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What's at Stake? Stakeholder Engagement Strategy as the Key to Sustainable Growth

N. Craig SMITH
Sean ANSETT
Lior EREZ
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N. Craig Smith*

Sean Ansett**

Lior Erez***

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* INSEAD Chaired Professor of Ethics and Social Responsibility at INSEAD Social Innovation Centre, INSEAD, Boulevard de Constance 77305 Fontainebleau, France. Ph: +33 (0)1 60 72 41 45 ; Fax: +33 (0)1 60 72 92 40 ; Email: craig.smith@insead.edu Corresponding author

** Master of Studies in Sustainability Leadership, University of Cambridge, Wolfson College, Barton Road, Cambridge, CB3 9BB, United Kingdom. Email: scansett@yahoo.com

*** Research Associate at INSEAD Social Innovation Centre, INSEAD, Boulevard de Constance 77305 Fontainebleau, France. Email: liorerez@walla.com

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Executive Summary

Charges of labor rights abuses and environmental harm are increasingly common for major brands sourcing in today's globally expanded supply chains, often presenting major reputational risks at minimum. However, the standard response of attempting to police supply chains by emphasizing compliance standards is often unlikely to be a sufficient or effective long-term solution. Apparel retailer Gap Inc. went from a typical compliance-oriented approach to develop instead a genuine, comprehensive and much more effective stakeholder engagement strategy. Developing strategic stakeholder engagement involves five key steps: 1) stakeholder mapping to get internal engagement; 2) identifying the material issues; 3) defining objectives; 4) resolving issues collaboratively; and 5) embedding engagement. Our research with Gap Inc. management and its external stakeholders shows how this approach proved to be more effective by contrasting two comparable child labor incidents in the company's supply chain. However, it took time to develop and required a different mindset, including a shift from risk aversion to partnership, from "quick fixes" to sustainable solutions, and an expanded conception of supply chain responsibility going beyond attention to first tier suppliers. As well as solving if not averting problems in the supply chain (and elsewhere), strategic stakeholder engagement helps management see the future, facilitates trust, and can improve the company's public image. More fundamentally, it provides a deeper understanding of a company's obligations to its stakeholders and thus is consistent with authentic commitment to corporate social responsibility.

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The pictures that came out of the mountain kingdom of Lesotho in August 2009 were truly disturbing. A reporter from the London *Sunday Times* exposed serious violations by a supplier of leading apparel brands, among them Gap Inc., who had allegedly dumped unused and toxic materials illegally into local landfills.[1] Local children, the poorest of the poor and some of them as young as five, were reported to be scavenging through burning refuse piles, abundant with razors and harmful chemicals. Some suffered from breathing problems, rashes and weeping eyes. "We itch all day and some of the sacks used to dispose the chemicals have powder that makes our hands and arms burn," said one girl. The CBS broadcast that followed the story added a further twist: the discharge of contaminants turned the river indigo blue from garment dyes, making it hazardous for local inhabitants. To add to this already dreadful scenario, workers at the supplier's factory made claims of labor abuses and offensive attitudes on the part of management. It was the stuff of brand managers'—and their chief executives'—nightmares.

This story is a wake-up call, showing that there is a long way to go before basic compliance with environmental and labor standards becomes a reality. The grim story in Lesotho is clearly an example of the many risks lurking in global supply chains, and illustrates that in a highly fragmented, complex and labor intensive industry like garment manufacturing, such crises may be unavoidable.

For the Gap, however, it is less of a wake up call than for the many other companies that have yet to develop a genuine, comprehensive and effective stakeholder engagement strategy, in apparel and other sectors.[2] Not all is bleak in the story of Lesotho; in fact, it demonstrates the success of emerging and innovative forms of collaboration between companies and their stakeholders. Companies like the Gap, who lead the way in terms of strategic engagement in the garment industry, are not immune to violations in their supply chain, but they are better prepared and thus able to deal with them. As our research shows, the ability to build a wide and deep stakeholder network through an "action not words" approach that collectively

addresses complex supply chain issues (and other sustainability-related problems), clearly works to their advantage when the inevitable crisis erupts. In contrast, quick fixes, which are often the product of a compliance-oriented risk mitigation approach, weak stakeholder linkages and the need to fight public campaigns, do not lead to sustainable development and can even create negative effects. The Lesotho crisis would have been far worse if the Gap's engagement practices were not as evolved as they are today.

Of course, this has not always been the case for the Gap. Even prior to the 1999 WTO anti-globalization protests in Seattle, campaign groups and trade unions were targeting the company (and its brands at the time, Banana Republic, Gap and Old Navy), seeing it as an integral part of the perceived problems of globalization. Ironically, at the height of the protests Gap was investing more resources than many of its competitors in a robust, in-house, compliance program, responsible for monitoring its sub-contract facilities globally. Gap had a team of over 100 employees at a cost of millions of dollars who were dedicated to the task of ensuring that workers in its supply chain were treated with dignity and respect. However, while the Gap had a strong compliance program, it still hadn't developed an effective stakeholder engagement strategy that would gain the respect and trust of its key stakeholders. As a result, Gap management let the issues get ahead of them and out of control.

Today, the Gap is seen as a leader in corporate social responsibility, not just by peers in the industry but also by many of its former critics who view it as part of the solution to the problem of effective labor standards implementation in the apparel sector. For the company's part, these stakeholders are no longer perceived as "noise-makers", but as critical friends. This is an outcome that not only reduces sweatshop labor practices, but also has clear business benefits for the company. For example, media reports speak of sales improvements "as the company increasingly leverages social and environmental awareness programs to appeal to its young and progressive clientele."[3]

In this article, we show how the Gap developed a comprehensive stakeholder engagement strategy by explaining the steps involved: stakeholder mapping to get internal engagement, identifying the material issues, defining objectives, resolving

issues collaboratively with stakeholders and embedding engagement into business practice.[4] However, this approach—now being increasingly followed by companies embracing stakeholder engagement—is not as easy as it might appear. Thus we examine some of the pitfalls and the obstacles to overcome, pointing to the key drivers that led to the organizational and direction change at the Gap as well showing how a stakeholder engagement strategy can be effectively implemented. To illustrate the story, we describe Gap's response to two serious child labor violations in its supply chain in Cambodia in 2000 and in India in 2007. We compare and assess these responses incorporating a review of research on stakeholder engagement as well as interviews with Gap management and with key stakeholders, who all played an active role in the changes in Gap's strategy.[5]

WHY STAKEHOLDER ENGAGEMENT?

In the last three decades and especially since the mid-nineties, there has been a discernible shift in the mindset of the business community. Milton Friedman's famous statement that "the business of business is business," has increasingly given way to a view of business and society as closely and unavoidably intertwined. New managerial theories urge management to take into consideration not only shareholders' interests, but also those of other groups, organizations or individuals who have a stake in the company. This is only possible when management fully understands the needs and interests of these stakeholders. It is precisely for this purpose that stakeholder engagement is required. The failure to understand this wider group of stakeholders creates management "blind-spots" with risky consequences.[6]

Every company communicates with its stakeholders in one way or another, directly or indirectly, be it through marketing, contractual relationships, or a myriad of other channels. However, stakeholder engagement refers to the new forms of communication in the corporate community emerging in the last decade and primarily focused on dialogue with civil society, multilaterals and global trade unions. In the early stages of engagement, communication between the firm and its stakeholders was typically one-sided, as the main objective of companies was to inform and to mitigate risks. More recently, communication has evolved to be more dialogue- and solution-

oriented. Oftentimes, this new approach to dialogue requires careful listening on the part of management, relationship building skills, and can be time intensive.

The most recent phase in the development of engagement strategies has come with the formalization of these relationships in strategic partnerships and multi-stakeholder initiatives, such as Social Accountability International (SAI) or the Ethical Trading Initiative (ETI) (see "Multi-Stakeholder Initiatives").

(insert sidebar on "Multi-Stakeholder Initiatives" about here)

The theoretical foundations of stakeholder engagement are found in stakeholder theory, popularized by Darden Professor Ed Freeman's 1984 book, *Strategic Management*. In this classic formulation of the theory, Freeman defined stakeholders as "any group or individual who can affect or is affected by the achievement of an organization's purpose" and classified the main categories of stakeholders: financiers, customers, suppliers, employees and communities.[7] The basic premise of stakeholder theory is that management should not relegate the company's effects on stakeholders to the status of "externalities" that are irrelevant to the firm's main objective of shareholder value maximization, but should view stakeholders as holding intrinsic value of their own. The justification for this premise exists on three basic levels: *descriptive* (it is the way things are done); *normative* (it is the way things ought to be done); and *instrumental* (doing it is good for business).[8]

This last point is perhaps the most interesting, because it removes the contradiction between "business-oriented" approaches and "socially responsible" approaches. As research generally indicates, taking into account a broad view of stakeholders' interests and concerns is often positively correlated with maximizing long-term shareholder value. This might seem counterintuitive, not least because engaging with stakeholders in an effective way that delivers quality results requires a considerable amount of resources and time. However, there are at least five major ways by which stakeholder engagement can contribute to a company's economic performance:

- *Stakeholder engagement can solve problems.* Addressing company social or environmental impacts effectively often cannot be achieved without the collaboration, knowledge and expertise of stakeholders. On some issues,

stakeholder participation will be essential to the implementation of solutions, on others they can provide "out of the box" thinking that can lead to innovative win-win solutions for all parties. They also often bring a wider perspective on issues and solutions that companies might not have access to on their own, including knowledge of the local context as well as better understanding of anger expressed against the company because of its social or environmental impacts.

- *Stakeholder engagement helps management see the future*. Stakeholder familiarity with operations on the ground might well highlight where supply chains or company action are not consistent with company policies, where there is potential risk or where there are yet to be explored opportunities. More generally, stakeholder attention to an issue can be an early warning of evolving public expectations and regulatory or political concern, which might well escalate with alarming rapidity. (See: "Milestones in Supply Chain Integrity").

(insert sidebar on "Milestones in Supply Chain Integrity" about here)

- *Stakeholder engagement is a facilitator of trust*. By providing stakeholders with the company's perspective on issues and being responsive in addressing their concerns, stakeholders would be more likely to be cooperative rather than confrontational. As a relationship is built, confrontation may extend to trusting cooperation on common issues of concern, as well as enabling stakeholders, in some cases, to understand the limitations of corporate action.
- *Stakeholders are potentially influential partners*. Companies can work with stakeholders to shape industry standards and, given their access to like-minded politicians and regulators, possibly have their concerns taken into consideration in the formulation of legislation.
- *Stakeholder engagement can improve the company's public image*. Successful stakeholder engagement is likely to reduce public criticism, thus contributing to a positive view of the company in the eyes of all of its stakeholders, as well as saving time and resources spent on fighting negative campaigning. Apart from consumers' growing awareness of issues of ethical conduct, there is also

evidence that a responsible public image is beneficial for the recruitment and retention of employees.

THE GAP STORY—TOWARDS STRATEGIC STAKEHOLDER ENGAGEMENT

Gap's development over the last two decades demonstrates the benefits of embracing strategic stakeholder engagement practices. This story shows that engagement with civil society is often crucial when addressing complex social and environmental issues—even a company with the best of intentions cannot do it all by itself. We demonstrate this by examining two cases of labor rights violations in Gap's supply chain.

By 2000, Gap's journey in strengthening its CSR practices was close to a decade old. Following Levi Strauss & Co.'s global sourcing and operating guidelines (1991), the earliest code of conduct in the garment industry, Gap published its own guidelines in 1992. They covered labor, environment, and health and safety standards throughout the company's first tier suppliers in its global supply chain, relying mostly on the supplier to implement the requirements.

In 1995, a worker's rights group called the National Labor Committee (NLC) exposed serious labor violations in the Mandarin International garment factory in El Salvador, including accounts of low pay, excessive overtime and union-busting. This case was a "wake-up call" for Gap. The company realized that codes of conduct on their own were not sufficient, and that in order for the code to come to life on the factory floor, Gap would need a team of internal auditors to assure that the code was in fact being implemented across the world. Gap realized it had to expand its compliance program well beyond the code of conduct.

In 1996, it began to assemble its global compliance team. This team was responsible for the inspection and the implementation of the code through a field team of vendor compliance officers, at Gap's expense and at a time when competitors were largely outsourcing this work to a growing number of social auditing firms, typically at the expense of the supplier. The global compliance team Gap created was rich in

diversity, with people who had backgrounds working for NGO's and trade unions, as well as former journalists, social workers, and factory managers.

Even with Gap's good intentions in building this team, it soon found that this was not the end game when it was hit with a second "wake-up call". In 1999, Gap and 26 other US retailers such as Levi's and Nordstrom were sued over labor conditions in their supplier factories in the US territory of Saipan, eventually ending in a $20 million settlement to be paid by the companies. As in the El Salvador case, the lawsuit cited forced labor, non-payment of minimum wages and other egregious violations of the rights of the primarily migrant labor work force on the island. This case prompted Gap to implement a separate set of guidelines for foreign contract workers.

Despite the setbacks of the El Salvador and Saipan cases, Gap believed it was learning from past mistakes and developing a sound approach. It was soon to realize otherwise.

The Limits of Policing: Cambodia, 2000

For all the changes following the Saipan and El Salvador incidents, the hardest blow to Gap's reputation was still to come. Gap was approached in October 2000 by the BBC with allegation of child labor in a Phnom Penh factory, in which Gap, among other multinational companies, had production. The BBC reporter claimed to have found at least one worker under the legal minimum working age. Since most documents attesting to age in Cambodia were destroyed by years of war and genocide, Gap and its suppliers relied on 'family books'—a document legally recognized in Cambodia—for verifying that workers were above the minimum working age. Gap's investigation could not verify the reporter's claim that workers were under age despite their family books records.

Later that month, BBC's "Panorama" documentary program aired a report titled "No Sweat", in which it accused Gap and Nike (who also had production in the factory) of ignoring the problem of child labor in their factories and of relying on ineffective monitoring systems. Meanwhile, the factory's management denied the accusations, and the Cambodian government declared that its investigation cleared the factory of

any wrongdoing and accused the BBC of inducing workers to interview by paying them.[9]

Gap felt that there was no definitive way to settle the dispute. “Our investigation was to the extent of consulting with doctors to see if there is a way to verify the age of workers” says Ira Puspadewi, Gap’s Director of Social Investment in Asia who at the time was Gap's regional Code of Conduct Compliance Officer. “The doctors could not give a solid method of doing that. So even from a medical point of view it was not easy.”

Nevertheless, the strong reaction from civil society, trade unions and the general public following the broadcast, required immediate action. A stream of letters inundated Gap’s corporate communications and global compliance department, at minimum costing senior management precious time and energy. Meanwhile, the anti-sweatshop protests, claimed by many to be the biggest student protests since the opposition to the Vietnam War, had protestors picketed in front of Gap’s and Nike’s stores calling for consumers to boycott the stores. The much needed swift response was delayed, however, by the lack of an evolved stakeholder engagement strategy. Apart from its limited experience with the Global Alliance and the Independent Monitoring Working Group, Gap was not engaged with local or global civil society organizations, and was lacking in knowledge of unique local idiosyncrasies.[10] In addition, Gap’s code of conduct in 2000 did not include a protocol of what is to be done if and when a case of child labor is discovered, which further delayed the response. The company issued a press statement, declaring that it “does not tolerate underage labor ... If we discover instances of underage labor, we take swift and appropriate action.” What it couldn’t do, however, was articulate a response reflective of a more sophisticated and realistic understanding of the issue. Absent stakeholder engagement, the best it could come up with was ‘just say no’ (to child labor).

Thus, in this case and in others less widely publicized at the time, Gap took a legalistic and risk mitigation approach to the problem of child labor, including having the vendor remove child laborers from the factory and also canceling orders. However, this approach was not good for the workers or the families involved and

neither was it acceptable to certain key stakeholders and they often intensified their campaigns as a result.

The impact of the broadcast caused several brands to leave Cambodia - including Nike - and it left others still hesitant about sourcing production there. Gap, on the other hand, made the decision to stay in Cambodia, while enhancing the age verification requirements in the factories from which it sourced. It is important to keep in mind that there are, in some countries, cases of forged identification documents, sometimes even by government officials, and this certainly was a factor that could have persuaded some brands to leave Cambodia and so minimize their future reputational risk.

True to form, Gap's critics claimed that the complex problem of child labor in the garment industry was not one that could be solved simply by dismissing the child workers from the factories, a line of action that could lead to unexpected negative results. A notorious example is that of the Bangladeshi garment industry in the 1990s. A 1993 NBC broadcast exposed child labor in a Bangladeshi factory supplying Wal-Mart. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA), threatened by the prospect of US legislation closing the American market to Bangladeshi garments if another case of child labor was found, announced that it would eliminate child labor in the country by the end of October 1994, and thousands of children were reportedly dismissed from the factories. A 1995 report by British human rights organization Oxfam revealed that those children were forced to move to more dangerous work such as welding, or even driven to prostitution.

What should Gap have done in Cambodia? With hindsight and the subsequent years of stakeholder engagement experience, Gap recognizes today that it should have responded in the way Levi Strauss handled the Bangladeshi case: by enabling the children who had been working in the factory to attend school, while assuring that they would continue to receive salary and benefits from the factory and be able to work there when of legal age. This more holistic approach is universally accepted by the relevant stakeholders and it creates improved outcomes for the child worker, family, factory and brand involved in these cases. While this systematic approach requires more responsibility on behalf of all parties involved, it demonstrates that the

brand is committed to "walking the talk" when it comes to sustainability and that it factors social and economic impacts into its decision making. It was not until its later involvement with ETI and SAI that Gap "learned" the appropriate child labor protocol—a remedy that is also agreed upon by NGO's and trade unions and so comes with their endorsement rather than criticism if followed.

Implementing Strategic Stakeholder Engagement

By this point, even while investing millions of dollars policing factories around the world and with the largest labor standards monitoring team in the industry, Gap's impact on the supply chain integrity issue was largely limited. The company was under constant pressure and protests by advocacy groups in the US and the UK. The protests intensified to such a level that protesters were camped out in front of Gap's corporate headquarters in San Francisco for weeks on end, picketing at times in the nude. The circus that was created attracted significant media attention and negatively impacted employee morale. Importantly, Gap realized that its corporate communications strategy was "broke" and that Gap's approach to engaging with critics needed a major overhaul. In the years that followed the Cambodia case, Gap embarked on a path of proactive and strategic engagement with its external stakeholders. It followed five key steps.

Step 1: Using Stakeholder Mapping to Get Internal Engagement

The first step of this journey was to develop a comprehensive stakeholder map, in order to identify those stakeholders who would be the most important to leverage in the external engagement process while also getting internal engagement within Gap. Most academic literature on stakeholder engagement argues that this step is crucial, not least because it involves ethical questions (who is a legitimate stakeholder?) and practical questions (who are the most salient stakeholders?), as realistically engaging with **all** stakeholders is beyond the capabilities of any company and, equally, not all relevant stakeholders can possibly engage with all companies. Deanna Robinson, Vice President, Global Responsibility, Gap Inc. describes how the process of creating a stakeholder map took place at Gap:

> We listed out as many stakeholders as possible, and through that we started to streamline. We recognized that it would not be possible for us to have a strategic relationship with each of the stakeholders, so we highlighted those who we deemed to be the most key.

The academic literature on stakeholder engagement offers several models for prioritizing stakeholders. Mitchell, Agle and Wood propose three defining stakeholder attributes: power, legitimacy and urgency.[11] Stakeholder salience is determined by the degree to which these attributes are present.

The mapping process at Gap was facilitated by a San Francisco based NGO, Business for Social Responsibility (BSR). The stakeholder mapping session included participants from various functional areas of the business including legal, public relations, government affairs and global compliance. The session not only produced a map of stakeholders prioritized by customized criteria developed by the team, but also served as a learning opportunity for internal team members to understand the key stakeholders, the proposed strategy and the value of engagement.

Through this exercise Gap was beginning to evolve its approach from a risk averse legalistic strategy to one based on proactive engagement that could to tease out stakeholder needs, positions and motivations. This stakeholder approach was a huge shift for the company and many of the senior decision makers in the room were learning about stakeholder theory and discovering who these stakeholders were for the very first time.

One aspect of the prioritization of stakeholders in Gap was the influence they had with other stakeholders globally and their potential impact on working conditions in supplier factories. This would enable the company to focus its resources on developing transparent relationships with a few stakeholders while influencing many others both globally and locally. “We will never be able to engage at the same level of depth with every organization that exists”, explains Daryl Knudsen, Senior Manager of Global Partnerships, “but by engaging with organizations who themselves have extensive networks, we have managed to receive some level of input and influence from those networks.”

In 2002, Gap started a strategic group with the Global Compliance department called Global Partnerships, with its main function being to develop transparent and solution-oriented relationships and partnerships with global and local stakeholders, building on Gap's existing involvement with the Independent Monitoring Working Group that emerged post the crisis in El Salvador. The IMWG had facilitated dialogue between Gap and local civil society organizations in Central America, a new initiative for both parties that laid the foundations for Gap's future engagement strategy.

Once Gap had an understanding of its stakeholder networks, it began the engagement process and sought feedback on what it was doing well and what it was not doing so well. This enabled the company to start a process of dialogue, to begin to understand how the company was viewed externally, and to demonstrate commitment and a willingness to take action and to begin to tease out the material issues to be addressed.

A key meeting took place with Lynda Yanz, of the Maquiladora Solidarity Network in Toronto, Canada (MSN is an influential worker rights group concerned with labor rights issues in the Americas - a key sourcing market for the company). Both Gap and MSN shared a keen interest in independent workplace monitoring at the time, which Gap committed to expanding in Central America following the El Salvador incident. It was risky for Yanz to engage with Gap; many of her own constituents were opposed to dialogue with companies. Nonetheless, a key insight for Gap management from the meeting and continuing dialogue was that the company was mistaken trying to "go it alone" and should consider joining the emerging multi-stakeholder initiatives.

Additionally, living-up to the mantra of "action not words", established with the creation of Gap's Global Partnerships, the company began to resolve issues with stakeholders when they were notified of workplace violations in supplier factories. Gap's responsiveness to these concerns began to build much needed respect with stakeholders and the word spread quickly through stakeholder networks that Gap was committed to being part of the solution rather than part of the problem. As with their colleagues in Global Compliance, the Global Partnerships team shared the key objective of ensuring that workers were treated with dignity and respect, but working with stakeholders allowed it to address issues directly.

Taking its first steps towards involvement in multi-stakeholder initiatives (MSIs), Gap began working with the New York based Social Accountability International (SAI) in 2003 and joined the London based Ethical Trading Initiative (ETI) in 2004. Both organizations played key roles in Gap's largest consumer markets in the United States and the United Kingdom, each taking a different approach to improving labor standards (while SAI largely took a capacity building approach, developing management systems and worker management committees, ETI was a collaborative effort running pilot projects on a number of emerging issues like home workers and purchasing practices). In addition, the company engaged with international trade unions, NGOs and multilaterals. Both ETI and SAI enjoyed strong stakeholder relationships with influential NGO's and trade unions that for Gap served as a basis for learning and led to new networks being developed in an organic manner.

One key benefit of joining MSIs was that they provide a "safe place" for the company to share its challenges with other stakeholders and to gain insights and perspectives as well as to test and validate potential shifts in supply chain strategy.

Step 2: Identifying the Material Issues

As Gap's Daryl Knudsen, Senior Manager, Global Partnerships explains, this step of identifying the material issues is closely linked to that of stakeholder mapping and prioritization: "We examine what our core impacts are, and we try to stay apprised of key issues in those areas and procure opportunities where Gap's contribution will make a difference. Sometimes that is by being part of a broader coalition, and sometimes that is by acting on our own."

One key material issue was child labor, as the Cambodia story had shown so clearly. Gap found that the MSI's had distinct expectations about child labor remediation that members had to abide by. The remediation called for providing education to the children until they were of legal working age, paying a replacement wage to workers until they were of legal working age, and offering a job at the same level at the factory when they were of legal age—the approach adopted by Levi in response to the problems identified in Bangladesh. After joining the SAI and ETI, Gap incorporated this child remediation approach into its code.

A prospective material issue identified at this time was HIV-AIDS in sub-Saharan Africa. Gap was the major buyer of garments from Lesotho and garments were a significant proportion of Lesotho's exports. But with Lesotho's 30% HIV infection rate, the workforce was dying in large numbers. Through engagement and developing a deeper understanding of the local context in Lesotho, Gap sought to make a substantial contribution on the problem by taking a leading role in pop singer Bono's *Product (Red*) project. Thus "Red" branded Gap T-shirts are manufactured in Lesotho as part of this social initiative and a portion of the revenues goes to the Global Fund to Fight AIDS, Tuberculosis and Malaria.[12]

Step 3: Defining Objectives

As "Red" illustrates, Gap defined its objectives based on stakeholder input through the engagement process and linked these objectives to address issues of priority. The advantage of defining objectives by including stakeholder input was that Gap reduced the likelihood of management blind spots, enjoyed additional expertise and perspectives, and created buy-in from key stakeholders.

In order to define the priority of emerging issues, Gap used a four-stage evolutionary model of issue maturity. If there is weak evidence and little awareness for an issue, it is considered "latent". When it becomes the focus of NGO campaigning and research, the issue is classified as "emerging". If awareness for the issue goes beyond the professional community to the public and media and there exists a strong body of evidence in support, it is "consolidating". Finally, an issue is "institutionalized" when the case for the issue has been made and accepted and addressing it is a normal part of regulations and business norms.[13]

One example of an emerging issue was that of purchasing practices. Stakeholders began to realize that "policing", while not without merit, was not the panacea they expected it to be, and that suppliers may not be the only problem. Stakeholders began to ask questions related to the product lead times, the number of product changes, pricing and supplier commitments and how that may impact working conditions negatively. Demands by brands for supplier flexibility—say on color or design elements—could have major repercussions for workplace practices. Although identified by Naomi Klein in her 2000 book *No Logo*, this was one of the first times in

which criticism was directed at the brands themselves, identifying that their practices could have negative consequences on the implementation of their own codes of conduct.[14]

Gap acknowledged the long term strategic significance of the issue and wanted to be an early adopter of a viable solution. In 2005, it launched the first pilot project focused on purchasing practices. This decision allowed the company to start the learning process early-on and get ahead of competitors. Today, purchasing practices are a viewed as a material issue across the industry and many of Gap's competitors are scrambling to determine where to start.

In order to be effective at stakeholder engagement, transparency is critical. Stakeholder engagement scholars, as well as the Gap's executives interviewed, agree that transparency in regards to the company's efforts and goals is integral to the success of the engagement process and a key tenet in building respect. A major milestone for the Gap in this regard was the publication of its first Social Responsibility report in 2004. This "warts and all" report was groundbreaking in its level of transparency, focusing on code of conduct violations regarding labor rights and the supply chain and the measures being taken to prevent such violations. Although some media outlets interpreted the report as an act of contrition (e.g., "Gap Admits to Running Sweatshops"), Gap received praise for the report's transparency by some of the company's most vocal critics, some of whom had been offered the opportunity to include their views in the report.[15]

"I think the CSR report is one of our greatest successes," says Dan Henkle. "We really found our voice—these are tricky issues to talk about—and how to talk about these tricky issues in a transparent and candid way, sharing information without coming across as public relations and patting yourself on the back." In PR terms, the report had a very positive effect, and its amount of "positive impressions" was the equivalent of two Super Bowl advertising campaigns. It was a call to action to all retailers, since it was the first time a retailer, and not campaign groups, had spoken openly about the challenges in a very public way. It also provided material for employees to discuss "sweatshop" issues with their friends and family, thereby providing a boost to employee morale. While the report was a success, it was not

published until two years after Gap had launched its stakeholder engagement strategy. Given Gap's poor reputation for supply chain integrity, it was judged that a premature report could well backfire and would likely have been slammed by its critics. Instead, by being patient, Gap was able to assume a position of industry leadership on the issue.

A high level of transparency and engagement is not, of course, devoid of risk and perhaps even more so for companies that take a leadership position. Transparency does not protect companies from protests—sometimes it is quite the opposite, for a number of reasons. A company that has been targeted in the past, especially if it has a well known brand, finds it difficult to shed the "evil corporation" image. Moreover, being responsive to stakeholder demands also means that the company is more responsive to criticism, so sometimes it is more cost-effective for stakeholders to target the more responsive companies. Sasha Radovich of AccountAbility, an institute promoting social and ethical accountability, observes: "There will always be protests against companies like Nike and Gap, even though people should really be protesting other retailers. That's the Catch 22 of the industry: because they have done so much engagement and are so transparent, they would always be targeted." A similar example is oil company Shell and its ongoing struggle to rid itself of the image of exploiter in the Niger Delta in Nigeria, despite massive efforts to engage with—and invest in—the local community and other stakeholders.[16]

Step 4: Resolving Issues Collaboratively

Through stakeholder engagement, Gap quickly learned that it shared common objectives even with its most vocal critics, including obtaining compliance with its own code of conduct. Prior to the engagement strategy, stakeholders would send letters to Gap about their concerns regarding factory issues. Corporate communications would usually reply with a "canned" response, mentioning the code of conduct and the number of internal auditors that were working to address non-compliance. This approach typically infuriated stakeholders, increasing the likelihood of campaigns against Gap. The Global Partnership team took a different tack and instead told stakeholders to contact it directly if there were alleged violations in the supply chain that it could investigate. While this sounds simple, it was not apparent to

the company for years that this approach would be more effective—and many of its competitors have yet to figure this out.

Gap found that one particularly effective tool is the multi-stakeholder dialogue approach and began organizing a series of stakeholder dialog sessions in both the US and the UK. A broad range of stakeholders were invited including NGO's, academics, government and trade unions, to discuss Gap's program and to begin to tease out potential issues that would be important going forward. In the initial sessions, the end of the Multi-Fibre Arrangement and the potentially negative impacts of major shifts in garment production (including massive job losses) and the problem of purchasing practices emerged as key issues that the company should begin to address.[17]

This shift to partnership had a highly positive impact on stakeholders and also provided Gap with "eyes" globally. Soon Gap was in a position to more typically resolve issues in factories "below the radar screen", rather than fighting the issues in public. The stakeholder communication served as an informal complaint mechanism on factory issues, allowing the Gap team to get closer to achieving its mission.

Step 5: Embedding Engagement

One of the most challenging aspects of engagement is ensuring that stakeholder engagement is sustained within the organization's people, systems and processes, especially if key individuals leave or if there is a change in leadership. It seems that Gap still has some way to go until engagement is fully "bedded-down" throughout the organization's decision making processes. Radical change like this is not normally adopted without objections and internal challenges. As effective as a CSR department might be, it is important to create an organizational environment in which stakeholder engagement can be mainstreamed. Bennett Freeman, a Burston-Marsteller consultant who was involved in the decision making process that led to the first Gap social responsibility report, recalls that it wasn't easy to convince everyone that this new approach was a good idea:

> Their lawyers were extremely sensitive and cautious about anything they would say in public that could open them up for potential litigation. So, even

> as they developed a highly sophisticated and significantly resourced compliance system to support their code, they remained defensive, at least in public, about these issues.

This resistance from within is quite often caused by suspicion and distrust towards the stakeholders. Lakshmi Bhatia, Director of Global Partnerships at Gap, agrees that changing this mindset posed a great challenge. For some of the more critical stakeholders, Gap's efforts seemed like public relations spin, while some of the company's management felt as if the company was being "sold" to NGOs and trade unions. Bhatia claims that "narrowing down the boundaries between our internal organization and the stakeholder world" is critical for the engagement process.

In Gap, this was achieved through the use of "Boundary Spanners", people who are familiar with the corporate as well as the civil society discourse, and can serve as mediators between the potential adversaries. "The typical corporate mindset is often about very clearly defined structures and boundaries," says Bhatia, "and that does not work when you are engaging." Many of the Gap executives and stakeholders we interviewed identified empathy, the ability to listen and transparency as critical skills required for successful engagement.

Thus, in the last decade, Gap has gone through a major shift in its corporate responsibility strategy. The initial approach of compliance and monitoring was replaced by one of long term engagement and partnerships with stakeholders. However, Dan Henkle agrees that more needs to be done in terms of embedding this approach throughout the organization. "We need to have the work [of stakeholder engagement] more broadly shared," he says. "If you want to do more stakeholder engagement, you have to have more people doing it." The challenge is to get a team, initially hired to do factory monitoring, to be more involved in engaging with stakeholders and to get their expertise on the best ways to deliver that work. Henkle predicts that the path that Gap has taken will further evolve and extend to other parts of the company, such as sourcing and merchandizing

From Crisis to a "Landmark of Progress": India, 2007

In 2007, Gap's new stakeholder engagement approach was put to the test, as a second case of child labor in Gap's supply chain was exposed. A reporter from *The Observer* advised Gap's CSR personnel of his discoveries regarding child labor in an Indian embroidery company producing T-shirts for the GapKids brand.[18] Gap investigated the case and discovered that one of their approved suppliers had referred handiwork to the embroidery company, which was an unauthorized facility and thus this was in violation of the code of conduct. Objectively, this case was much more severe than the one in Cambodia. In 2000, Gap could not verify that the workers in question were in fact underage, whereas in this case there was no doubt about the age of the workers and the severity of the working conditions. Some of the children had been sold to the sweatshop by their impoverished families as bonded or forced labor, and they labored sixteen hours a day without compensation, suffering from severe physical and verbal abuse on the part of their supervisors. These dreadful labor conditions were described by one commentator as "a hellhole".

Gap's ability to respond to these allegations effectively was in part due to the way the story was brought to its attention. Deanna Robinson says that in this respect, Gap's overall experience in dealing with the media was very different in comparison to the Cambodia case. "In Cambodia, we actually had been contacted by a media outlet that had been asked to go to this facility; their approach was more one of 'we are going to highlight what was taking place'. If you fast forward to the case in India, we did have a direct conversation with the reporter, but we also really had more of an opportunity to assess the situation." This allowed Gap more time to align its organization collaboratively and form a response to the allegations.

Gap's response to this exposé was swift and effective. The immediate response was facilitated by the work done with ETI, whose base code specified what action is to be taken if child labor is discovered. As soon as the story broke, the company took full responsibility, cancelled the product order and barred the unauthorized subcontractor from any future involvement with Gap. Rather than Corporate Communications managing the issue and commenting directly, as was the case in Cambodia, the spokesperson was embedded in the "business". Marka Hensen, president of Gap

North America, was quoted in the company's press statement as asserting a zero tolerance policy towards child labor: "Gap Inc. has one of the industry's most comprehensive programs in place to fight for workers' rights overseas. We will continue to work with the government, NGOs, trade unions, and other stakeholder organizations in an effort to end the use of child labor." According to Bill Chandler, Gap's VP of Corporate Communication, the key message the company wanted to convey was "that in the reality of an issue as complex as child labor, clearly no single company can change the situation so it's going to take an industry response."

Gap got into trouble in the past for sourcing products from suppliers that used child labor (i.e., Cambodia) and today still grapples with issues like child labor in its supply chain, but not with the harsh criticism it had before. So what happened when the India case hit the press?

Stakeholders' responses were substantially different compared to seven years before. Dan Rees, Director of ETI, summarized the approach by saying: "It is not a crime to find child labor in your supply chain. What is important is what you do about it when you find out." Since 2000, Gap's attitude towards civil society organizations had changed; they were viewed as critical friends rather than externalities to be dealt with. Thus, when this incident happened, Gap's partners wanted to help find solutions. Dan Henkle observed: "Honestly, we had a challenge on our hands. They worked with us, found us to be good partners, and therefore, instead of beating us up, their approach was 'how can we help?'"

Our interviews with NGOs and trade unions representatives bear this out. They say that Gap's transparency and responsiveness in the years before the incident prompted them to take this collaborative approach. Since Gap was one of the more progressive companies in the industry in terms of social responsibility, this case served as evidence that the problem of bonded child labor could not be solved by one company alone. "There is less criticism from the campaigning community around them," says Maggie Burns, head of the NGO caucus in ETI. "That doesn't mean that the campaigning community has gone soft on what Gap should do, but I think there is a difference, because they are working with stakeholders in a much more open and transparent way."

Through its proactive engagement strategy and its new approach to transparency, Gap no longer denied these allegations as "noise" nor tried to spin these stories like the incident in Cambodia but, instead, quickly took responsibility by assessing the issue, beginning to investigate the situation, remediating in the short term and seeking out representative stakeholders to partner with. No longer would Gap try to solve these problems on its own or with a traditional "words not action" approach which had in the past only proven to buy the company time in the short term and negatively impacted the company's reputation. In contrast to Toyota of late in its dealing with alleged unintended acceleration problems, Gap gave up possible short term reputational gains by not being dismissive of the problem.[19] The company had learned that more likely than not "the hens come back to roost" and companies lose their credibility after what are typically long public campaigns, so why not take responsibility from the beginning and focus on sustainable solutions?

Gap's internal learning over the years in dealing with social and environmental issues afforded it a short learning curve to address the issue head-on and jointly with stakeholders. It made a conscious decision to get ahead of the issue while considering the long term value of the brand and understanding that admitting there was a problem could bring on initial pain but that this decision was the best decision in the long run and was reflected in its values and stakeholder commitments.

Gap's decision to continue working with the factory that used the unauthorized subcontractor in order to maintain jobs at the factory and be an active participant in being part of the solution is clearly the "road less travelled" for most brands. Most likely, many of Gap's competitors would have taken a short term view and severed ties with the company or as the campaign groups call it "cut and run". It is much easier to "wipe one's hands" clean of these situations than help to sort out the messy stuff that remains after these cases are exposed.

This process took several years of learning through its global engagement process but fortunately for Gap the company had chosen India (a major sourcing market for the company) as one of the countries to further engage local stakeholders. Through its ETI membership, the company was one of the founding members of the Home Workers Working Group and was thereby able to map local stakeholders and build

collaborative relationships on the ground, including a relationship with the Self Employed Women's Association (SEWA), a well respected organization in India and abroad.

The time spent nurturing these relationships paid off when the awful news hit the wires. As a part of the action plan, Gap partnered with SEWA and provided a grant of $200,000 to further support the establishment of SEWA-monitored handwork community centers employing only adults and to support job skills training for women. If it was not for the earlier investment in relationship building, the company could not have acted as swiftly as it did when the story broke.

Gap's relationship with local organizations enabled it to be assisted by their expertise, and to be able to focus on solving the problem instead of public relations. Various NGO representatives emphasized that this does not mean that Gap will never be criticized, but it does mean that they are more confident that the company will do the right thing. After internal debate, the company decided to retain its relationship with the (first-tier) supplier, which had a strong reputation for labor compliance, though it was also decided that the finished garments would not be sold. A summit meeting with all north Indian suppliers was held in November to reinforce the message of "zero tolerance" towards child labor.

In its response for the longer term, Gap stressed that the problem of child labor needs to be addressed holistically. Gap's latest social report asserts that the company's goal was to turn this event into "a landmark of progress". The Indian government, working with a local child labor NGO, BBA (Bachpan Bachao Andolan), managed the initial remedial treatment of the children in question, and made sure they were taken care of. Gap had started funding BBA to serve as an educator against child labor. As well as its funding of the SEWA initiatives, Gap also created a global forum of brands and retailers, together with NGOs, trade unions and government officials, to develop industry-wide strategies against child labor.

In retrospect, Gap managed to turn a potential catastrophe into an opportunity, and became a champion of the global anti-trafficking campaign. The media story was all but 'dead' in a couple of days, unlike the Cambodian example which dogged the company for months and spurred store front protests. The ability to respond with the

support of stakeholders allowed Gap the time to thoroughly assess the situation and consider options that went beyond simply firefighting to a more holistic approach. The 'civil action' that Gap chose should ultimately prove to be more sustainable for the company and the children that were laboring in horrific conditions. It may even impact the entire industry.

LESSONS TO BE LEARNED FROM THE GAP EXPERIENCE

The two cases in Cambodia and India show that Gap has succeeded in creating an effective stakeholder engagement strategy. Even though the child labor allegations in India were much more severe than those in Cambodia seven years prior, Gap managed to turn this potential crisis into an opportunity. What are some of the key lessons that can be learned from Gap's experience?

- *Shift from risk aversion to partnership*

Companies should reconsider their crisis management approach. The traditional reactive risk mitigation approach in response to sustainability issues has generally led to more campaigning against them. This is clearly evident in Gap's case. Gap most likely would have been able to avoid years of pain that impacted its brand and employees' morale if the stakeholder engagement strategy had been launched sooner.

Corporate legal departments, specifically in litigious environments like the United States, should consider new approaches evolving from risk averse positions when considering dialog or partnership with stakeholders. In Gap's case, the CSR team moved from sourcing department to the legal department. The latter's approach changed and the company became more open and supportive of engagement. If the status quo asserting that stakeholder engagement is risky remains, opportunities to innovate and anticipate risks may be lost.

- *Beyond the 'band aid': From quick fixes to sustainable solutions*

Companies should consider launching and sustaining comprehensive stakeholder engagement strategies in order to build respect and trust through their actions. This should be done both to do the right thing and to develop social equity that can be

deposited and then withdrawn during times of inevitable crisis, especially for companies with globally expanded supply chains.

The opportunity to create a breathing space to evaluate a situation and get to the root of the problem - rather than fighting public fires or dealing with protests - is usually reserved for companies with good stakeholder relationships and a degree of trust. This space allows management to look at issues systematically, enlist the help of others, and make more informed decisions leading to more sustainable solutions. Temporary fixes that almost inevitably come back to haunt you.

- *Monitoring for compliance is unlikely to be effective on its own*

Through stakeholder engagement, Gap management realized that the future was not in policing factories, stakeholder expectations were shifting rapidly and the "police" role would need to evolve. It learnt that savvier and influential stakeholders, many with years of practical experience observing conditions in the factories, had come to realize that the impact of monitoring was often negligible. This realization posed a conundrum for Gap because it had invested heavily in the monitoring function. There was still a need for some auditing, but it was becoming less important and only one piece to the sustainable supply chain puzzle.

While monitoring was to some degree effective at addressing health and safety violations and extreme forms of child labor, it was not addressing issues like excess overtime, harassment and freedom of association. Much of the information regarding serious violations often came from external stakeholders rather than through internal factory auditing so engagement was critical. In order to address these issues effectively, skilled teams were needed to focus on remediation and training, as well as engagement.

- *Deep and wide: Beyond first tier suppliers*

The boundaries of the supply chain responsibility are changing dramatically. Several developments like carbon mile counting, water scarcity, ethical labeling and campaigns such as the Uzbekistan Cotton Forced Child Labor campaign are shifting stakeholder expectations and supply chain transparency. (See: "Uzbekistan Cotton Forced Child Labor Campaign").

(insert sidebar on “Uzbekistan Cotton Forced Child Labor Campaign” about here)

Today, when media report labor rights violations such as the India child labor example, they typically no longer are occurring in first tier suppliers that supply to the major brands, but in the second-and-beyond tier subcontractors where there is less oversight.

The trend of increasing transparency in the supply chain also creates new responsibilities. Companies need to begin to look at the supply chain in a holistic manner and more systematically because the serious risks lie in the wider and deeper portions of the supply chain. Addressing these issues will require collaboration between new stakeholders - including local stakeholders - with capacity, cultural and language constraints. Companies who are already effective with engagement are better prepared for these changes and new risks.

- *New leadership: Boundary spanners*

New leadership is required in the management suite as are new skill sets. While ‘hard’ skills are important, ‘soft’ skills are emerging as mission critical for effective stakeholder engagement. Listening skills, emotional intelligence, strong communication skills and critical thinking are needed to be effective in engaging across boundaries. Gap created a strategic unit called Global Partnerships with team members strong in these areas assuming a ‘boundary spanner role’ within the company and doing the corporate “hokey-pokey”: maintaining one foot firmly in the organization with the other outside in the stakeholder community. Hang a sign on corporate HQ’s front door that announces: “Boundary Spanners Please Apply”.

- *Leverage from partnerships*

Sustainability dilemmas are often far too complex for any one stakeholder to resolve alone. Developing sustainable approaches to tackling some of the world’s most challenging issues - like climate change and supply chain labor rights issues - will require multi-stakeholder partnerships. These partnerships, bringing together companies, civil society and governments, draw on the expertise, experience and resources of stakeholders from distinct perspectives, thus creating the ‘healthy friction’ necessary to identify areas for innovation. Companies should seek

opportunities to create a non-competitive environment to allow collaborative work with their peers when addressing sustainability challenges.

- *Criteria to evaluate stakeholder engagement*

Criteria for evaluating the embeddedness of stakeholder engagement generally evaluate management processes and procedures. New standards like AA1000SES are emerging and focus on how well corporations address issues like completeness, materiality and responsiveness (see "Evaluating Stakeholder Engagement"). While these measures are important and critical to effective engagement, management should also consider metrics such as media stories, employee recruitment and retention and brand value. More specifically, when assessing supply chain performance related to labor rights issues, effective stakeholder engagement can positively impact quality, worker turnover, work stoppages, productivity and reject rates. They can all be used to measure impacts of stakeholder engagement.

(insert sidebar on "Evaluating Stakeholder Engagement" about here)

- *Drivers of stakeholder engagement*

Civil society activism in regard to social, environmental, economic or governance issues, and competitors taking 'game-changing' approaches that force other industry players to move as well, are typically the drivers of stakeholder engagement. Companies should consider engaging in a proactive manner prior to an emerging issue that may force management to engage with stakeholders, but from a position of obvious weakness. Engagement can be most effective when the company is considering changes to products, processes or organizational strategies. Inputs from a variety of stakeholders enables management to have a fuller picture of risks and opportunities and thereby make more informed decisions.

GAP & LESOTHO

Let us now return to Lesotho. The pictures of children in burning refuse piles and of a river turned indigo blue indeed pose a difficult problem for Gap's management. One could easily imagine a possible reaction: Gap denies responsibility for the polluted

river and the illegal waste dumping, claiming that this is a violation on the part of the subcontractor, and suspends its relationship with the supplier factory. In response, environmental and labor rights organizations, both local and global, protest Gap's exploitation of the local community. In turn, other brands become hesitant about doing business in Lesotho, thus damaging the country's industrial development efforts, and workers lose their jobs and no solution is found for the local community. In short, everybody loses.

But there is a different way. The conventional approach may have 'worked' ten years ago but stakeholders have become savvier and expectations have changed on what decisions are acceptable. Typically, those companies who 'cut and run' today no longer get away with it, and sooner or later they need to rectify the decision.

On August 2nd 2009 Dan Henkle delivered a media statement regarding Lesotho in which he declared the company's commitment to improving the lives of workers in Lesotho and listed the immediate steps Gap was intending to take to resolve the situation. On September 18th, Gap and Levi Strauss issued a joint statement detailing the actions they had taken or requested of others. These included internal and independent investigations, meetings with their suppliers and local government officials, immediate repair of the broken municipal waste pipe, and enhancement of factory management training to ensure compliance with their codes of conduct. Future steps recommended by the internal and independent investigations will include further work with multi-stakeholder initiatives (including the Multifibre Arrangement Working Group, the Forum Working Group for Lesotho and the ILO's Better Work Program).

It is important to note that the high level of respect and cooperation between Gap and its stakeholders resulted in stakeholder responses that were collaborative rather than adversarial. Consider the press statement delivered by Neil Kearney, General Secretary of the ITGLWF (the International Textile Garment and Leather Workers' Federation is a global union federation and member with the Gap of ETI, including its associated working groups in India). Kearney placed the Lesotho story in the bigger context: that of the general improvement in working conditions there in the last couple of years. He also criticized those who attacked Gap and Levi's for being

irresponsible, “using easy targets… without recognizing the progress that has been made and the contribution of these easy targets.” Coming from a veteran union leader who in the past campaigned against the company, Gap views this statement as an affirmation of its commitment to engagement practices.

The Lesotho case demonstrates once again that supply chain risks are all but inevitable for brands sourcing from a variety of emerging and developing market countries. Responses to the Lesotho story demonstrate that Gap is committed to Lesotho, its suppliers and workers, and that its stakeholders also recognize the company’s commitment as a result of its past efforts. With the well-documented decline in trust in companies, it is no surprise that media, consumers and politicians are much more likely to trust comments made by civil society (in this case, trade unions) than company statements. As Gap found, these stakeholders may even come to your defense as a result of your engagement strategy. Few companies today enjoy this type of public support.

Equally, if Gap did not have strong stakeholder networks in place, it would not have had the luxury to demonstrate the type of leadership seen in the Lesotho story and to walk the road less traveled on the journey to sustainability.

NOTE TO EDITOR: SIDEBARS TO ADD IN THE BODY AS APPROPRIATE

Multi-Stakeholder Initiatives (MSI)

Social Accountability International (SAI) is a human rights non-governmental organization, which is focused on building capacity for the improvement of labor conditions through joint projects and standard-setting. SAI is best known for the creation of SA8000, a standard of human rights in the workplace, which was designed by a multi-stakeholder advisory board comprised of business, trade unions and NGOs representatives. SAI is training management, employees and auditors and certifies organizations for their compliance to the standard.

http://www.sa-intl.org

Ethical Trading Initiative (ETI) is a London-based alliance of companies, NGOs and trade unions, that strives to promote ethical consumerism. Consisting of three caucuses (one for each group) and a tri-partite board, ETI provides a platform for discussion, sharing and joint action. Corporate members of ETI all agree to adopt its base code of labor practice, and the organization assists companies in the implementation process.

http://www.ethicaltrade.org

Global Reporting Initiative (GRI) is a network-based organization known for developing a sustainability reporting framework and its involvement in the application of this framework worldwide. GRI reporting guidelines are created through a consensus of a multi-stakeholder representative system. The third version of these guidelines – known as G3 – was published in 2006.

http://www.globalreporting.org

Milestones in Supply Chain Integrity

Several milestones in the industry were instrumental to changing the game and driving increased responsibility by companies in the retail sector including: Levi's developing the first code of conduct in 1991; Gap Inc.'s first 'warts and all' corporate social responsibility report in 2004; Nike's full disclosure of its supply chain in 2005; and Inditex signing the first union framework agreement with the International Textile and Garment Workers Federation in 2007 covering its global supply chain.

Prior to the 2008 Summer Beijing Olympics, General Electric launched a series of stakeholder dialogs around themes material to the company at the time, including human rights and China. General Electric invited a number of expert organizations to a dialog session held in Geneva, Switzerland to get feedback on the risks involved in its Chinese operations and business dealings with the Chinese government, so as to get a complete picture of the risks and opportunities of Olympic sponsorship. Stakeholders appreciated GE's candidness and transparency and teased out key concerns that GE was able to give attention to, significantly reducing its risk as an Olympic sponsor and preparing management for potential issues.

Uzbekistan Cotton Forced Child Labor Campaign

The Responsible Cotton Network is a coalition of brands, retail associations, investors, trade unions and NGOs working to halt the use of forced child labor in Uzbekistan. Uzbekistan is the 3rd largest exporter of cotton globally. The network has been engaging the Uzbek government to change this Soviet Era practice through responsible lobbying efforts, advocacy and dialoging with major brands to eliminate Uzbek cotton from their supply chains. Founded in 2008, the Network works with both US and European companies to combat forced child labour in their supply chains. The situation is Uzbekistan is serious. The government forcibly removes children from school during the harvest season. Unlike other cotton producing countries like India, there is plenty of adult workers to perform this work but many travel to surrounding countries to pick cotton for decent wages and appropriate working conditions. President Karimov of Uzbekistan maintains government control of the cotton monopoly, which purchases cotton at suppressed prices from *shirkat* or nominally independent farms and sells it on commodity exchanges at full price.

A number of issues including water scarcity, climate change, carbon counting, biodiversity, the increase in biofuel production and fair trade products are driving the need for more transparency in product supply chains and the ability to trace products in a credible manner to their source. Stakeholders including consumers, investors, civil society and perhaps in short period of time governments expect consumer product companies to ensure good social and environmental practices throughout the supply chain from “farm to fork”.

Increasingly, stakeholder expectations are extending beyond first and second tier suppliers where traditional monitoring programs have focused. No longer is it sufficient for brands to assure only a portion of the supply chain. The Responsible Cotton Network, The Roundtable on Sustainable Palm Oil and others are all examples of emerging initiatives involving non-traditional actors that have come together to try to tackle upstream supply chain dilemmas. Soon companies will be expected to trace product back to the mill, farm or forest or mine.

Evaluating Stakeholder Engagement

Materiality: requires knowing what concerns and is important to you and your stakeholders.

Completeness: requires understanding and management of material impacts and associated stakeholder views, needs, and performance perceptions and expectations.

Responsiveness: requires coherently responding to stakeholders' and the organization's material issues.

See:http://www.accountability21.net/uploadedFiles/publications/Stakeholder%20Engagement%20Handbook.pdf (accessed 27th August 2010): 15.

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Europe Campus
Boulevard de Constance
77305 Fontainebleau Cedex, France
Tel: +33 (0)1 60 72 40 00
Fax: +33 (0)1 60 74 55 00/01

Asia Campus
1 Ayer Rajah Avenue, Singapore 138676
Tel: +65 67 99 53 88
Fax: +65 67 99 53 99

Abu Dhabi Campus
Muroor Road - Street No 4
P.O. Box 48049
Abu Dhabi, United Arab Emirates
Tel: +971 2 651 5200
Fax: +971 2 443 9461

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