitoring. Experienced outside parties should independently verify findings.
- Report on monitoring and compliance efforts to stakeholders, using a standardized reporting mechanism. Investors should be provided with sufficient detail – such as countries of operation and partner factories – to allow for independent assessment of company efforts.

Standards Enhance Business Success

- *Reputation.* As consumers and the media focus more attention on companies' human rights practices, corporate policies can help to ensure that a company's brand is not associated with labor rights violations. Firms that do not attend to these issues may be punished in the marketplace.
- *Ability to Attract Customers.* Polling data suggest that some consumers will avoid products that they associate with abusive labor practices or that are produced in countries viewed as committing widespread human rights abuses. Allegations of sweatshop conditions in suppliers' factories can result in significant adverse publicity, consumer boycotts and other undesirable impacts. Goods produced under "fair-labor" conditions may command a price premium.
- *Ability to Attract Capital.* Positive social performance improves the ability of companies to attract capital from institutional investors. Socially responsible investors control an increasing amount of capital, growing in size at a far greater rate than the rest of the market. A number of large public employee retirement funds have spoken to the need for greater corporate responsibility in their portfolio management policies.
- *Profitability.* Companies that uphold human rights standards outperform their peers.
 - According to one 2000 study, such firms have shown a 9.8% higher return on equity, a 3.5% higher return on assets and a 2.7% higher return on sales than their less socially-engaged peers over a 10-year period. The 10-year relative total return to shareholders averaged 63.5% greater for the high-standards firms.

- Another 2000 analysis shows that companies with a reputation for social responsibility outperformed the S&P 500 by more than double over 15 years.
 - A 1997 study shows correlation between social and financial performance and also causality: firms perform better financially *because* they have responsible social practices.
- *Improved Operational Efficiency.* Many human rights problems within the apparel production supply chain relate to inefficiencies within the purchasing system. As buyers seek to reduce pressures that lead to abusive practices, they may improve their supply chain management and optimize operations.
 - *Improved Worker Productivity.* Protection of the rights of employees and business partners' employees leads to increased worker performance. A growing body of literature links fair workplace practices to improved productivity. A number of recent studies conclude that high performance work practices are positively correlated with strong financial performance.
 - *Macroeconomic Effects.* As workplace standards improve, communities become more stable and prosperous, which, in turn, creates a better base of operation for international business ventures. In 2002 the World Bank found that a high unionization rate resulted in lower earnings inequality, reduced wage discrimination against women, and improved economic performance. The International Labor Organization finds that the benefits of eliminating child labor in developing economies would be \$5 trillion – nearly seven times the costs.

Standards Reduce Business Risk

- *Operational Risks.* Predictability is essential to stable and productive business operations. The denial of basic human rights can cause labor strife, restricted access to goods and services, or delays in the movement of finished products.
- *Risk of Political Backlash and Trade Sanctions.* In the United States and the European Union, trade sanctions have been established for countries that are viewed as having widespread human rights violations. Companies can help to ensure that sanctions do not limit their ability to conduct business globally by promoting greater respect for human rights.
- *Potential Liabilities and Litigation Risks.* Companies are being held increasingly accountable for the practices of business partners. Ensuring that business operations are consistent with human rights principles contained in national and international law helps companies avoid legal challenges to their global activities. Complaints to inter-governmental organizations tend to strengthen potential legal action by governments and other actors. The cost of litigation is enormous and time consuming, and can result in reputational harm.

Benefits of the Reporting Process

Investors and other stakeholders expect transparency. In light of the business enhancements and risks discussed above, investors must have access to detailed information to make educated decisions about companies in their portfolios. A rigorous, consistently-applied reporting process allows a company to establish a process of monitoring for standards compliance and remediation of problems. Such a process enhances accountability – and therefore long-term profitability – in myriad ways.

Introduction

In order to contain costs, apparel manufacturers and retailers frequently purchase or *source* finished garments or components through the use of contracts with foreign manufacturers. In the sourcing relationship, the purchasing firm or brand-name licensee (often the same company) has a high degree of control over production factors, such as design and price. We believe it is the responsibility of the purchaser to prevent violations of human rights.

We have focused on the apparel manufacturing and retailing industry, because of widespread public criticism of abuses of workers in apparel factories. But the principles in this paper also apply to other industries that outsource their labor.

There is a growing belief among Western consumers, NGOs, unions and other stakeholders that companies that source from developing countries bear some responsibility for abuses of workers in their supply chains, particularly when they are in a position to exert direct control over the actions of their suppliers.
– *Insight Investments, 2004*

This document draws upon a wide range of publicly-available data, including United Nations reports, academic studies and research by non-governmental organizations to demonstrate the link between sound sourcing practices and shareholder value. The report discusses a number of different ways that good sourcing practices add to the bottom line, including:

- Prevention of labor standard violations
- Reduction of harm when violations do occur
- Protection of brand image
- Protection of corporate reputation
- Protection from liability and litigation risk
- Reduced risk of trade sanctions
- Enhanced customer goodwill
- Enhanced profitability
- Enhanced operational efficiency
- Enhanced worker productivity
- Enhanced supply chain reliability

Sourcing Standards and Shareholder Value

This paper was produced by a coalition of institutional investors representing Amalgamated Bank, Christian Brothers Investment Services, the Connecticut Pension and Retirement System, the Interfaith Center on Corporate Responsibility, and the New York City Employees Retirement System. As long-term investors, we are concerned with the ongoing growth, profitability and value of the companies we hold. As fiduciaries, we rely on accurate information to assess the companies in our portfolios.

Companies that outsource labor in developing countries face a growing number of shareholder resolutions on contract supplier standards, and support among shareholders is rising.¹ These resolutions call upon companies to:

¹ In its “2004 Background Report: Global Labor Standards,” The Investor Responsibility Research Center reports that the average shareholder vote in favor of global labor standards proposals has risen each year since 2001.

- Adopt human rights policies, including a code of conduct for suppliers;
- Address specific issues affecting the global supply chain;
- Issue a report to shareholders on monitoring of and compliance with the code of conduct.

By responding to concerns raised in these resolutions in a constructive manner, companies can reduce the likelihood of labor standards violations taking place in their *supply chain*, that is, at all stages of the business process, from the company to its suppliers, their suppliers, and so on. Conversely, companies that appear to contribute to poor living standards and the abuse of basic human and labor rights can put their long-term sustainability and financial performance at risk.

Effective compliance systems require transparency and rigorous information gathering, allowing purchasers to uncover problems, evaluate violations of company codes of conduct, and verify that improvements have been made. Companies that disclose from where they source have a greater incentive to assure that their contractors abide by internal corporate principles.

Compliance information should be made available to third-party monitors, as a check on company-reported data. This information must be made available to investors. In the absence of a transparent reporting process, shareholders lack the analytic tools needed to protect their investments.

What Do We Want?

As investors, we urge apparel and other outsourcing companies to develop strong codes of conduct that incorporate the conventions of the International Labor Organization (ILO) on Workplace Human Rights and the United Nations' Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights. These include the following principles:

- Workers have the right to form and join trade unions and to bargain collectively.
- Worker representatives should not experience discrimination and should be given access to all workplaces.
- Equality of opportunity and treatment shall be provided regardless of race, color, sex, religion, political opinion, age, nationality, social origin or other distinguishing characteristics.
- Employment shall be freely chosen.
- There shall be no use of force, including bonded or prison labor.
- There shall be no use of child labor.

These standards should be applied to all business partners. We acknowledge the practical difficulties of implementing and enforcing high standards throughout a supply chain that may include many facilities, but expect that companies will commit to continual improvement of their operations.

In recent years, responding to pressure from consumers, investors and worker advocates, many companies have adopted codes of conduct on labor standards. Simply adopting a code, however, does not prevent human rights violations from occurring or resolve the associated risks. Codes

may fall short of the key United Nations provisions. They may not extend to contractors and suppliers. Or, the code may lack requirements for sufficient monitoring, compliance verification and over-all transparency. Therefore, we also urge the companies in our investment portfolios to do the following:

- Actively enforce codes through locally-based third-party monitoring. Although internal compliance mechanisms may serve as a valuable part of an overall program, an inherent conflict of interest arises when companies rely solely on self-monitoring efforts. We believe that experienced outside parties with a proven history of working on labor and human rights issues – locally-based non-governmental organizations, labor groups and faith-based groups – should independently verify findings. Such entities have won the trust of potential whistleblowers among workers and communities. Vendors that do not use local monitoring organizations have a poor record of unearthing the perspective of workers at the factory level.
- Report on monitoring and compliance efforts to shareholders, using a standardized reporting mechanism such as the guidelines developed by the Global Reporting Initiative (GRI).² Shareholders should be provided with sufficient detail – such as countries of operation and examples of partner factories – to allow for independent verification of company efforts.

What Works?

Progress has recently been made in the area of monitoring and reporting:

Collegiate clothing. Brand-name licensors, such as Nike, have agreed to the demands of consumers at universities to provide information about their sourcing of college-logo apparel. Through the university-based Workers Rights Consortium (WRC), collegiate licensors have adopted model code of conduct language and have disclosed the plants producing college-logo clothing, allowing independent monitors to verify compliance. The WRC's code of conduct appears below. Sample factory reports are available through the WRC website.

The Gap report. In May 2004, The Gap Inc. released its first corporate social responsibility report, detailing working conditions in over 3,000 factories that make its clothing. The Gap collaborated with a number of research, labor and monitoring organizations to document workplace practices in non-U.S. plants, revealing violations at some. Apparel companies have often claimed that information about factory conditions and locations is proprietary; this report, therefore, breaks new ground by giving consumers, investors and other stakeholders a look at a specific brand's supply chain practices. The report has been widely commended by human rights organizations as a first step toward accountability and change.

Protecting Brand Image

A company's image is one of its most valuable assets. Company success depends on consumer and governmental goodwill. Workplace practices can harm or enhance a company's reputation.

² The Global Reporting Initiative guidelines are globally applicable sustainability reporting principles for voluntary use by corporations and other organizations. Started in 1997 by the Coalition for Environmentally Responsible Economies, the GRI became independent in 2002, and is an official collaborating center of the United Nations Environment Program (UNEP).

Corporate policies can help ensure that a company's brand is not associated with human and labor rights violations. Our shareholder proposals are designed to manage the risk of the companies (a) becoming a party to serious rights violations in the workplace or (b) appearing to benefit from such violations.

Businesses are now finding that ...they are being judged by the company they keep. As they rely more on outsourcing, they may be held responsible for the sins of their subcontractors.

– *Editorial in The Economist,*
January 24, 2004.

According to a recent survey of 2,000 public and private companies by the risk management firm Aon, corporations view reputational risk as their single biggest business hazard. Yet some corporations fail to take comprehensive steps to protect their reputations and brand name.

A 2004 corporate reputation study conducted by Harris Interactive and the Reputation Institute found that 75 percent of survey respondents graded the image of 60 big corporations as either “not good” or “terrible.” Ratings for workplace quality were particularly poor. Wal-Mart fell in the rankings following recent poor publicity about not only its own workplace practices, but also the hiring activities of its cleaning contractors – showing that consumers make judgments about corporations based on the practices of their business partners.³

Once labor practices become a matter of public scandal, it is often too late to avoid damage. The harsh criticism directed at the Kathie Lee Gifford clothing brand and its distributor, Wal-Mart, in the mid 1990s is one well-known example. Implementation of supply-chain standards serves as a form of preventative medicine. By taking proactive steps to ensure sound practices, companies can preemptively add value to their brands rather than scramble to put out fires as problems emerge. Enforced standards can help protect and enhance reputation by aligning business partner behavior with company norms.

Avoiding human rights violations is key to community relations wherever a company has a contractual relationship or a facility, contributing to a more stable and productive business environment. The denial of labor and human rights in ways that hinder a company's ability to conduct its business consistently with its stated values can undermine the faith of employees and external stakeholders in the company's integrity.

As more firms take proactive steps to apply standards to their supply chains, companies that fail to do so may lag behind the competition in their ability to attract customers and investors:

Customers: Media attention to the role of business in protecting or violating human rights has led to increased consumer awareness of the treatment of workers producing goods. Allegations of sweatshop conditions in suppliers' factories can result in significant adverse publicity, consumer boycotts and other undesirable impacts. Implementing and enforcing standards can help reduce the gravity of harm should problematic incidents occur.

Polling data suggest that consumers will avoid products they associate with abusive practices or that are produced in countries viewed as committing widespread human rights abuses. Dozens of colleges and universities have taken steps to avoid purchasing collegiate clothing and sports

³ Corporate Scandals Hit Home – Reputations of Big Companies Tumble in Consumer Survey,” Wall Street Journal 19 February 2004.

uniforms manufactured under sweatshop conditions.⁴ A 1999 Marymount University survey found that 79 percent of respondents would avoid shopping in stores if they were aware that the stores sold goods made under sweatshop conditions.

In contrast, goods produced under “fair labor” conditions may command a price premium. In the Marymount survey, 86 percent of respondents said they would be willing to pay a dollar more for a \$20 garment not made in sweatshops. According to Transfair USA, imports of coffee that is certified to have been produced by fairly-remunerated workers have grown an average of 72 percent per year since 1999.⁵ The Wall Street Journal recently published an article exposing retail mark-ups on fair-trade products over and above the improved wage to farm workers – a questionable practice which nonetheless illustrates the goodwill a company generates through its association with fair labor practices and the premium consumers are willing to pay in order to ensure workers are treated fairly. As noted by Paul Rice, Transfair’s chief executive, “Millions of U.S. consumers are willing to pay a bit more to feel they are making a difference.”⁶

A positive image can attract customers. Responding to questions about its factory report, Alan Marks, vice president for corporate communications at The Gap, says that showing concern about the supply chain is a “positive brand attribute” that will enhance the company’s relationship with consumers.⁷

Investors: A growing number of investors believe that long-term financial performance is tied to larger questions of corporate sustainability – including how a company addresses its sourcing and supply chain issues – and are seeking to enhance financial performance via social performance in their investment portfolios.

There is a consumer market for garments that are not made in sweatshops and I think there’s a strong business case to be made for socially responsible production as well.

– Robert Hagen,
Director, US State Department
Office for International Labor
Quoted in Just-Style.com
22 June 2004

Supply chains are becoming increasingly global in nature. Effective supply chain management in an ever-changing global economy has become a key to long-term financial performance of every multinational company. Having a code of conduct, and ensuring that it is adhered to, is one crucial element. A breakdown anywhere in the supply chain can have severe financial implications.

Shareholders are increasingly addressing these issues with companies in which they invest, seeking assurance that standards are in place and being met. In some cases, investor-company dialogues have led to companies increasing their disclosure or changing their policies to align with institutional investors’ expectations for social performance.

In particular, large institutional investors are concerned about social issues and are using their

⁴ The Workers Rights Consortium and the Fair Labor Association, two organizations which assist in monitoring and enforcing labor standards in apparel factories, have 128 and 191 collegiate affiliates, respectively.

⁵ Retrieved 5 August 2004 <<http://www.transfairusa.org/content/certification/overview.php>>.

⁶ Quoted in Stecklow, Steve and Erin White, “What Price Virtue? At Some Retailers, ‘Fair Trade’ Carries A Very High Cost -- Stores Charge Big Markups On Goods Intended to Help Farmers in Poor Countries -- Bananas at \$2.74 a Bunch.” Wall Street Journal, 8 June 2004.

⁷ Maitland, Allison and Sarah Murray, “The Trouble with Transparent Clothing,” Financial Times, May 12, 2004.

rights as shareholders to engage companies on social issues. Using a mix of active and indexed investment strategies in pursuit of long-term, steady returns, pension funds and their members benefit when the entire market operates at peak efficiency. Seeking to raise standards across the apparel industry and all public companies, such funds have taken action to create a sustainable investing climate that allows for optimum health and productivity over the long term. For these investors, measures to cut costs in the short term, leading to sub-standard workplace practices, are not attractive.

Following the implosion of several East Asian economies and resultant investor losses in the 1990's, The California Public Employees Retirement System (CalPERS) launched a process to consider country risk (or "political risk") in its emerging markets portfolio. As a result, market transparency, political stability and labor rights were added to the list of factors, nine in total, which determine whether a country is appropriate for the pension fund's investment. In addition, within "permissible countries," the fund's investment managers are instructed to describe how they incorporate geopolitical issues (e.g., political stability, strength of the legal system, and the record of labor practices in the country) into portfolio construction and to develop appropriate in-country research resources, internal guidelines and risk control factors for the portfolio. The New York City Employees Retirement System and the New York City Teachers Retirement System adopted a similar approach to emerging markets in 2002.

A number of public employee retirement funds have spoken to the need for greater corporate responsibility in their investment and voting policies:

- The CalPERS Investment Committee states that "A productive workforce ... is a critical factor in economic growth and, ultimately, equity market success."
- The New York City Employees Retirement System's policies require that companies engage in and cooperate with "efforts to find alternatives to closing" a plant and that a committee be established to review plant closings and the relocation of work.
- The State of Connecticut Retirement Plans and Trust Funds Investment Policy Statement says that "corporate citizenship is an important criterion in the evaluation of companies" when the funds evaluate a company's actions that affect job security and wage levels, local economic development and stability when voting their proxies.
- The California State Teachers Retirement System Investment Responsibility Guidelines state that the System will engage in the "prevention, reduction, and elimination of social injury."
- The 2000 Prudent Investment Policy of the world's largest pension fund, ABP, includes explicit language regarding the relation between its investments and social and environmental criteria, including labor conditions.

Benefits to Performance When Standards Are in Place

Studies have demonstrated the positive relationship between socially responsible workplace programs and business success. Some have documented multiple benefits resulting from leadership workplace policies, while others have shown a direct correlation to profitability or other financial performance measures.

Profitability. The 2000 Ford Foundation-funded meta-study, "Conversations with Disbelievers: Persuading Companies to Address Social Challenges," examines the impact of socially-responsible corporate behavior on a broad range of performance factors. In a chapter focused

specifically on stock price and financial performance, the authors summarize the findings of various studies showing empirical evidence that companies demonstrating social engagement outperform their peers, according to key performance indicators such as stock price, earnings, return on equity (ROE), return on assets (ROA), return on sales (ROS) and economic value added.

- Graves and Waddock, “Beyond Built to Last.”

Samuel Graves and Sandra Waddock extended the critical analysis started by James Collins and Jerry Porras in their 1994 book, *Built to Last*. Collins and Porras identified 18 companies as “built to last” (BTL), meaning that they pursue goals of corporate social engagement that extend beyond maximizing profits. They then compared the performance of these companies to 18 companies of a similar size in the same industry. Graves and Waddock maintain that relationship in their study for 11 of the 18 original pairs (they were not able to gather full data on the other seven due to contingencies such as mergers and bankruptcies). They assessed the corporate social performance and corporate financial performance of these BTL companies versus the 11 non-BTL companies, and found that the BTL companies significantly exceeded the non-BTL companies in financial measures.

- BTL companies had an ROE that was 9.8% higher over a 10-year period than non-BTL companies. They had an ROA that was 3.55% higher, and an ROS that was 2.79% higher.
- The 10-year relative total return to shareholders averaged 63.5% higher for BTL companies than for non-BTL companies.

- Towers Perrin: “Stakeholders’ Perspectives”

In another 2000 study, the consulting firm Towers Perrin identified 25 companies that excelled in managing relationships with five types of stakeholders: investors, customers, employee, suppliers, and the communities in which the companies operate. To determine whether companies excelled in managing stakeholder relationships, Towers Perrin used both publicly-available sources, such as Fortune Magazine’s “100 Best Companies to Work for in America” and “America’s Most Admired Companies,” as well as proprietary data about company activities. Researcher Jeffrey Schmidt analyzed the performance of these companies over time in comparison to the stock market. The analysis shows that these “stakeholder superstars” outperformed the S&P 500 by more than double over 15 years: the total shareholder return was 43 percent, while the total shareholder return from the S&P 500 was 19 percent.

- Waddock and Graves: “The Corporate Social Performance-Financial Performance Link”

A 1997 study by Waddock and Graves shows not only a link between social performance and financial performance, but causality as well. In other words, the researchers find evidence of companies performing better financially *because* they have responsible social practices, and not only by dint of excellent management in both the financial and corporate engagement arena. Waddock and Graves studied the relationships between corporate social performance and

financial performance of 469 companies in a broad range of industries.

- They found that there was a very significant positive correlation between ROA and social performance in their sample; a significant positive correlation between ROS and social performance, and a positive, but not significant, correlation between ROE and social performance.
- They found evidence that above-average social performance leads to above-average financial performance, and also the converse: that above-average financial performance leads to above-average social performance. In particular, their analysis showed that above-average social performance in one year was a good predictor of better financial performance in the following year, and also that above-average financial performance in one year was a good predictor of better social performance in the following year. They describe this as a “virtuous circle”: Doing well socially helps improve financial results, which then helps support social results, and so on.

Ability to Attract Capital. As discussed above, positive corporate social performance improves the ability of companies to attract capital from institutional investors, particularly socially responsible investors (SRIs). SRIs control an increasing amount of capital. In 2001 and 2003, the Social Investment Forum, a non-profit membership association of socially responsible investors, presented a trends report showing that socially-screened funds are growing in size at a far greater rate than the rest of the market.

- Total assets under management in portfolios screened for one or more social issues climbed from \$1.49 trillion in 1999 to \$2.16 trillion in 2003, and accounts for over 11 percent of the total \$19.2 trillion in investment assets under professional management in the United States.
- Assets involved in social investing have grown 40 percent faster than all professionally-managed assets in the United States. Investment portfolios involved in SRI grew by more than 240 percent from 1995 to 2003, compared with the 174 percent growth of the overall universe of assets under professional management over the same period.
- More than one out of every nine dollars under professional management in the United States is involved in socially responsible investing.
- Socially-screened mutual funds are attracting and keeping investor assets better than their unscreened counterparts during periods of market downturn. Assets in socially- screened mutual funds grew by 11 percent, to \$151 billion, up from \$136 billion in 2001. Socially responsible mutual funds increased in number to 200 funds in 2003, up from 181 in 2001, 168 in 1999, and 139 in 1997. In terms of attracting investor assets, socially-screened mutual funds grew on a net basis in 2002 while the rest of the mutual fund industry contracted. During the first nine months of 2001, there was a 94 percent drop in the dollars that investors put into all mutual funds, compared to only a 54 percent drop for socially-screened funds.
- Total assets under management in portfolios employing one or more social screens rose

seven percent between 2001 and 2003, while the broader universe of all professionally-managed portfolios fell four percent during the same time period.

Improved Operational Efficiency. In its 2004 report “Buying Your Way Into Trouble? The Challenge of Responsible Supply Chain Management,” Insight Investment argues that many human rights problems within the apparel production supply chain relate back to inefficiencies within the purchasing system. One great benefit of company programs to prevent worker exploitation is the rationalization and optimization of operations. For example, as buyers seek to reduce pressures that lead to abusive practices such as forced overtime, they may improve their supply chain management in any of the following ways:

- Improving the accuracy of forecasting to reduce last-minute demands on suppliers
- Better defining roles and responsibilities
- Simplifying decision making
- Introducing segmentation
- Encouraging active inquiry and feedback from suppliers
- Implementing training to foster cross-cultural communication and comprehension

Improved Worker Productivity. Protection of labor rights of employees and business partners’ employees leads to increased worker performance. A number of factors, both inside and outside the business sector, are influencing companies’ approaches to the workplace. These range from large, global trends to the influence of various stakeholder groups, to a growing understanding of the links between workplace policies and their impact on company performance and reputation.

There is a growing body of literature that links fair workplace practices to improved productivity. *Doing Well by Doing Good*, the Economic Policy Institute’s 1999 meta-review of these studies, concludes that high performance work practices are positively correlated with strong financial performance.

In 1994, CalPERS commissioned a study of high-performance workplaces to serve as a guideline for active investing strategies. The study, conducted by the Gordon Group, found that effective workplace practices have a positive impact on the productivity of employees and subsequently on long-term profitability. The key characteristics of a high-performance workplace identified by the CalPERS study included adequate training, fair compensation, benefits, employment security, a formal complaint resolution system, promotion from within, staff involvement and high morale.

Most of the empirical evidence suggests that changes aimed at building a skilled workforce, permitting people to make contributions beyond the day-to-day routine, and rewarding them for their results can result in strong financial performance and competitive advantage.”

– *Doing Well by Doing Good*

These characteristics are key factors in the productivity of workers throughout the supply chain, and prerequisites to the production of quality apparel. A 1997 Cornell University survey of New York State apparel manufacturers found that the greatest internal challenges encountered in attempting to improve business success were finding qualified labor (32 percent of respondents); lack of understanding/poor communication (25 percent); worker turnover/employee training (25 percent); and employee motivation/morale/dedication (16 percent). Although there is no

comparable study looking at apparel factories outside the U.S., certainly, these factors are exacerbated in any workplace environment that does not adhere to basic labor standards such as those delineated by the ILO – where workers may be intimidated, underage, physically uncomfortable, forced to work long hours, or lack effective representation.

Risks to Performance When Standards Are Not in Place

Operation Risks. Predictability is essential to stable and productive business operations. The denial of basic human rights often leads to social or political disruption. This in turn can cause labor strife, restricted access to goods and services, or delays in the movement of finished products. An object lesson may be found in the oil industry, where political instability, military repression or ethnic clashes have led to operational shutdowns in numerous locations. For example, Chevron Texaco was forced to shut down oil operations in Nigeria in 2003 – and ExxonMobil suspended operations in Indonesia in 2001.

Potential Liabilities and Litigation Risks. Companies may be held accountable for the practices of business partners. Wal-Mart has recently exposed itself to pending government investigation and investor litigation due to the illegal practices of its janitorial contractors. And in November 2003, US District Court Judge Joseph McKinley ruled that Tyson Foods could be held responsible for pollution stemming from 80 contract farms in western Kentucky.

Corporate misconduct lawsuits can be costly to companies even when won – in terms of the amount of time top managers need to devote to litigation, the damage to reputation that can result, and the possibility of actual adverse results. Companies can better avoid these kinds of costs and risks by operating more carefully in the first place.

Human rights principles are contained in national and international law. Ensuring that business operations are consistent with these legal principles helps companies avoid legal challenges to their global activities. Companies may be cited in complaints to the ILO, or to other governmental or inter-governmental organizations – and these citations tend to strengthen potential legal action by single governments, as well. In recent years, cases have been brought in U.S. courts alleging that multinational companies have contributed to human and labor rights violations. Below are two examples of such cases.

U.S. Retailers in Saipan: In September 2002, seven U.S. retailers – Abercrombie & Fitch, Target, The Gap, J.C. Penney, Lane Bryant, The Limited, and Talbot – settled a case that had been brought against them in Federal Court in the U.S. Commonwealth of the Northern Marianas Islands, on the island of Saipan. The class-action lawsuit, filed on behalf of immigrant workers from Asian countries who went to Saipan to work, alleged violations of wage and hour laws and other workers' rights.

To settle the suit, each company agreed to make a contribution to a fund that would finance a monitoring program and compensate more than 30,000 workers, as well as cover administrative and legal fees. The seven retailers settled for \$11.25 million, with an additional \$8.75 million coming from previous settlements. The manufacturers also agreed to comply with strict employment standards, including overtime payment and

respecting other workplace rights. A panel of three retired judges oversees the monitoring program and has the power to order payment of back wages and to establish remedies for any future violations found by the monitors.

Coca-Cola in Colombia: Coca-Cola and its Colombian bottler (Panamco, now Coca-Cola Femsa) were sued for allegedly not taking steps to prevent management involvement with paramilitary forces engaged in violence against union leaders employed at bottling facilities. The International Labor Rights Fund filed suit against Coca-Cola, its bottler and individual defendants. The case was filed under the Alien Tort Claims Act. Plaintiffs are the Colombian union, Sinaltrainal, and five individuals who have been murdered, tortured, and/or unlawfully detained. The judge has dismissed the charges against Coca-Cola, but did not dismiss the charges against the bottler, in which Coca-Cola owns a 40 percent stake; however a decision on a motion to amend to bring Coca-Cola back as a defendant is currently pending.⁸ An international activist campaign has arisen in response these events, generating a considerable amount of press and prompting boycotts of Coca-Cola products on college campuses.

Macroeconomic Effects of Standards

As workplace standards improve, communities become more stable and prosperous, which in turn, creates a better base of operation for international business ventures.

UN Secretary General Kofi Annan told the World Economic Forum in 1999 that unless people had confidence in the fundamental fairness of the globalized economy, its prospects “will be fragile and vulnerable.”⁹ Applying human rights principles thoroughly, consistently and impartially in a company’s global operations can contribute to the development of legal systems in which contracts are enforced fairly, bribery and corruption is less prevalent and all business entities have equal access to legal process and equal protection under law.

In the United States, both nationally and at the state level, as well as in the European Union, trade sanctions have been established or proposed for countries such as Burma, Indonesia, China and Guatemala that are viewed as having widespread human rights violations. Companies can help to ensure that sanctions do not limit their ability to conduct business globally by promoting greater respect for human rights in such nations.

There is a wide body of literature on the connection between labor standards and development. A significant global study, “Unions and Collective Bargaining: Economic Effects in a Global Environment,” was published by the World Bank in 2002. Despite initial skepticism by World Bank officials toward the economic impact of the freedom of association and right to collective bargaining elements of the 1998 ILO Declaration on Fundamental Principles and Rights at Work, the Bank’s study ultimately found that a high unionization rate and coordinated collective bargaining resulted in lower earnings inequality, reduced wage discrimination against women, and improved economic performance, including reduced unemployment. In February 2004, the

⁸ In 2003, Amalgamated Bank filed a shareholder proposal at Coca-Cola and urged the company to specifically include its Code of Conduct in its agreements with bottlers.

⁹ “Annan Fears Backlash Over Global Crisis,” *New York Times*, 1 February 1999.

ILO completed a study finding that the benefits of eliminating child labor in developing and transitional economies would be \$5 trillion – nearly seven times the estimated costs.

Benefits of the Reporting Process

Investors and other stakeholders expect transparency from well-run companies. Our shareholder proposals ask corporate boards to issue a report on their sourcing practices. In light of the risks discussed above, investors must have access to detailed information to make educated decisions about companies in their portfolios. Reporting has long-term benefits for the corporation as well. Ethics philosopher Dr. Morton Winston identified a number of these benefits during an address to the Interfaith Center on Corporate Responsibility in 2001:

- Reporting can identify the effectiveness of programs related to responsible outsourcing, often improving operating efficiencies and reducing costs. Reporting gives companies the opportunity to pull together information to better coordinate actions and information across departments, facilities and business units.
- Reporting can quantify and assess a company's non-financial impact, both positively and negatively, on the communities in which they operate, the environment, and society. The dialogues with stakeholders that are part of many reporting efforts can provide a company with valuable insight about how the company is perceived by community groups and other stakeholders, the future issues and concerns that could place demands on the company, and weaknesses and opportunities about which the company may not be aware. Such information can help companies better define their priorities and align their business activities with their own principles or ethical codes.
- Reporting can identify where company practices may be in violation of government regulations or the standards or expectations of key stakeholder groups. Many government agencies and stakeholders look favorably at companies that identify problems through self-audit, especially if they publicly disclose the problems, demonstrate that they are working to solve them, and develop management systems to reduce the likelihood of recurrence.

Companies that undertake reporting can satisfy stakeholder demands for increased transparency and communication, thereby improving or enhancing their relationships with investors, customers, suppliers, communities, activist organizations, media organizations, and regulators. Piecemeal transmission of information does not substitute for thorough and regular auditing and disclosure. A rigorous, consistently-applied reporting process allows a company to establish a process of monitoring for and remediation of standards compliance that enhances accountability – and therefore long-term profitability – in myriad ways.

In short, the adoption of strong supply chain standards, monitoring for compliance and reporting is the only way that companies can assure shareholders that labor standards are upheld throughout the supply chain – and upholding labor standards is good for business. Companies that take these steps now might find that they are able to both distinguish themselves in the eyes of their stakeholders and lead the way for the industry as a whole.

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Worker Rights Consortium Database <<http://workersrights.org>>.

MODEL CODE OF CONDUCT *Workers Rights Consortium*

Member schools may adopt this code as the standard they will require of licensees. The Worker Rights Consortium will use this code of conduct as the basis for its investigations

I. Introduction

- A. The Universities participating in the Worker Rights Consortium are each committed to conducting their business affairs in a socially responsible and ethical manner consistent with their respective educational, research and/or service missions, and to protecting and preserving the global environment.
- B. While the Consortium and the Member Institutions believe that Licensees share this commitment, the Consortium and the Member Institutions have adopted the following Code of Conduct (the “Code”) which requires that all Licensees, at a minimum, adhere to the principles set forth in the Code.
- C. Throughout the Code the term “Licensee” shall include all persons or entities which have entered into a written “License Agreement” with the University manufacture “Licensed Articles” (as that term is defined in the License Agreement) bearing the names, trademarks and/or images of one or more Member Institutions. The term “Licensee” shall for purposes of the Code, and unless otherwise specified in the Code, encompass all of Licensees’ contractors, subcontractors or manufacturers which produce, assemble or package finished Licensed Articles for the consumer.

II. Notice

- A. The principles set forth in the Code shall apply to all Licensees.
- B. As a condition of being permitted to produce and/or sell Licensed Articles, Licensees must comply with the Code. Licensees are required to adhere to the Code within six (6) months of notification of the Code and as required in applicable license agreements.

III. Standards

- A. Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. The University prefers that Licensees exceed these standards.
- B. Legal Compliance: Licensees must comply with all applicable legal requirements of the country(ies) of manufacture in conducting business related to or involving the production or sale of Licensed Articles. Where there are differences or conflicts with the Code and the laws of the country(ies) of manufacture, the higher standard shall prevail, subject to the considerations stated in Section VI.

C. Employment Standards: Licensees shall comply with the following standards:

1. *Wages and Benefits*: Licensees recognize that wages are essential to meeting employees' basic needs. Licensees shall pay employees, as a floor, wages and benefits which comply with all applicable laws and regulations, and which provide for essential needs and establish a dignified living wage for workers and their families. [A living wage is a "take home" or "net" wage, earned during a country's legal maximum work week, but not more than 48 hours. A living wage provides for the basic needs (housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation and savings) of an average family unit of employees in the garment manufacturing employment sector of the country divided by the average number of adult wage earners in the family unit of employees in the garment manufacturing employment sector of the country.]
2. *Working Hours*: Hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week or (b) the limits on regular hours allowed by the law of the country of manufacture, and (ii) be entitled to at least one day off in every seven day period, as well as holidays and vacations.
3. *Overtime Compensation*: All overtime hours must be worked voluntarily by employees. In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least one and one-half their regular hourly compensation rate.
4. *Child Labor*: Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights, and nongovernmental organizations, and to take reasonable steps as evaluated by the University to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.
5. *Forced Labor*: There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.
6. *Health and Safety*: Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities. In addition, Licensees must comply with the following provisions:
 - a. The Licensee shall ensure that its direct operations and those of any subcontractors comply with all workplace safety and health regulations established by the national government where the production facility is located, or with Title 29 CFR of the Federal Code of Regulations, enforced by Federal OSHA (Occupational Safety and

- Health Administration), whichever regulation is more health protective for a given hazard.
- b. The Licensee shall ensure that its direct operations and subcontractors comply with all health and safety conventions of the International Labor Organization (ILO) ratified and adopted by the country in which the production facility is located.
7. *Nondiscrimination*: No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.
 8. *Harassment or Abuse*: Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological, or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.
 9. *Freedom of Association and Collective Bargaining*: Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining. No employee shall be subject to harassment, intimidation or retaliation in their efforts to freely associate or bargain collectively. Licensees shall not cooperate with governmental agencies and other organizations that use the power of the State to prevent workers from organizing a union of their choice. Licensees shall allow union organizers free access to employees. Licensees shall recognize the union of the employees' choice.
10. *Women's Rights*
 - a. Women workers will receive equal remuneration, including benefits; equal treatment; equal evaluation of the quality of their work; and equal opportunity to fill all positions open to male workers.
 - b. Pregnancy tests will not be a condition of employment, nor will they be demanded of employees.
 - c. Workers who take maternity leave will not face dismissal nor threat of dismissal, loss of seniority or deduction of wages, and will be able to return to their former employment at the same rate of pay and benefits.
 - d. Workers will not be forced or pressured to use contraception.
 - e. Workers will not be exposed to hazards, including glues and solvents, that may endanger their safety, including their reproductive health.
 - f. Licensees shall provide appropriate services and accommodation to women workers in connection with pregnancy.

IV. Compliance and Disclosure

Licensees (for themselves and on behalf of their contractors, subcontractors, or manufacturers) shall disclose to the Worker Rights Consortium, the University, and the public the information set forth in Sections A, B, and C below.

- A. Upon execution and renewal of the License Agreement and upon the selection of any new manufacturing facility which produces Licensed Articles, the company names, contacts, addresses, phone numbers, e-mail addresses, and nature of the business association for all such facilities which produce Licensed Articles;
- B. at least sixty (60) days prior to the end of each contract year of the License Agreement, written assurance that (i) Licensees are in compliance with the Code and/or (ii) licensees are taking reasonable steps to remedy non-compliance in facilities found not to be in compliance with the code;
- C. at least sixty (60) days prior to the end of each contract year of the License Agreement, a summary of those steps taken to remedy material violations, and/or difficulties encountered, during the preceding year in implementing and enforcing the Code at all of Licensees' facilities which produce Licensed Articles.

V. Verification

It shall be the responsibility of Licensees (for themselves and on behalf of their contractors, subcontractors, or manufacturers) to ensure their compliance with the Code. The WRC and its Member Institutions will undertake efforts to determine and clearly define the obligations associated with the development of adequate methods and training for independent external monitoring, as guided by the principles in the founding document of the Consortium.

VI. Labor Standards Environment

In countries where law or practice conflicts with these labor standards, Licensees agree to consult with governmental, human rights, labor and business organizations and to take effective actions as evaluated by the University to achieve full compliance with each of these standards. Licensees further agree to refrain from any actions that would diminish the protections of these labor standards. In addition to all other rights under the Licensing Agreement, the University reserves the right to refuse renewal of Licensing Agreements for goods made in countries where:

- A. progress toward implementation of the employment standards in the Code is no longer being made; and
- B. compliance with the employment standards in the Code is deemed impossible. The University shall make such determinations based upon examination of reports from governmental, human rights, labor and business organizations and after consultation with the relevant Licensees.

VII. Remediation

Remedies herein apply to violations which occur after the Effective Date of the Code.

- A. If a Licensee has failed to self-correct a violation of the Code, the University will consult with the Licensee (for itself and on behalf of its contractors, subcontractors, or manufacturers) to determine appropriate corrective action.
- B. The remedy will, at a minimum, include requiring the licensee to take all steps necessary to correct such violations including, without limitation:
 - 1. Paying all applicable back wages found due to workers who manufactured the licensed articles.
 - 2. Reinstatement of any worker found to have been unlawfully dismissed.
- C. If agreement on corrective action is not reached, and/or the action does not result in correction of the violation within a specified reasonable time period, the University reserves the right to
 - 1. Require that the Licensee terminate its relationship with any contractor, subcontractor, or manufacturer that continues to conduct its business in violation of the Code, and/or
 - 2. Terminate its relationship with any Licensee that continues to conduct its business in violation of the Code.

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P:(202) 387-4884 F:(202) 387-3292
wrc@workersrights.org

2004 Shareowner Proposals

In 2004 we submitted proposals at three companies – Dillard’s, Kellwood and VF Corporation – asking for a report on monitoring of and compliance with apparel sourcing standards. The proposals, which are attached below, ask the boards to generate the production of a document that explicitly and in one place commits each company to the enumerated principles.

The companies we have targeted for shareholder action this season have various levels of standards in place. To follow, please find a summary of each company’s code of conduct.

Dillard’s

Dillard’s has various non-public guidelines for its sourcing network, but has no unified code. Since the guidelines are not public, we do not know when revisions might be made. However, at the time of our most recent conversation with the company, the guidelines that existed and have been used in purchase orders and buying agency contracts lacked key provisions of the ILO Conventions, such as support for freedom of association.

Kellwood

Kellwood’s code of conduct contains all key elements of ILO Conventions; extends standards to contractors and business partners; and includes provisions for monitoring compliance. These policies are contained within documents found on Kellwood’s website. However, the Kellwood situation highlights the need for reporting to shareholders. The codes and standards made available do not detail where self-monitoring has occurred; how often; or to what end. Therefore there is no way for a third party to verify compliance. As shown in the section below, labor abuses at Kellwood factories would indicate that the very presence of a code does not ensure compliance.

Kellwood purchases goods produced in countries like China and Indonesia, where human rights abuses and unfair labor practices have occurred. The presence of KWD in China raises the question of how the company enforces its commitment to freedom of association.

Kellwood has also obtained merchandise from countries in this hemisphere where human rights issues have arisen. In 2001 The National Labor Committee for Worker and Human Rights (NLC) documented shipments from the Chi Fung Factory in Apopa, El Salvador to Kellwood and reported the following abuses at Chi Fung:¹⁰

- Forced overtime—without pay—to meet production goals.
- Forced pregnancy tests.
- Unsafe drinking water.
- Organizing a union is prohibited.
- Surveillance cameras in the bathrooms and on the shop floor

¹⁰ This report is available at www.nlcnet.org/campaigns/archive/elsalvador/0401/chifung.shtml.

VF Corporation

VF's code contains references to some of the specifics covered in our proposal, but other points are not addressed at all. There is, for example, no reference to the right to form and join trade unions. Nor does the code address non-discrimination or harassment on the bases of political opinion or social origin. Further, the code lacks an explicit reference to forced (including bonded or voluntary) prison labor and child labor. The code's general statement that "all associates conduct Company business in full compliance with laws, rules and regulations of each respective country, or follow the Company standards set forth if local laws are more permissive" falls short of the specificity on the cited topics that we seek. VF's policies are contained within documents found on Kellwood's website.

VF sources from China, again raising the issue of compliance with United Nations guidelines assuring freedom of association. According to investigators from the Workers Rights Consortium, abuses were uncovered in 2003 at VF supplier companies in El Salvador, Indonesia and Lesotho, such as worker intimidation, harassment and violence, and production of goods in unsafe working conditions (see below). In addition, The 2001 NLC report cited above also found that VF purchases from the Chi Fung facility in El Salvador.

Dae Joo factory in Indonesia

- Workers have regularly been pressured to work as late as 11PM or midnight to finish orders for VF.
- This factory does not provide adequate safety equipment or legally-required health care.
- The factory has refused to bargain a contract with the recognized union, and threatened workers who are members of the union.
- VF ignored the problems at the Dae Joo factory until they were identified by the WRC – highlighting the need for outside monitoring.

Formosa Textiles and other factories in El Salvador

- Women workers are forced to undergo pregnancy tests.
- Supervisors spy on women workers while in the bathrooms.
- Supervisors openly boast of firing union supporters.
- Working conditions are unsafe and unsanitary. Drinking water provided to employees at one VF supply factory registered bacteria levels 290 times greater than internationally recognized standards.

China Garments Manufacturing in Lesotho

- A 2001 government report criticized CGM for forcing employees to work seven days a week.
- During a worker protest in 1998, CGM managers called in armed police officers who fired shotguns at assembled workers, killing two and injuring 20 others, This event was noted in the US State Department's 1998 Human Rights Report.

DILLARD’S, INC
GLOBAL HUMAN RIGHTS STANDARDS

Whereas, Dillards, Inc. currently has extensive overseas operations, and

Whereas, reports of human rights abuses in the overseas subsidiaries and suppliers of U.S.-based corporations has led to an increased public awareness of the problems of child labor, “sweatshop” conditions, and the denial of labor rights in U.S. corporate overseas operations, and

Whereas, corporate violations of human rights in these overseas operations can lead to negative publicity, public protests, and a loss of consumer confidence which can have a negative impact on shareholder value, and

Whereas, a number of corporations have implemented independent monitoring programs with respected human rights and religious organizations to strengthen compliance with international human rights norms in subsidiary and supplier factories, and

Whereas, many of these programs incorporate the conventions of the International Labor Organization (ILO) on workplace human rights, and the United Nations’ Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights (“UN Norms”), which include the following principles:

1. All workers have the right to form and join trade unions and to bargain collectively. (ILO Conventions 87 and 98; UN Norms, section D9).
2. Workers representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions. (ILO Convention 135; UN Norms, section D9)
3. There shall be no discrimination or intimidation in employment. Equality of opportunity and treatment shall be provided regardless of race, color, sex, religion, political opinion, age, nationality, social origin or other distinguishing characteristics. (ILO Conventions 100 and 111; UN Norms, section B2).
4. Employment shall be freely chosen. There shall be no use of force, including bonded or prison labor. (ILO Conventions 29 and 105; UN Norms, section D5).
5. There shall be no use of child labor. (ILO Convention 138; UN Norms, section D6), and,

Whereas, independent monitoring of corporate adherence to these internationally recognized principles is essential if consumer and investor confidence in our company’s commitment to human rights is to be maintained,

Therefore, be it resolved that the shareholders request that the company commit itself to the implementation of a code of conduct based on the aforementioned ILO human rights standards and United Nations' Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights, by its international suppliers and in its own international production facilities, and commit to a program of outside, independent monitoring of compliance with these standards.

RESOLUTION REQUESTING A REPORT ON COMPLIANCE BY BUSINESS PARTNERS WITH **KELLWOOD'S** CODE OF CONDUCT

RESOLVED: The shareholders of Kellwood Company (“Kellwood” or the “Company”) request the Board of Directors to prepare a report at reasonable expense on monitoring of and compliance with the Company’s “Code of Conduct” which addresses human rights and global labor standards. Such report should evaluate the effectiveness of compliance mechanisms that Kellwood uses to monitor compliance with the Code insofar as they affect vendors, subcontractors and buying agents in countries where Kellwood obtains merchandise.

SUPPORTING STATEMENT

The public is concerned about the conditions under which the goods they purchase and the clothing they wear are produced. More companies are contracting with independent producers for goods and services outside the United States. According to a Marymount University survey conducted several years ago, 79% of respondents stated they would avoid shopping in stores if they were aware that stores sold goods made under sweatshop conditions. Eighty-three percent said they would be willing to pay a dollar more for a \$20 garment not made in sweatshops.

As U.S. companies import more goods, concern has grown about working conditions in many nations that fall far below basic standards of fair and humane treatment. Kellwood purchases goods produced in countries like China and Indonesia where human rights abuses and unfair labor practices have occurred. Kellwood also obtains merchandise from countries in this hemisphere where human rights issues have arisen.

Kellwood has adopted a Code of Conduct that prohibits certain activities on the part of its suppliers, including forced labor, child labor, discriminatory and unsafe working conditions, and limitations of workers’ freedom of association. Although the existence of such a Code is essential, the key issue, in our view, is to what extent a company and its suppliers are complying with that policy.

We are concerned that this may not be happening with Kellwood suppliers. A recent report noted that one supplier in the Dominican Republic paid employees less than subsistence wages for piece work with no payment for overtime. Conditions were potentially unsafe, with the emergency exit kept locked, and workers who attempted to form a union were terminated for that reason. These conditions appear to be inconsistent with Kellwood’s Code of Conduct.

We are concerned about reports that overseas suppliers are exploiting workers may damage our company's reputation and generate a consumer backlash.

We believe that effective compliance mechanisms can best be established by developing independent monitoring programs with local respected religious and human rights groups to ensure compliance with vendor standards and assure consumers that products are not made under abusive labor conditions. We note that several apparel manufacturers have agreed to independent monitoring programs in conjunction with local non-governmental organizations. Through the use

of such independent monitoring, we believe that there can be greater assurance that Kellwood's Code of Conduct standards are applied, protecting the company from negative publicity associated with the discovery of any sweatshop practices.

We urge you to vote FOR this resolution.

RESOLUTION REQUESTING A REPORT ON COMPLIANCE BY BUSINESS PARTNERS WITH VF CORPORATION'S CODE OF CONDUCT

RESOLVED: The shareholders request that the Board of Directors of VF Corporation (“VF” or the “Company”) adopt an enforceable policy to be followed by the Company, its subsidiaries, affiliates and suppliers based on the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work and to include the following:

-- All workers have the right to form and join trade unions and to bargain collectively (Conventions 87 and 98);

-- There shall be no discrimination or intimidation in employment; VF shall provide equality of opportunity and treatment regardless of race, color, sex, religion, political opinion, age, nationality, social origin or other distinguishing characteristics (Conventions 100 and 111);

-- Employment shall be freely chosen; there shall be no use of forced, including bonded or voluntary prison, labor or of child labor (Conventions 29 and 105, 138 and 182);

and prepare a report at reasonable cost to shareholders concerning implementation of this policy.

SUPPORTING STATEMENT

As a global corporation, VF Corporation faces many regulatory regimes and public pressures exposing it to various risks. Managing operations effectively and increasing shareholder value depend on public and governmental goodwill. A company’s record of good corporate citizenship is a valuable asset.

This proposal addresses VF’s risk of appearing to benefit from human rights violations. VF’s Code of Conduct does not include the cited ILO standards, issued by a specialized agency of the United Nations made up of business, government and employee representatives of 174 member countries, including the United States. These principles were re-affirmed recently in a set of norms on the responsibilities of transnational corporations issued by the UN Commission on Human Rights. The Organization for Economic Cooperation and Development’s Guidelines for Multinational Enterprises commend the ILO Principles to global corporations.

VF imports many goods into the United States, and thus shareholders have a strong interest in learning what steps VF is taking to monitor and control conditions under which the goods it sells are produced. Reports that overseas suppliers are exploiting workers may damage a company’s reputation and generate a consumer backlash.

Reports of abuses involving VF’s suppliers in several countries underscore the concern:

– unsafe conditions and worker intimidation at a VF supplier in Indonesia, according to a 2003 “Workers Rights Consortium Assessment re PT Dae Joo Leports (Indonesia) [etc.]”;

– unsafe conditions and harassment at a VF supplier in El Salvador, according to a

National Labor Coalition report, “Worker Rights in the Americas?” subsections: “Formosa Textiles Factory,” “Exmodica Factory” and “Chi Fung Factory”; and

- violence against workers and abusive and discriminatory practices at a VF supplier in Lesotho, according to a 2001 “Report of Inspection in the Clothing, Textile and Leather Industries carried out by the Officials of Labour Department, LNDC and LECAWU.”

In our view, it makes good business sense to enforce strict sourcing standards. There are subterfuges that suppliers can use to import goods made by forced labor into the United States. Also, when the federal government enforces applicable laws, it may hold companies liable for their suppliers’ actions.

Strict standards and an active enforcement policy, including monitoring by independent third parties, are thus vital for a company such as VF. We thus ask the Board to prepare a report giving investors data about VF’s efforts to assure that it is not doing business with overseas suppliers that exploit workers.

WE URGE YOU TO VOTE FOR THIS RESOLUTION.