



LABOUR RIGHTS IN UNILEVER'S SUPPLY CHAIN

From compliance towards good practice

An Oxfam study of labour issues in Unilever's
Viet Nam operations and supply chain



OXFAM

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January 2013

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Abbreviations

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| AIM-PROGRESS | European Brand Association Programme for Responsible Sourcing |
| AFW | Asia Floor Wage |
| CBA | Collective bargaining agreement |
| CoBP | Code on Business Principles |
| ETI | Ethical Trading Initiative |
| FDI | Foreign direct investment enterprise |
| FMCG | Fast Moving Consumer Goods |
| IFC | International Finance Corporation |
| GRI | Global Reporting Initiative |
| ILO | International Labour Organization |
| ILLSA | Institute of Labour Sciences and Social Affairs |
| ISO | International Organization for Standardization |
| IUF | International Union of Food workers |
| MNE Declaration | Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy |
| MOLISA | Ministry of Labour – Invalids and Social Affairs |
| NCP | National Contact Point |
| NGO | Non-government organization |
| NMW | National minimum wage |
| OECD | Organization for Economic Co-operation and Development |
| POE | Privately-owned enterprise |
| PPP | Purchasing Power Parity |
| SAN | Sustainable Agriculture Network |
| SEDEX | Supplier Ethical Data Exchange |
| SMETA | SEDEX Methodology Ethical Trade Audit |
| SOE | State-owned enterprise |
| SOMO | Centre for Research on Multinational Corporations |
| UNGP | UN Guiding Principles on Business and Human Rights |
| UVN | Unilever Viet Nam |
| VGCL | Viet Nam General Confederation of Labour |
| WTO | World Trade Organization |

Foreword by
Oxfam and Unilever

Foreword by Oxfam

Working conditions remain poor for many workers in the value chains of multinational companies around the world, despite the often good intentions of senior management. Low wages, long hours, weak systems of industrial relations and job insecurity combine to leave many of the world's poorest people in a precarious situation and undermines their efforts to work their way out of poverty.

As the UN Framework on Business and Human Rights makes clear, companies have a responsibility to respect the human rights, including labour rights, of all people involved in or affected by their business. That is why Oxfam has, over many years, campaigned for companies to take action to improve the situation of workers in their global supply chains. It is why we participate in initiatives which raise awareness and share best practice between companies, trade unions and non-government organizations, such as the UK-based Ethical Trading Initiative,¹ the Indonesia Sportswear initiative and the Play Fair alliance.²

Such initiatives have made some progress but many significant challenges remain for companies, including Unilever. Oxfam's corporate relationship with Unilever spans a decade; it includes a joint Poverty Footprint Report (the first of its kind for either organization) looking at Unilever's impact on poverty in Indonesia³ and an ongoing dialogue on sustainable agriculture and poverty reduction.

In spite of Unilever's significant top level commitments to sustainability, Oxfam saw that, like most other multinational companies, it fell short of fulfilling its corporate responsibilities when it came to labour issues. Following dialogue on the issues, Oxfam proposed to investigate the reality for workers in Unilever's operations and supply chain on the ground in a developing country. Unilever responded positively to the challenge and this study is the outcome.

Oxfam welcomed Unilever's willingness to open its operations and supply chain to the scrutiny of Oxfam's staff and research team, as demonstrating an exceptional level of transparency and a genuine commitment to stakeholder engagement. It enabled us to gain access to Vietnamese workers' experience of working life, and understand the interaction between workers' lives and corporate policies and processes, in ways that are not normally open to a civil society organization.

We are pleased that Unilever has made some concrete commitments in response to the study findings and recommendations, as outlined at the end of this report. Oxfam plans to review what progress has been made in two year's time. Our hope is that, over time, the situation for workers may improve as a result of changes arising from this exercise.

Foreword by Unilever

Unilever is committed to respecting and promoting human rights and good labour practices. Respecting human rights is core to the company's corporate values and is embedded in our Code of Business Principles.⁴ We seek to work with private sector partners as well as civil society and labour organizations to promote human rights both globally and locally. The adoption of the UN Framework for Business and Human Rights has led us to rethink the integration of our human and labour rights strategies. We have already started this journey. Unilever was one of the leading companies which, as part of the UN Global Compact in The Netherlands, participated in the development of a 'guidance tool for companies' for the UN Framework for Business and Human Rights; UN Special Representative Professor John Ruggie has acknowledged our work in his report.⁵ Furthermore, Unilever has completed an internal gap-analysis relating to our compliance with the UN Framework.

Recognizing that more needs to be done, Unilever accepted Oxfam's request to conduct this research within our operations and supply chain in Viet Nam to learn what the implications of the UN Framework might be and how a global business can further improve and refine the labour standards of its employees and workers.

Executive Summary

Background and purpose of the study

This study was initiated by Oxfam and Unilever, based on a long period of dialogue on sustainable agriculture within the Sustainable Food Lab, a multi-stakeholder initiative. The relationship developed following a ground-breaking poverty footprint study of Unilever's operations in Indonesia in 2005. In 2009, when reviewing the risks of a proposed new collaborative project on smallholder agriculture, one of the risks identified was Unilever's management of labour rights. This report is the result of subsequent dialogue on this issue. Funded by Oxfam, the report has two objectives:

Objective 1: To assess the labour standards in Unilever's operations and wider supply chain, taking into account international standards and local conditions.

Objective 2: To develop a set of principles and measures to guide Unilever, and other companies, in fulfilling their social responsibilities, as a complement to the better-defined environmental measures available.

Unilever stated that it would like to gain a better understanding of the issues that are important to workers but difficult for companies to measure and manage. The Fast Moving Consumer Goods sector is at an early stage of dealing with these kinds of issues. For instance, what is a Living Wage? What would be the implications of adopting a Living Wage? How should any learning on this frame the company's approach? Four issues were selected for special focus:

1. Freedom of association and collective bargaining: These were selected as they are enabling rights for the realization of decent working conditions.⁶ They are among the fundamental rights of the International Labour Organization.⁷ We looked at whether workers could exercise these rights despite the limitations imposed by Vietnamese law.

2. Living Wage: This concept is gaining increased attention and causing heated debate among companies, trade unions and non-government organizations (NGOs) across the world. What is a Living Wage? How should it be calculated? What is its relationship to the legal minimum wage? We assessed wages against recognized wage and poverty benchmarks and looked at whether take-home pay met workers' basic needs.

3. Working hours: Workers often have to work overtime to earn a decent wage and employers rely on overtime to achieve production targets. Where excessive working hours were found, Oxfam looked at why this was happening and the consequences of efforts by Unilever to ensure its suppliers complied with legal requirements.

4. Contract labour: Forms of contract labour, including temporary and seasonal work, are problematic because workers' livelihoods are precarious, causing them to live with insecurity and worry. Precarious work is a major concern to civil society organizations because people who are fearful of losing their jobs are unlikely to speak out or assert their rights. We looked at why jobs are contracted on a precarious basis and the impact of this on workers' well-being.

Viet Nam was selected as the country case study for this report. Unilever Viet Nam (UVN) directly employs around 1,500 people producing home, personal care and food products. Oxfam's development and advocacy programme in Viet Nam is well-established and includes a labour rights focus. Viet Nam is one of the world's fastest growing emerging economies and is currently undergoing a rapid transition from a centralized planned economy to a free market model, though one where the government still plays a major role. Food prices have risen significantly in recent years and there is currently a debate about the necessity for higher minimum wages and about the treatment of workers in general.

The UN Guiding Principles on Business and Human Rights

To ensure the study has wider relevance for Unilever and other companies, Oxfam looked at a range of international frameworks relevant for labour rights, in particular the UN Guiding Principles on Business and Human Rights (UNGPR), which guide companies in meeting their responsibilities to respect human rights. The principles are divided into four main elements:⁸

1. Commitment;
2. Integration of the policies in the business and implementation with suppliers;
3. Tools and processes for due diligence;
4. Remediation via grievance mechanisms.

Methodology

Oxfam designed the study in ways that would enable it to assess how far people were able to realize their rights and whether the company's policies and processes help them to do so.

The study had both a global and national scope. Oxfam established global and Viet Nam-based research teams with expertise in labour standards within business. Unilever designated staff members from its global and Viet Nam bases to work with the research teams, providing information and access, and discussing findings. A UK consultancy was commissioned to develop a 'wage ladder' for Viet Nam with appropriate benchmarks for the location of Unilever's factory.

Oxfam studied UVM and its supply chain within the country, to take into account a range of external and internal factors influencing labour standards. The researchers visited Unilever's operations at Cu Chi, near Ho Chi Minh city, where 700 workers were directly employed by Unilever and 800 more were employed by a labour provider to carry out simple processes such as packing and cleaning. Managers and workers were interviewed. Worker interviews were a mix of individual and group formats, both on-site and off-site.

The research team conducted telephone interviews with 48 of Unilever's Vietnamese suppliers, selected as being in a high-risk environment for labour standards, but where Unilever was judged to have commercial leverage based on information from UVM. From these 48 suppliers the researchers identified a representative spread of three suppliers, referred to in this report as selected or 'deep-dive' suppliers. One was a third-party manufacturer supplying a personal care product, one supplied plastic packaging and one supplied paper packaging. One was privately owned, one state-owned and one foreign-owned. The three suppliers were visited and interviews conducted with managers and workers using a similar format to the one used in Unilever's factory. Findings in the report have been anonymized.

Summary of findings

Findings relating to policies and management processes

Commitment

- Unilever has made a commitment to social responsibility by adopting the UNGP. It also has a Code of Business Principles (CoBP); a Respect, Dignity and Fair Treatment policy; and a Supplier Code, all publicly stated.
- Despite this, human and labour rights are conspicuous by their absence from the Unilever Sustainable Living Plan. Social targets focus on the well-being of consumers and smallholders, but there are no targets for labour rights.

Integration of labour standards into the business and implementation with suppliers

- Unilever management in Viet Nam were found to lack the capacity and knowledge to ensure the company's operations comply with international standards, nor did they have the authority to support suppliers to do so.
- Unilever is a valued client of its third-party manufacturers and suppliers in Viet Nam. However, in relation to labour rights many suppliers were unclear about Unilever's expectations and how best to realize labour rights in practice.
- Some Unilever sourcing practices were found to contribute to excessive working hours and precarious work in the supply chain.

Tools and processes for due diligence

- The risk management system, involving self-assessment and audit, is not sensitive to the vulnerability of some workers. Therefore none of the Vietnamese suppliers was identified as high risk through the risk assessment process.
- It is positive that the company will give time for improvements if problems are found; suppliers need to know this is the case and to understand the standards better.
- There are no tracking or internal reporting mechanisms covering Unilever's effectiveness in dealing with labour issues; input is not sought on this from civil society stakeholders.
- While Unilever shows a good level of transparency and actively engages with stakeholders at the global level, in Viet Nam this is at an early stage.

Remediation via grievance mechanisms

- Grievance mechanisms in Unilever's operations are ineffective because workers lack the confidence to use them, as a result of which potentially severe violations could be missed.
- Based on the phone survey, one in eight suppliers said workers do not have any grievances and a mechanism was not needed; only one in four have an assigned person and procedures to deal with them.

Findings at global level

Freedom of association and collective bargaining

Corporate policy appears to provide a good overall framework for these rights. The challenges arise when it comes to implementation, since the industrial relations policy of Unilever (and potentially other multinational corporations) may be country-specific and locally determined.⁹

A commitment to effective implementation has been demonstrated by the actions taken to resolve industrial relations disputes and by Unilever's subsequent corporate engagement with the International Union of Food workers (IUF). This followed four complaints to the UK National Contact Point (NCP) responsible for the OECD Guidelines on Multinational Enterprises, concerning violations of trade union rights.¹⁰ In June 2012, the IUF lodged a further complaint with the UK NCP, alleging non-implementation by Unilever of the agreement reached in 2010 concerning the Doom Dooma factory, in Assam, India, manufacturing personal care products.¹¹

Wages

The CoBP includes a commitment to comply with all applicable laws on compensation, including minimum wage. Good practice codes (such as the ETI Base Code and SA8000) incorporate a commitment to a Living Wage.

Working hours

The CoBP also includes a commitment to meet applicable national limits on working hours. National laws are frequently good in this area, but compliance is hard to achieve in a context of low wages.

Contract labour

Terminology in the CoBP also assumes that all workers are in an employment relationship; it does

not make it explicit that workers' rights are respected in the supply chain irrespective of employment status, although this was reported to be the intent. Good practice codes (such as the ETI Base Code and SA8000) use the term 'workers' to separate rights from employment status and include a commitment to Regular or Stable Employment.

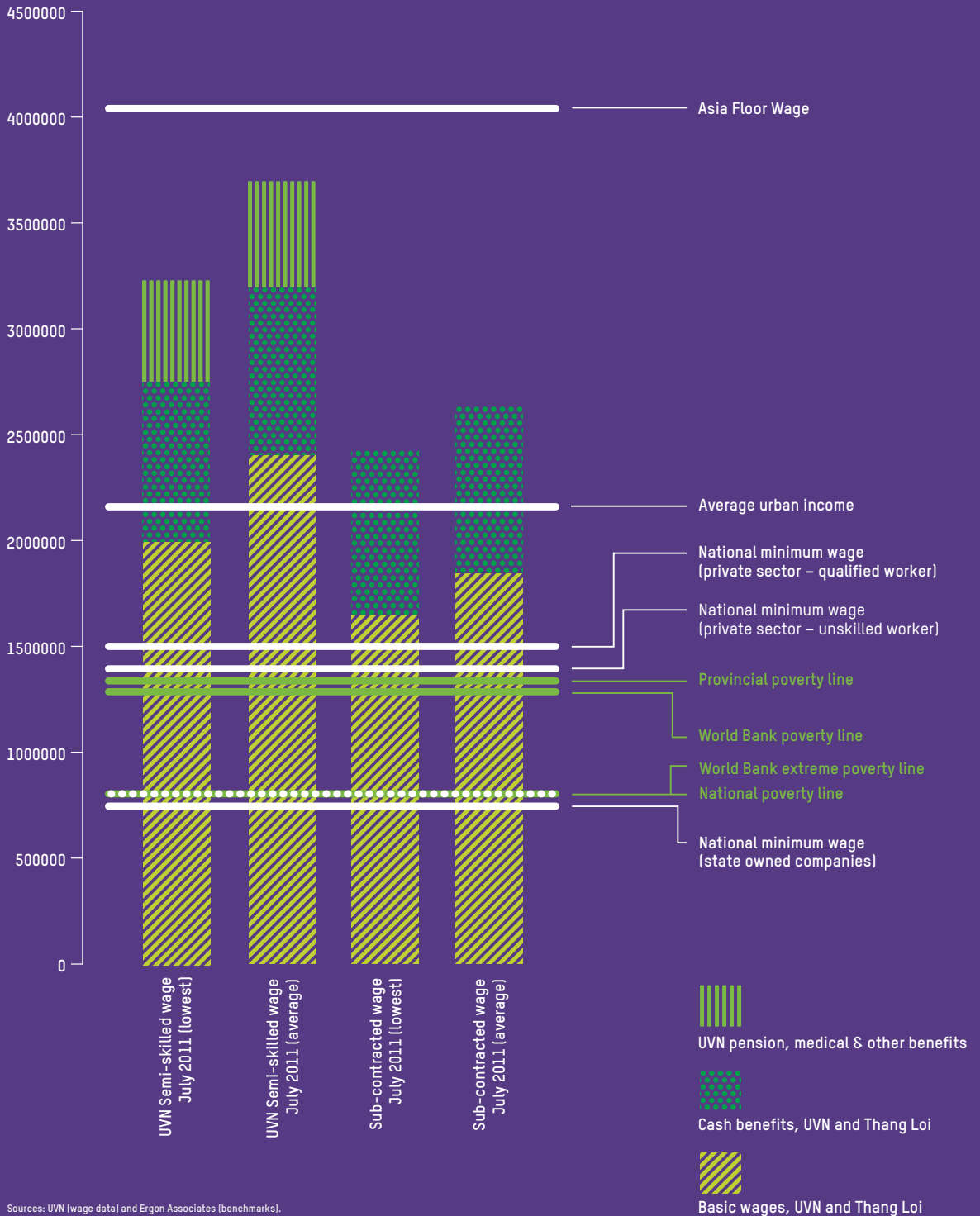
Findings at Unilever Viet Nam level

There is a UVN union but employees below management level do not have opportunities to raise issues collectively with management and have no meaningful involvement in collective bargaining. More could be done within the constraints of Viet Nam law to encourage an environment in which industrial relations can develop. This is likely also to be the case in other countries in which freedom of association is restricted by law.

The study found that all wages paid in Unilever's own factory clearly were well in excess of the applicable minimum wage, so were compliant with national law and Unilever policy. They also exceeded the international poverty line of \$2 per day (taking into account household size). However, they were found not to meet other key benchmarks of the basic needs of employees and their families, such as the Asia Floor Wage (just over 4m VND) and Oxfam's estimate of monthly expenses for an adult with a child (5.42m VND). In interviews, workers were in agreement that wages were insufficient to make savings or support dependants (see Section 6).

For wage ladder data, commentary and assumptions, see Section 6. Note that poverty and basic needs benchmarks relate to the needs of a household, not an individual.

Figure 1: Wages and benefits in UVN factory with wage and poverty benchmarks (VND monthly, July 2011)



Sources: UVN (wage data) and Ergon Associates (benchmarks).

The Asia Floor Wage (AFW) benchmark was used as a reference point on the wage ladder because this methodology for calculating a Living Wage has the greatest currency amongst civil society organizations. Companies, including Unilever, therefore need to be aware how wages in their operations and key supply chain look in comparison to relevant AFW benchmarks.

The findings need to be put into a wider context of endemic low wages, reflected in a Fair Wage Network survey which found 25 per cent of workers in Viet Nam garment factories do not receive even the minimum wage (see Section 4.2). Nevertheless Oxfam concluded that Unilever, as a profitable multinational corporation, could do more to ensure workers making their products can work their way out of poverty.

Unilever's working assumption at headquarters that production workers were paid well above a Living Wage in its own operations was not borne out by the study in Viet Nam and workers' perspective on wages and benefits was not found to be well understood by management.

Hours worked were found to be within legal limits and paid at a premium as required.

Just over half of the workers in the factory (748 out of 1,385) were sub-contracted to a labour provider, Thang Loi, rather than directly employed. These workers had lower wages and benefits than UVN employees; their average basic wages were still comfortably in excess of the legal minimum wage and the international poverty line, but less than half the AFW benchmark and Oxfam's estimate of workers' expenses (5.4m VND). Some workers complained of unfair treatment and repeat temporary contracts.

Unilever has devised a Contingent Labour Reduction Roadmap to reduce the ratio of sub-contracted to directly employed workers where needed in a sustainable manner

Findings at Supply chain level

Based on the phone survey, seven out of eight suppliers had a union, but one in two put workers outside the wage setting process. Three out of four regarded enterprise unions as more than a welfare body and approximately one in two saw them as providing an effective grievance handling mechanism.

Two of the three selected suppliers were found to pay a very low basic wage, just above the legal minimum. Unilever regularly checks that wages do meet the legal minimum; based on the Fair Wage Network survey,¹² there are many enterprises in the garment and footwear sector that do not achieve this. In a supplier which had foreign ownership, Vietnamese managers and workers alike were unclear how wages were set.

Two of the selected suppliers were found to assume that offering overtime is necessary to retain workers. At one supplier, workers said they had worked four hours' overtime a day six days a week for ten months of the previous year: this is well in excess of legal limits of 200 hours a year. A social auditor had identified excessive working hours the previous year.

Thirty-two of the 48 suppliers surveyed by phone said they use temporary or sub-contracted workers; exploring the causes and impact of these was outside the scope of the study.

One supplier was found to have reduced its labour force to a minimum after the contract with Unilever was signed and managed fluctuations in demand by having a high ratio of temporary to permanent jobs. Since in Viet Nam only workers with contracts of more than six months can join the union, this is a significant barrier to workers having a collective voice about issues they are concerned about.

At one of the three 'deep dive' suppliers, the research team found a range of good practices including higher wages (though not at the level of Oxfam's estimate of a Living Wage) and wage transparency. Low season was used to raise skills so workers could switch between tasks during busy periods, meaning less reliance on temporary labour. Staff surveys and grievance mechanisms were trusted and used. Workers reported higher satisfaction than at the other suppliers or at Unilever's factory.

The fact that this supplier was managing to operate with better labour standards, in a similar high risk environment to the others studied, appeared to have no connection to the company's sourcing strategy.

Conclusions

Unilever has made a significant commitment to social responsibility and sustainability, employees take pride in the company's values and a motivated workforce is seen as key to its business success.

People must be the source of the company's value. Unilever must be best in class as we charge a premium for our brands, so we must invest in training and working conditions...We compete on operating efficiency, quality, specification of products and responsiveness to customer demand. All this requires an empowered and skilled workforce...All Unilever's analysis shows that where there are good conditions and empowerment of employees, the factory has the best results.

Nick Dalton, Unilever, VP HR Global Supply Chain¹³

Unilever's own analysis shows that the best results come from factories with good conditions and empowered workers; however, its business model does not fully reflect this. Based on this report, competitive advantage is still, in practice, pursued through downward pressure on labour costs, which pushes costs and risks onto workers.

Oxfam had expected to find endemic global supply chain issues, such as low wages, weak industrial relations and precarious work, within Unilever's 'high risk' suppliers, but were surprised to find them reported by workers in its own factory. We also found that workers, both in Unilever's factories and in its supply chain, had a weak voice and experienced 'inadvertent neglect'. We took it to be inadvertent as Unilever gives every sign of wanting to behave responsibly. However, it was clear that the workers experienced neglect, given the lack of a safe space to talking frankly about their concerns. This could mean that potentially severe labour violations do not come to the company's attention.

Demand for higher-quality standards and pressure on limited resources require smarter production and a more resilient and responsive supply chain from all companies. This in turn requires more skilled, efficient managers and workers who are open to innovation in the workplace. Unilever's control over its manufacturing

operations and stable, long-term supply relationships make it well placed to deliver on this agenda.

Unilever now needs to incorporate the UNGP more fully into the way it runs its business, which will help it to ensure that those rights are realized. This will require the company to adopt a more people-centred approach, in which workers identify issues and priorities that matter most to them, give feedback on the quality of their working lives, and the effectiveness of Unilever's mechanisms; as one stakeholder said in interview, 'it all starts with the workers'.¹⁴

Proactive steps will be needed to address low wages and precarious work in the supply chain, to strengthen the due diligence process and to collaborate with other stakeholders, including competitors, civil society and governments. The implications of not addressing these concerns will be continued civil society criticism; difficulty in retaining skilled workers; and security of supply in the face of increasing competition for both.

Unilever needs to play a leadership role, while treating this as a 'pre-competitive' issue in which a range of other stakeholders – governments, civil society organizations, other companies – need to play their part.

Oxfam Recommendations to Unilever

1. Adjust policies and business model to deliver better quality jobs for workers

- Change corporate policies (CoBP and Supplier Code) to build in a commitment to a Living Wage and minimize precarious work in Unilever's operations and supply chain.
- Acknowledge that the minimum wage is not always an adequate proxy for the basic needs of workers and their families.
- Identify and address low wages and precarious work in Unilever's own operations.
- Source only from suppliers with good HR management, industrial relations and grievance mechanisms.
- Ensure any certification scheme with which Unilever is associated effectively enables the realization of labour rights.
- Select strategic supply chains and work with competitors and other stakeholders to improve job quality (for instance, the tea industry).

2. Better align business processes with policy

- Introduce tools to support the strategy including:
 - Training for buyers to understand the impact of their decisions on working hours, low wages and precarious work in the supply chain;
 - Measurable targets for buyers to place an increasing value of orders with suppliers who are proactive in raising labour standards;
 - Incentives for suppliers who are proactive in raising labour standards.
- Implement, alone or with industry peers (e.g. via AIM-Progress), a training programme for business partners and key suppliers at country level, addressing specific local issues relating to labour standards.
- Communicate expectations more clearly to suppliers, making clear where Unilever will take a continuous improvement approach, contingent on the supplier being transparent.
- Make better use of the knowledge of Unilever staff in-country about good practice in local conditions and provide guidance in the promotion of international standards, as well as compliance with national law.

3. Strengthen the supply chain due diligence process to take account of people's vulnerability to speak out

- Modify the risk management system to make it more sensitive to the situation of vulnerable workers, such as women with family responsibilities, migrants and those in precarious work, and rate as high-risk those countries which place limitations on freedom of association.
- Develop targets to help monitor the effectiveness of measures taken to address negative impact and seek information and feedback from civil society stakeholders at country level.
- Bring local grievance processes into line with best practice based on the UNGP of being legitimate, accessible, predictable, equitable, rights-compatible and transparent.
- Recognize that a commercial audit programme, while necessary in an environment of poor legal compliance, is not sufficient for the realization

of rights and needs to be strengthened by other mechanisms:

- Commission additional off-site worker interviews (e.g. conducted by NGOs) for sites which are 'high risk' and strategic;
- Specify a higher level of competence/training for third-party auditors
- Require auditors to assess wages against a credible basket of needs;
- Supplement audits with other mechanisms such as anonymous worker surveys, assessment of Human Resource Management, records of grievances raised and resolved, and frequency of negotiation of a Collective Bargaining Agreement.

4. Work with others to promote scalable ways to realize rights and increase collective leverage

- Where Unilever has influence within its own business and over suppliers, it should encourage an environment in which industrial relations can develop and there can be bargaining on wages and benefits.
- Use Unilever's influence with governments to advocate that legal minima are adequate for basic needs, and to promote public/private strategies for social and economic upgrading.
- Consider joining a multi-stakeholder initiative such as the ETI to gain access to best practice know-how and approaches and opportunities to collaborate with others to address difficult issues.
- Write a progress report against Oxfam recommendations and Unilever commitments within two years, and enable Oxfam Viet Nam to check what has changed, particularly from workers' perspectives, in that time. Ensure responsibility is assigned internally to this.

5. Five things Unilever could do in Viet Nam

- Share the findings of this study with managers, suppliers, the Viet Nam General Confederation of Labour and Cu Chi workers and pilot in Viet Nam the changes recommended in this report.
- Implement changes in ways of working at the Cu Chi factory. This should include regular meetings between management and workers; worker surveys; worker input into performance review processes; and understanding causes of underperformance.

- Review the ratio of directly employed to sub-contracted workers, employ those involved in production and packing directly, and address grievances about unfair treatment between UVN and Thang Loi employees.
- Take a closer look at standards in the 32 suppliers who reported using temporary and contract labour on production and packing lines, and change sourcing and contracting processes to deliver more open-ended jobs and wages that progress to a Living Wage.
- Provide more training and guidance to UVN managers to understand international standards and make better use of their knowledge in the audit programme and supplier management and development.

6. Integrate into the Sustainable Living Plan and/or public reporting process measurable targets for labour rights and job quality

Unilever must incorporate measures of labour rights and job quality into its public reporting processes so that stakeholders can assess its progress in managing the issues highlighted in this report.

The principles and indicators developed for this study provide a useful tool for companies to assess their performance.

- Wage levels for a standard working week relative to the minimum wage, the international poverty line and the best available estimate of a Living Wage;
- Ratio of permanent to temporary contracts;
- Percentage of workers with an employment contract;
- Percentage of workers covered by a recent collective bargaining agreement;
- Number of significant grievances raised by workers and resolved by management;
- Awareness of workers' rights by workers and their supervisors (based on a survey).

In conclusion

The labour issues found were broadly consistent with our expectations of endemic issues in global supply chains, such as wages being too low to meet basic needs (even where legally compliant) weak industrial relations and precarious work.

We hope this study will help Unilever strengthen this aspect of its business model and encourage other companies to revisit their reliance on compliance with national law rather than international principles, and to be more open about the challenges in this complex area. We hope it enables a better understanding of good practice and suggests ways performance can be measured and reported in meaningful ways.

Unilever has made a top-level commitment to sustainability and social responsibility. It has the kind of corporate culture and long-term relationships with suppliers that make it ideally placed to sustain good-quality jobs in its operations and supply chain, if it is willing to make the necessary changes to its policies and processes and work collaboratively to address the root causes of labour problems. This would place Unilever in a potentially leading position to achieve the UNGP, which provide a clear road map to respecting human rights in the twenty-first century.

1 Introduction

Tackling labour issues in global supply chains

Labour rights are about people and the quality of their productive working lives. The starting point for respecting human and labour rights is to understand the impact of a business's actions on people.

Labour rights should be at the heart of [a company's reporting framework] as there is nothing more material to the way a business runs than its labour. Workers build the wealth.
 Dan Rees, ILO Better Work programme¹⁵

Companies often express disappointment when workers tell an undercover reporter about violations they have not communicated to a supervisor, auditor or helpline, fearing the consequences. A manager may say 'my door is always open to workers'. But this is not the same as measuring a manufacturing defect rate or the level of pollution in water; workers weigh up the consequences before voicing a concern.

For Oxfam, respect for labour rights and a guarantee of good-quality jobs are core elements of corporate responsibility and are key to ensuring international trade enables people to work their way out of poverty. Respect for human and labour rights is

fundamental to a company's commitment to achieve the 'triple bottom line' of economic, environmental and social sustainability. Yet evidence suggests that global supply chains of all kinds are dogged by endemic problems, including weak relations between management and workers, poverty wages, exhausting working hours and precarious employment.

The recent spikes in food prices, highlighted in Oxfam's GROW campaign, have especially hurt those who spend more than 50 per cent of their income on food.¹⁶

Since the sweatshop campaigns of the 1990s, companies have endeavoured to ensure compliance with their codes of conduct through top-down methods, such as making this a condition of contract and imposing audits and corrective actions on supplier sites.

Competing in business through containing wage costs is still the most common approach to wage policies. A survey of wage issues in factories in countries by the Fair Wage Network (see Section 4) found that none of the 15 Vietnamese factories surveyed paid above the minimum wage and half underpaid those wages. The survey also highlighted the widespread use of double record-keeping at factories in order to 'pass' a social audit.

Imposing expectations of compliance on suppliers can drive secrecy about issues which have a high impact on workers. In Oxfam's experience, audits can

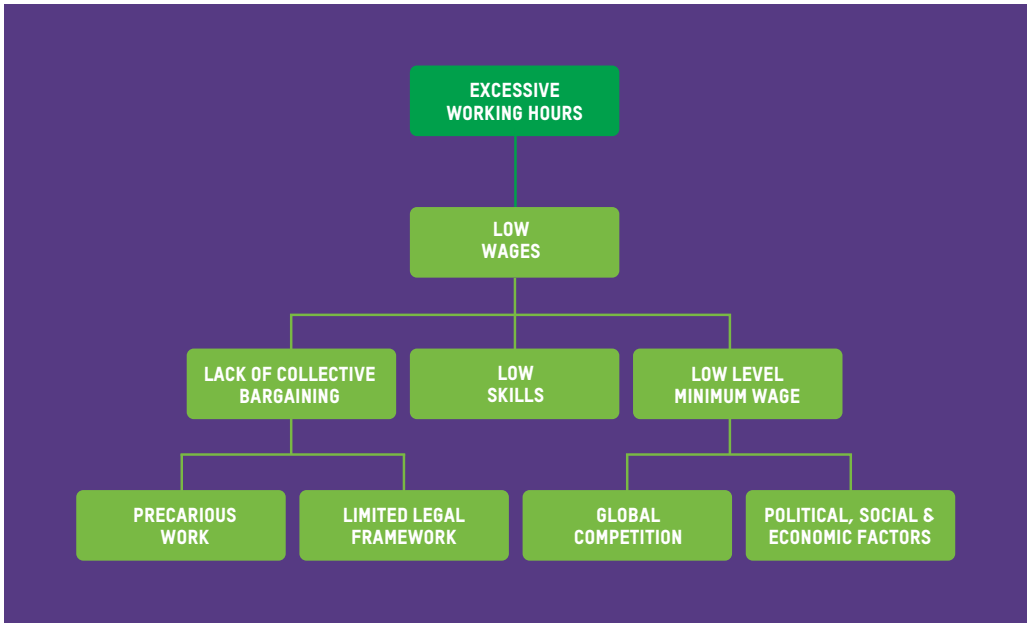
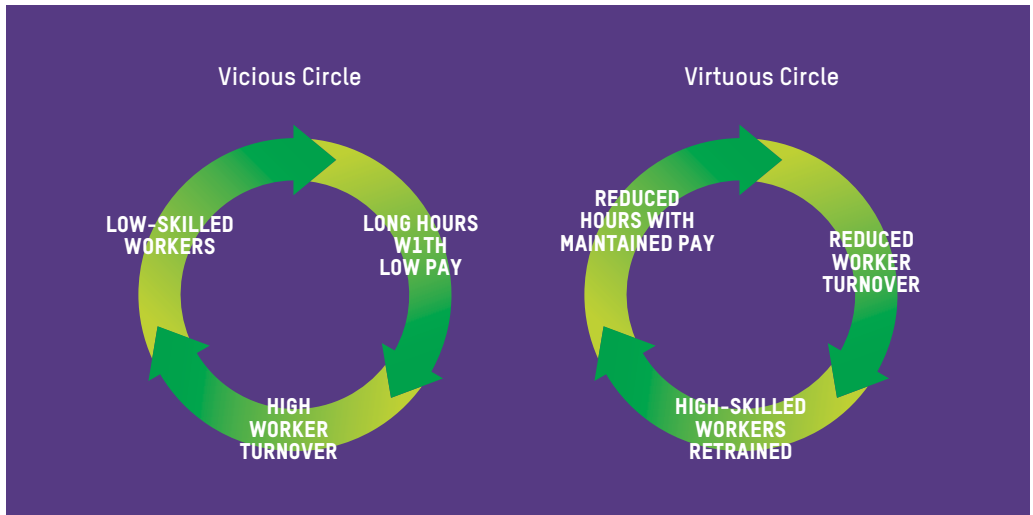


Figure 2
 Root causes
 of excessive
 working hours

Figure 3
Achieving
a virtuous
circle in the
workplace



be a helpful tool for identifying more visible issues in workplaces to which companies have a direct line of sight, but they are 'a weak tool for social upgrading', according to recent in-depth research.¹⁷ No amount of audits and corrective actions will achieve compliance in a context of endemic non-compliance, and their limitations are ever more apparent: 'at best they are a health check, at worst they mask problems'.¹⁸

Over the last 15 years brands and purchasers tried valiantly to cajole, persuade, regulate and instruct their suppliers and sub-contractors to comply with local law and international standards on decent work. However none of these have made a noticeable dent in the systemic abuse of workers' rights in global supply chains.
R. Hurst (2011)¹⁹

Poor working conditions may be exacerbated by other issues that are not within the ability of a company to address. For example, governments may be unable or unwilling to ensure protection for workers and to apply the law fully, trade unions may be repressed, and the capacity of all parties to address the issues may be limited.

One way to look at the four issues featured in this study is as a sequence of root causes which helps

illustrate why achieving compliance on, for instance, working hours, is difficult.

A multinational company operating in a variety of countries, with a supply chain comprising thousands of suppliers, needs proven, scalable solutions to these challenges. There is increasing interest in what it would take to achieve a virtuous circle in workplaces, in which greater respect for rights has a positive reinforcing effect on productivity, quality, worker satisfaction and retention. To achieve sustainable solutions collaboration is needed with other companies, trade unions, non-government organizations (NGOs) and governments that have a good understanding of the issues concerned. They need to work together towards a culture of compliance with the rule of law and international labour standards, together with mature systems of industrial relations. Promoting ethical behaviour may involve advocating for governments to fulfil their duties and help workers overcome obstacles to realize their rights.

About this study

This study was initiated in the context of a long-term relationship between Oxfam and Unilever which goes back 10 years. This collaboration builds on a long period of dialogue on sustainable agriculture within the Sustainable Food Lab, a multi-stakeholder initiative, and a ground breaking poverty footprint study of Unilever's operations in Indonesia in 2005.

It was agreed that Oxfam and Unilever would undertake a collaborative study leading to an independent Oxfam report, funded by Oxfam, with two objectives:

Objective 1: To assess the labour standards in Unilever's operations and wider supply chain in Viet Nam, taking into account international standards and local conditions.

Objective 2: Develop a set of principles and measures that can guide Unilever and other companies in fulfilling their social responsibilities, as a complement to the better-defined environmental measures available.

Unilever stated it would like to gain a better understanding of the implications of four issues that are recognized to be important to workers but difficult for companies to measure and manage:

1. Freedom of association and collective bargaining;
2. A Living Wage;
3. Working hours;
4. Contract labour.

Underpinning these issues are such questions as:

- What is good practice in a country where Freedom of Association is limited?
- What is a Living Wage?
- How can excessive working hours and precarious work be addressed responsibly?

The Fast Moving Consumer Goods (FMCG) sector is at an early stage of dealing with such issues.

It was agreed that one country would be used as a case study and Viet Nam was selected. Unilever Viet Nam (UVN) employs around 1,500 people directly, producing home, personal care and food products, while Oxfam's Viet Nam development and advocacy programme is well-established and includes a labour rights focus. Viet Nam is one of the fastest growing emerging economies in the world and is undergoing a rapid transition from a centralized, planned economy to a free market model, where the government still plays a major role. Even though economic growth is strong, food prices have risen significantly in recent years, leading to a broader debate about the necessity for higher minimum wages or a Living Wage, and the treatment of workers in general.

Oxfam commends Unilever for acknowledging that it has gaps at a corporate level, and welcomes their commitment to discuss the study findings and respond

to the recommendations. We hope that the study will ultimately lead to the company undertaking concrete steps to improve its labour policies and practice.

The report will inevitably sound critical. That is partly because it was agreed that the study would yield most learning if Oxfam focused on suppliers with a potentially highly adverse impact on labour rights, such as those in a high risk industry employing low-skilled workers, particularly women and those on temporary contracts. Consequently findings relating to the supply chain are skewed to some of the more problematic areas.

Oxfam hopes this study highlights challenges and bottlenecks that are a reality in this complex area, and suggests some solutions to questions such as: what are the scalable ways of ensuring that rights are respected and problems addressed? What approaches should a company like Unilever be using? What metrics would be meaningful and manageable to use?

The report is structured as follows:

Section 1

Introduction

Section 2

Methodology

Section 3

International frameworks relevant for labour rights

Section 4

Context for the study: An overview of Unilever as a company and an overview of Viet Nam as a country

Section 5

An assessment of Unilever's policies and management processes against principles and indicators of good practice and a policy level comparison between Unilever and five global competitors

Section 6

An assessment of Unilever's management of four labour issues against principles and indicators of good practice from global to local level

Section 7

Gap analysis, conclusions and recommendations

Appendices covering the project team, acknowledgements, bibliography.

2 Methodology

Methodology

The study looked at the research issues and questions from a global to a country level, where UVN and its supply chain were studied within the national context.

The research was therefore able to take into account a range of external and internal factors influencing the implementation of labour standards.

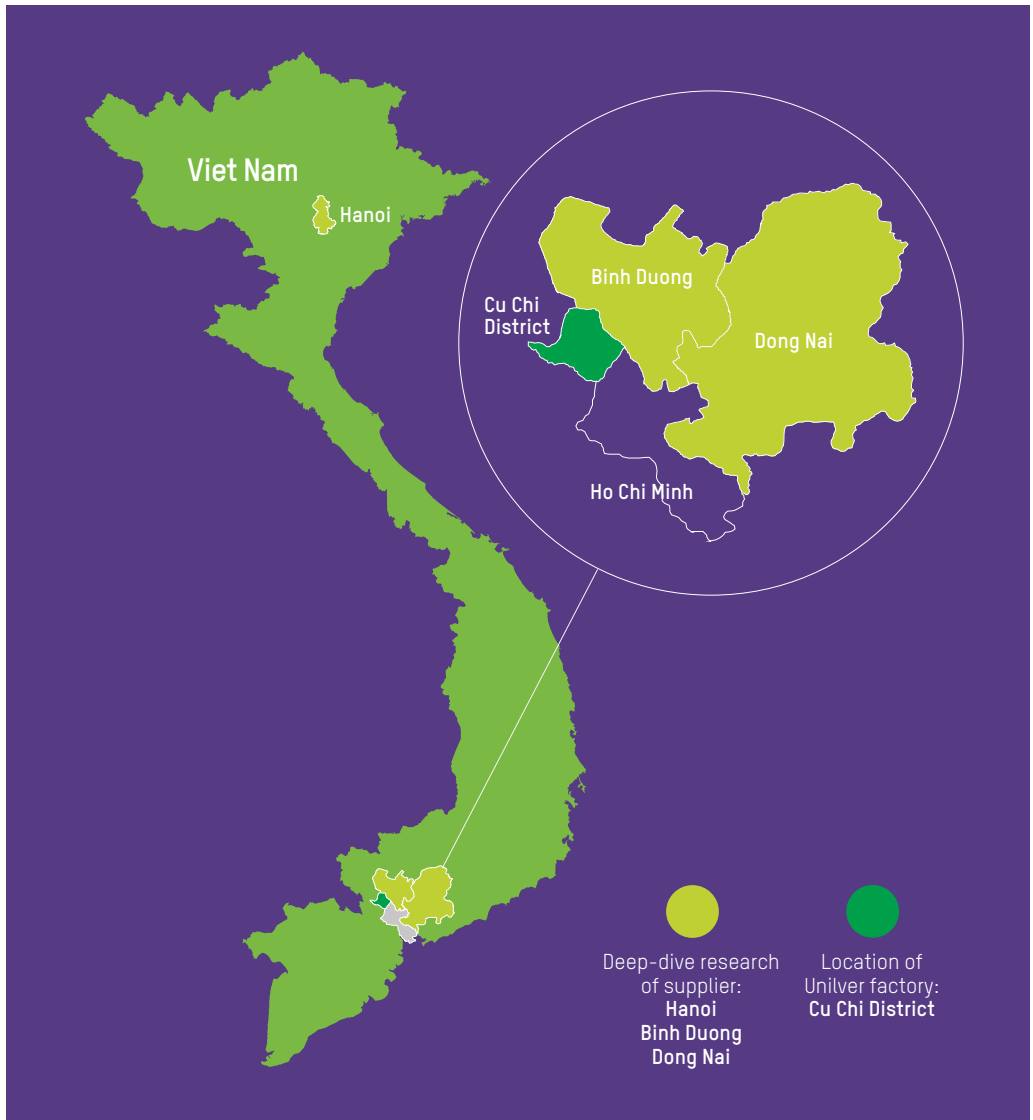
Oxfam established research teams to work both at the global level and at the local level. Likewise Unilever designated a global team and key staff in Viet Nam who could provide information, facilitate access and discuss findings with Oxfam. A mutually agreed Technical Adviser was attached to the project and local researchers were hired based on their expertise and experience in relation to labour issues. Unilever was invited to comment on the Terms of Reference and selection criteria while Oxfam selected the research teams.

| FOCUS | LEVEL | METHOD |
|---|-------------------------|--|
| The team assessed Unilever against international principles and indicators of good practice. | GLOBAL LEVEL | Literature review. Four interviews with Unilever management. Four interviews with global stakeholders. |
| The team assessed Unilever against international principles and indicators of good practice. | NATIONAL CONTEXT | Literature review. 21 interviews with national stakeholders. Stakeholder reference group and workshop on the Living Wage. Development of a 'wage ladder' |
| The team looked at how far Unilever enabled workers to realise their rights with a focus on the four labour issues. | UNILEVER VIET NAM | Consultation workshop and interviews with nine UVN managers at head office. Interviews with 12 managers and the union at Cu Chi factory, 25 employees of UVN and 18 employees of a labour provider. Feedback workshop for UVN. |
| The team conducted telephone interviews with 48 suppliers to understand their policies and management processes. | 48 SUPPLIERS | Telephone survey. |
| The team looked at labour rights at three selected suppliers, with a focus on the four labour issues. | 3 'DEEP-DIVE' SUPPLIERS | Interviews with six managers (two at each of the three suppliers). Interviews with 51 workers. |

In total 198 interviews were conducted, of which 94 were with workers.

Figure 4
Levels of research

Figure 5
Map showing
locations of
UVN's factory
and the three
suppliers
studied



A wide range of methods were applied to address the research questions:

1. Literature and document review

A literature review was conducted at all levels studied. This included ILO conventions, human rights standards and guidelines, reports and articles in the public domain, and internal Unilever documents including policies, contract terms, employee and supply chain information and supplier self-assessments using the Supplier Ethical Data Exchange (SEDEX) system.

2. Semi-structured interviews

Interviews were conducted with key informants selected for their expertise and relevant knowledge:

Stakeholder interviews – Global level (September to November 2011)

- Four senior Unilever managers
- Four global stakeholders

Stakeholder interviews – Viet Nam level (March to August 2011)

- Government agencies in Viet Nam
- Stakeholders in Viet Nam

Interviews were conducted as follows:

Global level (total: 7)

Three Unilever managers based in London (male)

Four global stakeholders (male)

Regional level (total: 1)

One Unilever manager based in Singapore (male)

National context (total: 21)

11 National stakeholders (10 male, 1 female)

10 Government agency employees (5 male, 5 female)

Unilever Viet Nam (total: 64)

Nine Unilever managers at UVN in Ho Chi Minh city (3 male, 6 female)

12 Unilever managers at Cu Chi factory (5 male, 7 female)

25 UVN workers at Cu Chi factory: 15 individual interviews off-site (8 male, 7 female) and 10 people in a focus group discussion (5 male, 5 female).

18 Thang Loi workers at Cu Chi factory: 8 individual interviews off-site (3 male, 5 female) and 10 people in a focus group discussion (5 male, 5 female).

Supply Chain and business partners in Viet Nam (total: 105)

48 managers of suppliers via a phone survey (26 male, 22 female)

6 managers at the 3 'deep-dive' suppliers (3 male, 3 female)

51 workers at the 3 'deep-dive' suppliers: 21 individual interviews off-site (14 male, 7 female) and 30 people in focus group discussions with 10 (5 male, 5 female) at each supplier.

In total, 198 interviews were conducted, of which 108 (55 per cent) were with men, 82 (45 per cent) were with women. Ninety-four workers were interviewed (on-site and off-site). In the focus group discussion, example questions included:

- What is your experience with your workplace? (including equipment, policy, salary, bonus, atmosphere, supervisors);
- How could your workplace be improved?;
- What is your monthly income? (What does it include? What is the average increase?);
- What are your expenses? (How much do you spend on them on average per month?).

For the on-site interviews the research team provided criteria for the selection of management and worker participants in discussions, after which UVN identified individuals who met the criteria. From these individuals the research team obtained the contact details of workmates, friends or relatives working at the factory. Off-site interviews were then arranged after the researchers telephoned these workers and asked if they would be willing to meet with them. Most invited the researchers to their houses, where interviews were conducted lasting around one hour.

3. Telephone survey of suppliers and third-party manufacturers in Viet Nam

Unilever's supply chain and third-party manufacturers were surveyed to understand the links between Unilever's business and labour rights in the supply chain, and the influence of its policies and processes. Drawing on Unilever supply chain records and self-assessments under the SEDEX system, 54 suppliers were selected which:

- Operate in an industry the research team deemed 'high risk';
- Use a high proportion of semi-skilled labour;
- Have a high proportion of female workers (known to be especially vulnerable);
- Use temporary or sub-contracted workers (i.e. those in precarious employment).

The questions for the suppliers were designed so the answers would yield meaningful information without verification through documentation or a site visit. Forty-eight of the 54 suppliers approached participated in the survey, a response rate of nearly 90 per cent. In terms of industries, there were 17 packaging companies, most of which were large and labour-intensive; seven food-processing companies, mostly small-sized (the smallest employed only six workers); and 24 suppliers of chemical feedstock for personal care, home care and oral production. The suppliers could participate in the survey on an anonymous basis to ensure their openness.

The phone survey also provided a basis on which to select three companies for the next level of research, the 'deep-dive', which included a site visit.

4. Case studies: Unilever Viet Nam's Cu Chi factory, the outsourced supplier working on-site, and three suppliers and business partners based in Viet Nam (the 'deep-dive')

The study employed a case study approach: UVN's only factory at Cu Chi near Ho Chi Minh City was studied, both in relation to direct employees and the employees of the outsourced provider of on-site packaging services.

Following the phone survey and interviews with UVN supply chain management, three suppliers and business partners were selected for the 'deep-dive' part of the study. These were suppliers where Unilever represented more than 20 per cent of their turnover (and so could reasonably be expected to influence standards), and where the following high impact factors were present:

- Over 50 workers;
- Using temporary or sub-contracted workers;
- Being labour-intensive;
- Having a union established but with a limited role.

The three companies were also representative of the types of enterprises in Viet Nam: one foreign-owned (foreign direct investment) enterprise (FDI), one privately-owned enterprise (POE) and one state-owned enterprise (SOE). One company supplied plastic packaging, one paper packaging, and one was a third-party manufacturer of home care products for Unilever. Two were located in the South (Dong Nai and Binh Duong provinces) and one in the North (Hanoi). In one supplier, 70 per cent of workers were female and 80 per cent were migrant (living in rented accommodation). In another, 65 per cent were female and all were local except for the 20 temporary workers, of whom half were migrant. The third supplier employed around 600 workers, 15 per cent of which were female with just over half migrant. Altogether there were 1,048 workers at the three suppliers.

Unilever supported the research team to gain access to the suppliers' factories, by writing to the companies to request participation in the phone survey and visits. Examples of good practice were looked for, as well as barriers for workers. Draft findings were sent to the three 'deep-dive' suppliers to verify the findings.

5. Additional work to contextualize wage research

A workshop was held in Viet Nam in September 2011 to explore the issue of Living Wage, involving a range of people with relevant expertise. The research team outlined the planned approach to studying this issue and took on board comments and suggestions.

Following the workshop, three participants were invited to comment on the sections of the report concerned with wage and working hours, on a confidential basis, with their costs covered by Oxfam. These were: Nguyen Thi Lang Huong, Director, Institute of Labour Sciences and Social Affairs (ILSSA); Tong Van Lai, Head of Wage Section, Wage Department, Ministry of Labour – Invalids and Social Affairs (MOLISA); and Tara Rangarajan, Operations Manager, ILO Better Work Viet Nam. All three had been directly involved in the revision of the Vietnamese Labour Code. They were asked to comment on the accuracy of the information, the relevance to the Viet Nam context and to provide any additional information and recommendations to improve the content of the sections. All three experts provided written comments between June and July 2012.

To complement the country-level research Oxfam also commissioned desk research from a UK consultancy to construct a 'wage ladder' comprising benchmarks of wages and poverty levels, to provide context to the discussion on wages and workers' basic needs (a generic ladder in Section 4 and one incorporating Unilever wage data in Section 6). All interpretation of the wage ladder is Oxfam's own.

The research team made every effort to verify findings in the report relating to the wage data, including meeting with UVN management during the drafting of the report.

Note on limitation of methods

Sector focus

Oxfam had expected the study to include raw material suppliers or third-tier agricultural suppliers. However, Unilever imports most of its agricultural raw materials and these represent a very small part of their business in Viet Nam, so these were not selected. Unilever suggested a broader study into all elements of the supply chain including first, second and third-tier suppliers, but this was beyond Oxfam's budget.

Document review

Unilever made available a range of policy and other documents to support the study. A small number of documents requested from UVN by the research team were not disclosed, including wage structures at the UVN factory at Cu Chi and the contract with Thang Loi company, the third-party labour provider on-site; these were provided only at draft report stage. This limited the team's ability to verify information.

Comparison with competitors

The available information to compare Unilever with its key competitors was limited. A desk review was undertaken of five global competitors: P&G, Nestle, L'Oréal, Kraft and Henkel, based on publicly-available information to assess their commitment to global labour standards compared to Unilever. However, at the Viet Nam level, insufficient information was found to support such an exercise.

Phone survey

The credibility of the responses given by the suppliers who responded to the survey would have been influenced by the role of the respondents.

Case study sample

This was a relatively small basis from which to draw general conclusions. Oxfam intended to look at the second and third tier of one supplier; however, the company supplier was sourced from outside Viet Nam and was beyond the scope of the study.

Worker consultation on wages

The workers consulted on their take-home wage may not have been a fully representative sample, and the estimate of workers' monthly expenses was made based on focus group discussions rather than via a systematic study of a basket of goods needed to meet basic needs.

Timescale

As a result of the high rate of inflation in Viet Nam, wage levels changed significantly between the time when the research was conducted and the finalization of the report. This complicated the presentation of findings and means that the wage data will quickly go out of date.

Follow up to the study

After the study Oxfam and Unilever have agreed to follow up with parties in Viet Nam to assess what has changed, particularly for workers, in light of the findings and recommendations.

3 International frameworks for labour rights

International frameworks and guidelines relevant for labour rights

The root cause of the business and human rights predicament today lies in the governance gaps created by globalization – between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. These governance gaps provide the permissive environment for wrongful acts by companies of all kinds without adequate sanctioning or reparation. How to narrow and ultimately bridge the gaps in relation to human rights is our fundamental challenge.

J. Ruggie²⁰

Multinational enterprises, such as Unilever, are regulated by the laws of the countries in which they are based and operate. Yet some countries may lack the institutional capacity to enforce national laws and regulations or they may feel constrained from doing so by having to compete internationally for investment. The multinationals' home countries are often reluctant to regulate against harm by these enterprises outside their territory.

There are international treaties, such as the Universal Declaration of Human Rights and the ILO Conventions, which protect human rights, including labour rights. However, when countries have not ratified these conventions or treaties, they are not legally binding on companies operating there. Many multinational enterprises have expressed their commitment to the standards set by international treaties on a voluntary basis.

During the last two decades there have been many initiatives to develop frameworks for companies based on international treaties and conventions. To ensure this study has wider relevance for Unilever and other companies, we have looked not only at the national legislation of Viet Nam, but also at a range of such frameworks, together with their associated principles and guidelines.

The UN Guiding Principles on Business and Human Rights (UNGPR) set out the policies and processes

that companies are expected to develop to ensure respect for human rights, including labour rights.²¹ Since they were published, the OECD guidelines, ISO 26000 and Global Reporting Initiative guidelines have been updated in line with the UNGP. Oxfam considers two other frameworks to be particularly relevant here: the Global Compact Principles, since Unilever is a member, and the Principles of Implementation of the Ethical Trading Initiative, since Oxfam was a founder member.

International frameworks relevant for labour rights

| |
|---|
| 1. UN Guiding Principles on Business and Human Rights (often known as the 'Ruggie framework') |
| 2. Relevant ILO Conventions and Recommendations |
| 3. ILO Tripartite Declaration on Multinational Enterprises and Social Policy |
| 4. OECD Guidelines for Multinational Enterprises |
| 5. Global Compact Principles |
| 6. ISO 26000 |
| 7. Ethical Trading Initiative |
| 8. Global Reporting Initiative |

Together these frameworks provide a 'compass' to guide companies, including Unilever, in meeting their social responsibilities and assuring stakeholders of the company's 'direction of travel'; consequently we used them in the study to benchmark Unilever's processes. They can also act as a tool for other companies to assess their performance.

The UN Guiding Principles on Business and Human Rights

The UNGP²² have become an authoritative global reference point for business and human rights since their publication in March 2011. They apply to all states and business enterprises, both transnational and others, regardless of size, sector, location, ownership or structure.

The three pillars of the UNGP Framework

| 1. GOVERNMENT: DUTY TO PROTECT | 2. COMPANIES: RESPONSIBILITY TO RESPECT | 3. VICTIMS: ACCESS TO REMEDY |
|---|--|---|
| The State duty to protect against human rights abuses by third parties, including business enterprises, through appropriate policies, regulation, and adjudication. | The corporate responsibility to respect human rights, which means that business enterprises should act with due diligence to avoid infringing on the rights of others and to address adverse impacts with which they are involved. | The need for greater access by victims to effective remedy, both judicial and non-judicial. |

The second pillar is the most relevant for this study. The UNGP's five foundation principles explain what the 'responsibility to respect' means, the scope of the responsibility and the policies and management processes a company should have in place. The eight operational principles describe the policies and processes; they include a policy commitment, a human rights due-diligence process and processes to enable remediation of any adverse human rights impacts they cause or to which they contribute.

We have used the framework and guiding principles to develop indicators to assess the policies and processes Unilever has in place to prevent, mitigate or address adverse impacts on labour rights.

Unilever actively contributed to the mandate of UN Special Representative John Ruggie to develop these guidelines and has committed to follow them. Unilever's Head of Global External Affairs has stated that Unilever 'would like to "Ruggie-proof" its supply chain'.²³ Oxfam participated in the consultation processes and made a formal submission to the UN Human Rights Council.²⁴

Since the UNGP were published there has been additional convergence in relation to human rights responsibilities, including updated OECD Guidelines for Multinational Enterprises, European Union guidance to governments on embedding the UNGP and enhanced International Finance Corporation (IFC) Performance Standards.²⁵

ILO conventions and recommendations

The international standards of the ILO are legal instruments drawn up by the ILO's constituent members (governments, employers and workers). They are either conventions, which are legally binding international treaties that may be ratified and implemented by member states, or recommendations, which serve as non-binding guidelines.²⁶

Through the ILO's Declaration on Fundamental Principles and Rights at Work,²⁷ members of the ILO declared that the rights to freedom of association and collective bargaining are universal and apply to all people in all states, independent of economic development, and that all forms of forced or compulsory labour, child labour, and discrimination in respect of employment and occupation must be eliminated and abolished.²⁸ These are often referred to as the 'ILO Core Labour Standards'.

Once ratified, a country must incorporate the ILO conventions into national law. The ILO has also developed standards and guidance for companies to draw on in their policies and processes. The ILO Tripartite Declaration on Multinational Enterprises and Social Policy is such an instrument.

At the time of the study, Unilever's Code of Business Principles (CoBP) did not refer explicitly to the ILO Conventions; an update in May 2012 however made its commitment clearer.²⁹

ILO Tripartite Declaration on Multinational Enterprises and Social Policy

The Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (known as 'the MNE Declaration')³⁰ clarifies the obligations of multinational companies based on the ILO Conventions.

Since these principles are formulated directly for multinationals, they are a better fit for this study than the ILO Conventions.

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises cover all major areas of business ethics, including corporate steps to obey the law, observe internationally recognized standards and respond to other societal expectations. The update of the guidelines, released in May 2011,³¹ brought them in line with the UNGP. The update also amended the chapter on employment and industrial relations to bring it into line with the ILO MNE Declaration.

The updated version has a human rights chapter with strengthened provisions for supply chain and business relationships, set within a context of due diligence (as described in the UNGP). It includes an explicit requirement on wages that an enterprise must provide: 'the best possible wages... at least adequate to satisfy the basic needs of the workers and their families'.

The guidelines are increasingly recognized by governments as conditions for public support, such as subsidies and export credits. For example, the Dutch government now requires all companies using its development funds to sign a declaration that they will adhere to the OECD Guidelines.³²

Unilever has expressed its support for the OECD Guidelines and has reported publicly on the resolution of the complaints brought against it under them. Oxfam views the OECD Guidelines as one of the better non-judicial corporate accountability mechanisms thanks to a grievance process which is multilaterally endorsed and in some cases has positively changed company behaviour.

Global Compact Principles

Under the UN Global Compact³³ initiative, companies are expected to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Six of these relate to labour standards; the principles in bold are the ILO 'Core Labour Standards'.³⁴

GLOBAL COMPACT PRINCIPLES RELEVANT FOR LABOUR RIGHTS:

1. Support and respect the protection of internationally proclaimed human rights;
2. Make sure that they are not complicit in human rights abuses;
- 3. Uphold the freedom of association and the effective recognition of the right to collective bargaining;**
- 4. Eliminate all forms of forced and compulsory labour;**
- 5. Abolish child labour;**
- 6. Eliminate all discrimination in respect of employment and occupation.**

The Global Compact has collected and developed many relevant instruments. The Global Compact Self-Assessment Tool³⁵ includes questions and indicators for companies to assess their own performance in relation to the principles. The Global Compact has also collected many examples of good practice in the management of labour issues, which have been drawn on in developing measures of corporate responsibility.

Unilever is a founding member of the Global Compact. Oxfam participated in the development of the Global Compact, but views its mechanisms for holding companies to account as weak.

ISO 26000

ISO (the International Organization for Standardization)³⁶ published ISO 26000 in May 2010 as the International Guidelines on Social Responsibility. Unlike other ISO standards it is not intended for certification purposes but as guidance for its users. Two of the six core elements relate to human rights and labour practices.

ISO 26000 could become a widely-recognized instrument in the way that other ISO standards have (e.g. ISO 9000 for quality-management and ISO 14001 for environment-management). Its guidance was developed by multiple stakeholders worldwide including, unusually for such standards, stakeholders in developing countries. The guidance is useful in developing measures of corporate responsibility.

So far Unilever has not adopted ISO 26000. Oxfam and some of its partners have participated in the consultation processes and Oxfam views it as a useful description of social responsibility in its current form since it is 'Ruggie compliant' and based on international human rights norms.

Ethical Trading Initiative

The Ethical Trading Initiative (ETI)³⁷ is a leading alliance of companies, trade unions and NGOs, who are seeking to ensure respect for international labour standards in the global supply chains of member companies. It supports member companies to meet their ethical responsibilities in this regard and works collaboratively to tackle the complex issues that can prevent sustainable change.

It offers guidance to member companies, including by means of the Principles of Implementation.³⁸ There are six principles, each of which has management benchmarks associated with them.

ETI PRINCIPLES OF IMPLEMENTATION:

1. Commitment to ethical trading;
2. Integrating ethical trade into the company culture and business practices;
3. Capacity building for suppliers and others;
4. Identifying problems in the supply chain;
5. Improvement actions;
6. Transparency.

Corporate members report progress annually against the benchmarks within a 'Foundation, Improver, Achiever, Leader' framework. Once companies are deemed to have reached Achiever level, they have an option to develop their own ethical trade strategic plan, which must be well integrated into their wider business plan, and are offered multi-stakeholder feedback during its development.

Though Unilever is not a member of ETI, it was included in the study on the basis that Oxfam was a founder member and views it as more credible than many other multi-stakeholder initiatives because of its tripartite governance (trade union/NGO/corporate). The ETI Base Code is the basis of the SEDEX self-assessment and audit methodologies used by Unilever and many other companies who are not themselves members of ETI.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is a network-based organization that has developed a widely used sustainability reporting framework.³⁹ The Sustainable Reporting Guidelines (Version 3.1) were published in March 2011⁴⁰ bringing them in line with the UNGP.

Unilever publishes an overview of their reporting against the GRI G3 Sustainability Reporting Guidelines. By its self-assessment in the Sustainable Development Report 2010 it is a 'B+' reporter.⁴¹

Oxfam views GRI as an important mechanism for companies to report against their social and environmental responsibilities. It participated in the consultation process for integrating gender considerations into the indicators and its accountability reporting is based on the GRI NGO framework.

4 Context: Unilever as a company and Viet Nam as a country

Overview of Unilever: the company

Unilever at global level

Unilever is a major producer of food, beverage and consumer goods. It has two parent companies, Unilever NV and Unilever PLC, which operate together as Unilever, with dual stock exchange listings in Amsterdam and London.

The company is involved in the production and sale of FMCG: beverages and ice cream (19 per cent of sales), savoury and dressings (32 per cent of sales), home care (cleaning and washing products – 17 per cent of sales) and personal care (shower gels, deodorants – 31 per cent of sales). Its brands, which include Lipton, Knorr, Bertolli, Hellmans, Persil and Dove, are better known among consumers than the company name itself.

With many of these products Unilever takes a worldwide leading market position. Unilever also purchases raw materials and ingredients for these products and for resale. It sources production items (raw materials and packaging) from more than 10,000 suppliers worldwide, and indirect procurement items (IP) from a further 160,000 suppliers.

Unilever calls itself a 'multi-local' multinational, operating internationally, but deeply rooted in local

markets. It has a presence in over 100 countries, directly employing 171,000 employees (as of 2011). Nearly 55 per cent of its business is in emerging markets and it has 72 subsidiaries. Annual revenues in 2011 were \$58.7bn.

Unilever restructured its business model significantly in 2009, becoming more centralized and highly integrated, based on a global framework with regional oversight and national implementation.⁴² Unilever is now organized on the basis of a matrix system by level (global, regional, national), by function (human resources, communications, supply chain or quality assurance) and by product category (there are 12 categories covering 400 brands).

Sourcing and Supply Chain: A global buying centre in Singapore manages strategic sourcing on behalf of Unilever operations in Asia, Africa, and Central and Eastern Europe, including selecting suppliers and placing contracts. The country offices are responsible for procurement operations, including the operation of the contract and ensuring it is complied with. The country offices (including Viet Nam) do not make decisions on supplier selection unless this has been delegated by the buying centre. Unilever contracts are based primarily on standardized specifications via an enterprise solutions system contracted out to IBM and Accenture.

Figure 6
The Cu Chi factory
near Ho Chi Minh
city
(Unilever Viet Nam
2012)



Unilever in Viet Nam

Unilever was one of the earliest multinational companies to be established in Viet Nam. Since its first joint venture in 1994, UVN has quickly grown to be the number one actor in the personal care and home care industry in the country with a wide-ranging network of suppliers, third-party manufacturers and traders.⁴³

Today, UVN operates as a 100 per cent foreign-owned company, as a result of a long-term strategic

partnership agreement with Vinachem⁴⁴ under which Vinachem would transfer their shares in the joint venture to Unilever and UVN would maintain long-term contract manufacturing relationships with Vinachem affiliates. Currently, UVN's 10 third-party plants belong to eight entities of which six are Vinachem affiliates, and do part of the manufacturing of hair care and skin care products for UVN as business partners. UVN owns one factory located in Cu Chi, 20km west of Ho Chi Minh city. It is a modern, state-of-the-art facility in which food and oral-care products are manufactured.



Figure 7
Unilever Viet Nam's
operations and
supply chain.
(UVN 2010)

Table 1
Number of
people involved in
Unilever's supply
chain in Viet Nam

| UNILEVER-OWNED OPERATIONS | 1,539 |
|---------------------------------|---------------|
| Third-party manufacturers | 2,918 |
| Raw material suppliers | 9,280 |
| Packaging | 7,250 |
| Distribution | 1,083 |
| Employees of 2nd tier suppliers | 2,620 |
| Total | 24,690 |

UVN also works with three central distribution centres operated by a third-party logistics provider (which was out of scope for this study). UVN currently has 69 local raw material suppliers and 20 local packaging material suppliers, although raw material suppliers generally supply processed materials. Many of the raw materials are imported from other, mainly Asian, countries.

The products UVN sells include:

- **Home care:** Detergent powders, home care liquids (fabric conditioners, fabric cleaners, dishwasher liquids, surface cleaners, toilet cleaners, etc.);
- **Personal care:** Hair care products (shampoos and hair conditioners); skincare products (face creams, body lotions, shower gels); oral care products (toothpaste, toothbrushes, mouthwash); and deodorants;
- **Foods:** Seasoning granules, powders, cubes, tea powders, tea bags and ice creams.

In 2011, at UVN's operations at Cu Chi, 1,539 people were working, of which 748 people were employed by a third party, Thang Loi. There are four factories divided into home care, personal care, oral care and food processing. The production line is divided into two sections: production (UVN employees) and packing (Thang Loi employees). Most UVN workers are local while most Thang Loi workers are migrants living in rented accommodation. Fifty-eight per cent of the workforce are female.

A further 2,918 people were working for the 10 third-party manufacturers, including the state-owned companies.

Unilever also provided information on the number of people working for its suppliers and its suppliers' suppliers, where these were located in Viet Nam.

Labour rights context in Viet Nam

Key obstacles to achieving labour rights in Viet Nam include:

- The legal framework not being fully comprehensive, in particular the legal minimum wage not yet being fully adequate to meet minimum living needs;
- The political context, especially as regards limitations on freedom of association and collective bargaining;
- Limitations in law enforcement due to the low ratio of labour inspectors to enterprises;
- Non-compliance and informalization of jobs in the private sector; and
- Commercial practices of sourcing companies, such as short lead times for order fulfilment and contracts based on minimum wage assumptions.

Freedom of association and the right to collective bargaining

Viet Nam has not ratified the ILO Conventions on Freedom of Association and Collective Bargaining, but the right of association for Vietnamese citizens is protected by national law.⁴⁵

The Viet Nam General Confederation of Labour (VGCL) is the only trade union organization officially recognized in Viet Nam. Only workers with labour contracts over six months are allowed to join the trade union. This limits the access to freedom of association and collective bargaining of the increasing numbers of workers in precarious employment.

Both the union and the employer have the right to

initiate collective bargaining.⁴⁶ Employers also have to consult and secure the consent of enterprise unions for decisions on labour discipline and dismissal procedures, development of internal work regulations, fixation of wages, bonuses, annual leave and work timetables.

However, it remains the case that the enterprise trade unions' inability to represent workers in genuine negotiations with employers over wages and working conditions has been the most important barrier to raising wages. The main driving force for wage negotiation has been wildcat strikes. There were 978 such strikes in 2011.⁴⁷

In 2011, MOLISA proposed a revision of the Labour Code which would allow workers in non-organized enterprises, who are not necessarily union members, to elect their own representatives. These representatives would then have the right to organize strikes and bargain collectively (Labour Code Amendment Draft 4, MOLISA).

Wages

A minimum wage was established in 1993, but from the outset it was set at a low level relative to its purpose.⁴⁸ There have been 10 adjustments since then, but it still lags behind a rapidly-rising cost of living. Originally meant to be a 'safety net' or floor below which no employer should pay, the minimum wage has in effect become the actual level of basic salary for unskilled and low-skilled workers, meeting only 40-46 per cent of workers' minimum expenses per month, according to a survey by the VGCL published in 2012.⁴⁹

Of 60 surveyed businesses in 12 provinces in northern, central and southern Viet Nam, the average basic income (contractual salary and allowances) was VND3 million (US\$144) in state-owned enterprises and only VND2.4 million in foreign-invested enterprises.

Viet Nam is suffering high levels of inflation: the year-on-year consumer price inflation stood at 16.85 per cent in February 2012; between 2007 and 2012, the annual average was 13.05 per cent. This means that real wage levels have stagnated or fallen, making workers' lives much more difficult. The most common responses have been to work overtime, change employer, take a second job, reduce spending, and/or take children out of school (see Box 1). Upgrading

education and working skills are longer term strategies, but these are not open to many people.

The Vietnamese government is now taking serious steps to increase the minimum wage. MOLISA has set a target that by 2020, wages will be equivalent to 85 per cent of the ASEAN average minimum wage,⁵⁰ compared to 30-60 per cent in 2005. The most recent increase, in October 2011, introduced a minimum of \$2m VND for 'Region 1' (the main cities and environs, including Cu Chi). This marked an increase of 29 per cent in the minimum rate for FDI and 48 per cent for domestically-owned enterprises, no longer distinguishing between foreign-owned/FDI companies and Vietnamese companies.

The Living Wage is a relatively new concept for the business community, government and trade unions in Viet Nam. What it is, how it should be calculated and what relationship it has to the minimum wage have been the subject of much recent debate.

The AFW alliance has developed a methodology to calculate what an equivalent basket of goods would cost in a range of garment-producing countries, based on 'purchasing power parity'.⁵¹ According to this a living wage in Viet Nam in 2011-12 was \$4,036,910 VND or \$196 per month.⁵² It assumes a household of four people, two adults and two children (three consumption units), and implicitly assumes a single earner in order to account for childcare.

Figure 9 depicts a national wage ladder showing where the minimum wage stands compared to an estimate of a living wage, the average income and recognized measurements of poverty.⁵³

- According to national statistics, the average household size is around 3.9 members. For the wage ladder we have used this figure which is the average for the third (i.e. middle) income quintile for the Southeast region, as the best available proxy for the demographic profile of Cu Chi workers.
- On this basis, and calculating that 1 adult = 1 unit and 1 child = ½ unit, we have assumed 2.95 'consumption units' per household. This is broadly proportionate to demographic breakdown by age for Viet Nam in 2008.
- For the wage ladder we have assumed an average of 1.82 earners per household – using the proxy of waged labour as a proportion of national population.

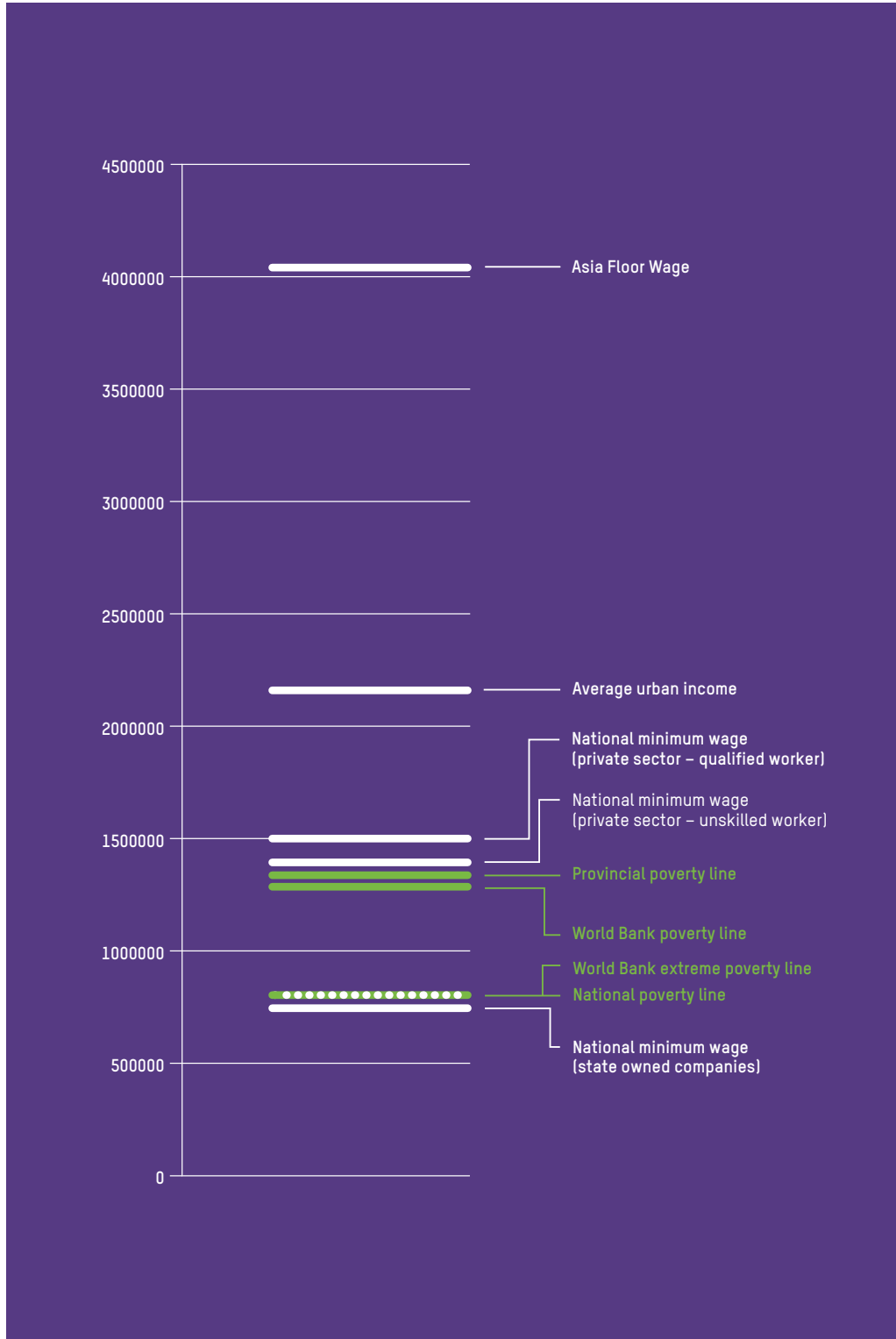
Box 1
 Perspectives on wages recorded by Oxfam Viet Nam during 2010/11

| | |
|---|---|
| <p>A government official:</p> | <p>'The wages are too low, not enough to make a living. In order to earn more, workers have to work 12 hours per day. Instead of working for 30-40 years, a worker could do so for only 10-20 years under the condition of too many extra shifts.' (An official of Ho Chi Minh city Department of Labour, War Invalids And Social Affairs)⁵⁴</p> |
| <p>An employer:</p> | <p>'With the current average income of only 1.9 million VND per month in the company, the workers cannot make a living. We want to increase workers' income by looking for more orders so workers can do overtime.' (Ms. Dang Thi Diem Thuy, Director, Okuda Ltd., Dien Nam – Dien Ngoc industrial zone)⁵⁵</p> |
| <p>The Labour Union:</p> | <p>'With such (small) wages and such (poor) shift meals, the workers could not survive.' (Mr. Dang Ngoc Tung, VGCL President)</p> |
| <p>Workers (private sector):</p> | <p>'One working hour is equal to one ice-cream.'⁵⁶ 'We are living from hand to mouth, feeling dizzy whenever the prices increase, getting used to constantly being short on rations'.⁵⁷</p> |
| <p>The media:</p> | <p>2011 references include: 'An employment that could not sustain your life should not be called an employment';⁵⁸ 'Workers' shift meals get worse, meeting more or less only 50 per cent of their nutrition requirements'; 'Too low wages at the same time with very high living costs are pushing workers into a narrow alley'.⁵⁹</p> |

Figure 8
 Young workers discuss their labour rights and concerns, with support from Oxfam, Bac Ninh province (2011).



Figure 9
Wage ladder for
a facility near
Ho Chi Minh city
(July 2011, monthly
net
in VND)



| WAGE LADDER BENCHMARKS | VND/month |
|---|---------------|
| Asia Floor Wage (2011, net) [\$540 PPP at 2009 World Bank Purchasing Power Parity conversion factors] | 4,036,909.97 |
| Average urban income / person / month (2010, South East region) | 2,165,000 |
| National minimum wage, private sector– qualified worker (2011, net) | 1,500,942.5 |
| National minimum wage, private sector – unskilled worker (2011, net) | 1,402,750 |
| Provincial poverty line (2011, Ho Chi Minh city environs, household /1.82 earners) | 1,350,733 |
| WB \$2 2005 Purchasing Power Parity/day poverty line (household / 1.82 earners, monthly, inflated to 2011 prices) | 1,299,694.788 |
| WB \$1.25 2005 Purchasing Power Parity/day extreme poverty line (household /1.82 earners, monthly, inflated to 2011 prices) | 812,309.2423 |
| National poverty line (household/1.82 earners) | 810,439.5604 |
| National minimum wage (July 2011, state-owned companies, net) | 751,150 |

Notes provided by Ergon Associates

- According to national statistics, the average household size is around 3.9 members. For the wage ladder the figure of 3.9 household members has been used which is the average for the third (i.e. middle) income quintile for the Southeast region, as the best available proxy for the demographic profile of Cu Chi workers.
- On this basis, and calculating that 1 adult = 1 unit and 1 child = ½ unit, an assumption has been made of 2.95 'consumption units' per household. This is broadly proportionate to demographic breakdown by age for Viet Nam in 2008.
- For the wage ladder an average of 1.82 earners per household has been assumed – using the proxy of waged labour as a proportion of national population.



Figure 10
Le Thai Phui sells
rice on the streets
of Hanoi. Prices
have doubled in the
last year and she is
finding profit hard
to come by.
Photo: Abbie
Trayler-Smith

Working hours

Working hours are regulated by the national Labour Code in Viet Nam. The legal working hours in Viet Nam are no more than eight hours a day or 48 hours a week, with a daily break of at least half an hour. However, overtime working is a regular practice rather than an exception in Viet Nam, with one survey finding average working hours of 67 hours a week.⁶⁰

Contract labour

There are three principal types of labour contracts in Viet Nam: a) open-ended contracts; b) short-term contracts (over 12 months and under 3 years); and c) temporary or seasonal contracts (under 12 months). The law provides that after two consecutive short-term contracts, a third contract must be open-ended and a temporary or seasonal contract cannot exceed 12 months.⁶¹

The Vietnamese labour code does not recognize the situation where an employment agency is acting as the employer, while the worker is sub-contracted to work for another organization.⁶² One exception is made for security guards.⁶³ However, in practice sub-contracting and sub-leasing have become quite customary and tolerated.

Workers are not very satisfied with sub-leasing practices, as shown by the increased number of labour disputes between the sub-leased workers and their employment agencies.⁶⁴ UVN has itself experienced disputes involving workers doing outsourced jobs (see Section 6 on contract labour).

Sub-leasing has become one of the key issues in policy debates surrounding the revision of the Vietnamese Labour Code. The government tolerates sub-contracting and sub-leasing services, while the trade unions have been vocally opposed to the legalization of this activity because of concern about the violations of workers' rights.

Informalization is a significant trend across Viet Nam, with detrimental consequences for employment quality. In labour-intensive enterprises, especially in industrial zones and export-processing zones,⁶⁵ young female migrants from rural areas arrive to work, hoping that with an independent and stable job, they can save money and send some of it back home to support their families. But they often suffer precarious livelihoods and spend

unpredictable spans of time in the workplace. This pattern is exacerbated by the downward pressure on production costs and the short lead time for orders to be fulfilled.

A growing number of employers have initiated improvements to harmonize labour relations and attract workers. Some enterprises have negotiated wages with workers and their representatives in an attempt to prevent strikes over higher wages.⁶⁶ They have realized the imperative of taking account of workers' living costs as a sustainable means of harmonizing labour relations in their companies.

This situation demonstrates the close inter-linkages between collective bargaining, wages and working hours. If the minimum wage could meet its original purpose of meeting workers' basic needs and be a 'living wage' this would provide a 'level playing field' for employers. However, the fact that some employers are negotiating agreements with workers shows it is possible to raise wages without waiting for this to happen.

Labour issues in Viet Nam in an international context

Given Oxfam's analysis that non-compliance is endemic in global supply chains, it is important to put labour issues in Viet Nam in a wider context. A survey conducted by the Fair Wage Network provides the best available overview comparing wage and working hour practices in Viet Nam with nine other countries.⁶⁷ The survey was conducted with 122 supply sites in the garment and footwear industries, of which 63 were in China and 15 in Viet Nam.

Wages were found to be very low in Viet Nam, with 75 per cent paying only the minimum wage and 25 per cent failing to comply with that (see Figure 11).

Half of Viet Nam enterprises surveyed were found to underpay wages due to workers (see Figure 12).

The average number of hours worked per week was slightly lower than average but still 19 hours more than the international standard of 48 hours a week (see Figure 13).

A significant number of supply sites were found to be using 'double record-keeping' on wages and working time: one for internal use and one for auditors to review. This practice was found in a smaller number of enterprises in Viet Nam than in most other countries surveyed (see Figure 14).

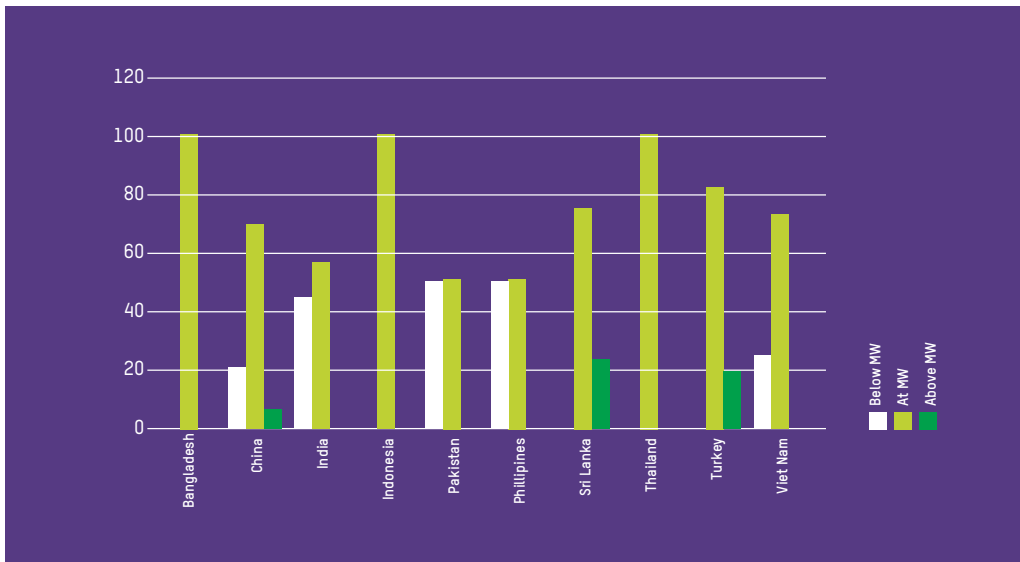


Figure 11 Starting wage compared to minimum wage (MW) (% of enterprises)

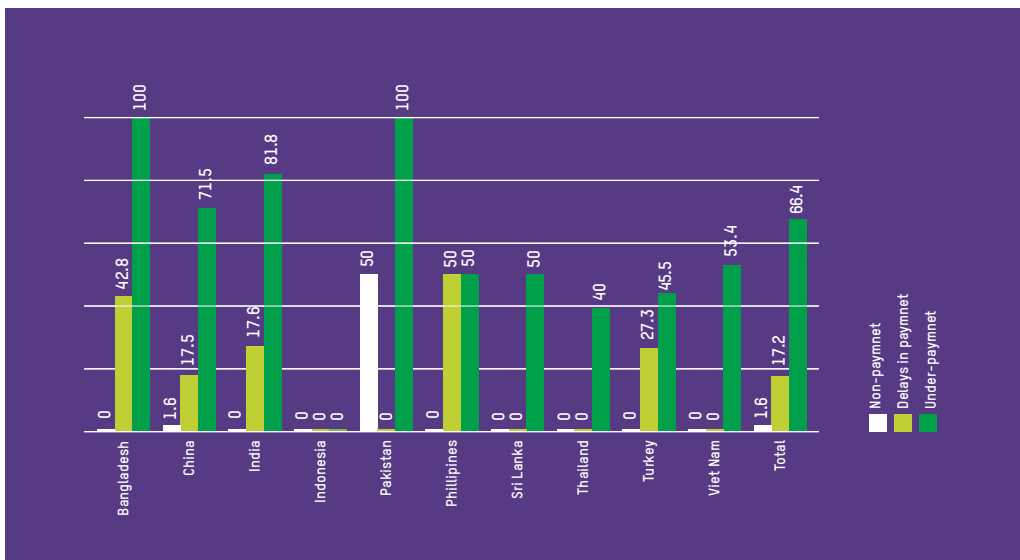


Figure 12 Enterprises with payment problems

Wage disparity between workers at the top and bottom of the wage scale was higher in Viet Nam than any other country surveyed, except for Indonesia:

| Bangladesh | China | India | Indonesia | Pakistan | Philippines | Sri Lanka | Thailand | Turkey | Viet Nam | Average |
|------------|-------|-------|-----------|----------|-------------|-----------|----------|--------|----------|---------|
| 5.9 | 5.9 | 2.5 | 10 | n/a | 1.6 | 1.9 | n/a | n/a | 7.7 | 5.7 |

Figure 13
Number of hours worked per week



Figure 14
Enterprises with double record-keeping (%)



5 Unilever's policies and management processes for labour rights

Unilever's policies and management processes for labour rights

'Not everything that counts can be counted and not everything that can be counted counts.'
A sign that hung in Albert Einstein's office.

As outlined in Section 3, the UNGP sets out principles to guide companies in meeting their responsibility to respect human rights. In this section the report outlines the relevant principles, selects indicators based on them (supplemented with other selected frameworks) and assesses Unilever's policies and management processes against them.

Principles selected from the UNGP:⁶⁸

- 1. Commitment;**
- 2. Integration of the policies in the business and implementation with suppliers;**
- 3. Tools and processes for due diligence:**
 - To identify impact;
 - To act on findings (preventing and remediating impact);
 - To track the effectiveness of the response;
 - To be transparent and communicate how impacts are addressed;
 - To engage stakeholders;⁶⁹
- 4. Remediation via grievance mechanisms.**

Principle 1: Commitment

This publicly affirms the company's values and its commitment to embedding the policy in the way it does business.⁷¹

In relation to the public expression of commitment, Unilever has three publicly-expressed policies covering its commitments to human and labour rights, in addition to the Unilever Sustainable Living Plan: the CoBP; a Respect, Dignity and Fair Treatment policy; and a Supplier Code, which sets out expectations of suppliers. In addition it has 26 internal code policies providing guidance to staff.

The policies are endorsed by senior management. The CoBP and the Respect, Dignity and Fair Treatment policy are owned by the CEO and the Supplier Code is owned by the Chief Procurement Officer. Implementation is overseen by a Global Code and Policy Committee, which reports regularly to the Board's Corporate Responsibility and Reputation Committee. This comprises non-executive directors whose remit is to oversee the company's conduct as a responsible business.

| PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|---|---|
| PRINCIPLE 1: COMMITMENT | |
| <p>A company should express its commitment to respect human rights, including labour rights, through a public statement.⁷⁰</p> | <p>Indicators of commitment</p> <p>The policy should:</p> <ol style="list-style-type: none"> a) Be expressed publicly; b) Be endorsed by senior management; c) Be preferably informed by experts; d) Stipulate the expectations of personnel, business partners and other parties directly linked to the company's operations, products or services. |

| LABOUR ISSUE | UNILEVER CODE OF BUSINESS PRINCIPLES | RESPECT, DIGNITY AND FAIR TREATMENT POLICY | SUPPLIER CODE |
|---------------------------|---|--|--|
| Freedom of association | ✓ | ✓ | Where allowable by law |
| Collective bargaining | ✗ | ✓ | Where allowable by law |
| Wages/Living Wage | Committed to national legal minimum wage No living wage commitment | ✗ | Compliance with national rules and regulations |
| Limited working hours | Committed to national limits on working hours | ✗ | Compliance with national rules and regulations |
| Regular/stable employment | ✗ | ✗ | ✗ |

Table 2
Unilever's policy coverage of labour issues covered in this study

Unilever's policy coverage of other labour issues

| | | | |
|--------------------------------|---|---|---|
| Non-discrimination | Implicitly: Commitment to diversity and respect for dignity of the individual | ✓ | ✗ |
| Prohibition of child labour | ✓ | ✓ | ✓ |
| Prohibition of forced labour | ✓ | ✓ | ✓ |
| Harassment and harsh treatment | ✗ | ✓ | ✓ |

The company's values are founded on doing the right thing: 'achieving appropriate labour standards is not something to boast about; it's every company's responsibility and duty'.⁷² Employees take pride in Unilever's policies and approach to sustainability⁷³ and a motivated workforce is seen as key to its business success:

People must be the source of the company's value. Unilever must be best in class as we charge a premium for our brands, so we must invest in training and working conditions... We compete on operating efficiency, quality,

specification of products and responsiveness to customer demand. All this requires an empowered and skilled workforce...All Unilever's analysis shows that where there are good conditions and empowerment of employees, the factory has the best results.

Unilever VP Global Supply Chain in an interview with the research team⁷⁴

Unilever also states that: 'A significant portion of our growth will come from innovation, delivering leading-edge products into the market-place. We anticipate that around half of this innovation will come from our

supply chain'.⁷⁵ Innovation in the supply chain will require motivated, capable workers who feel valued by and well disposed towards Unilever.

The policy currently lacks a commitment to a Living Wage, but Unilever stated it is open to modifying this once it is clear how a commitment can be implemented.⁷⁶

The policies apply to 'employees' rather than to workers. According to Unilever no distinction is intended between sub-contracted workers and employees.⁷⁷ The intent of the policies are that if people are employed by a third party, they expect fundamental labour rights to be applied by the third party to their employees.

The director of the ILO Better Work programme, when interviewed, noted that the term 'worker' is preferable as it de-links rights from the employment relationship and asserts that they apply whether or not a worker is in an identifiable employment relationship; the term 'worker' is generally used in international conventions for the same reason.⁷⁸

Guidance for staff was recently developed by Unilever on sub-contracted and temporary work and shared on its public website, though it has not yet been incorporated into the policies.⁷⁹

The CoBP and the Respect, Dignity and Fair Treatment policy include responsibilities for staff, while the Supplier Code (and associated guidelines) includes expectations of and commitments to suppliers.

Principle 2: Integration in the business and implementation with suppliers

Effective integration of the policies in the business ensures they are known and widely supported by management, staff, business partners and suppliers, and embeds policy in operations including business incentives and lobbying that could impact on human rights.⁸⁰

In relation to embedding and communicating the policy, Unilever actively raises the awareness of all employees about the company's business principles. They receive a copy of the policy and are required to sign to show they have understood it. Senior managers must take a test to demonstrate their knowledge of the policy content. In general Unilever employees are proud of Unilever's policies and approach to sustainability and have expectations of the company behaving responsibly.⁸¹

The policies have been proactively communicated in several countries (seven by end of 2011).

The Sustainable Living Plan expresses Unilever's overall commitment to sustainability. However, labour rights are conspicuous by their absence. According to Unilever, respect for labour rights sits in the Sustainable Sourcing pillar, which covers sourcing

| PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|---|--|
| PRINCIPLE 2: INTEGRATION IN THE BUSINESS AND IMPLEMENTATION WITH SUPPLIERS | |
| <p>The policy is reflected in operational policies and processes necessary to embed it throughout the business enterprise.⁸²</p> | <p>Indicators of integration⁸³</p> <p>The policy should:</p> <ul style="list-style-type: none"> a) Be embedded in the business through operational policies and processes; b) Be actively communicated internally and externally; c) Provide clear lines of accountability, supported by training in relevant business functions; d) Communicate an expectation of continuous improvement to suppliers; e) Be supported by training for suppliers. <p>Terms of agreement should not interfere with the ability of the supplier to observe the standard.</p> |

of some seven million tonnes of agricultural raw materials.⁸⁴ However, this only covers a proportion of people producing products and services for the company. It is absent from the social pillar of the plan and from the section on Creating a Better Workplace. According to Unilever, this is because labour rights are 'not an area to compete on, since labour is more about compliance.'⁸⁵

One stakeholder interviewee noted the gap in the plan regarding labour rights:

Company websites all look much the same. They all say they respect human rights. They often have a section on 'our people'. Who are a company's people? The language in the report says they will 'help our people reduce office travel, or reduce office waste'. This cannot be taken seriously. What about the people who produce or distribute a company's products but are not employed by them because their positions have been outsourced? 'Our people' in this context excludes a key part of the employment universe. How can you equate the impact you have on an employee with reducing waste or air travel?

Peter Rossman, IUF⁸⁶

A second global stakeholder noted the potential for product certification to help deliver higher standards. While agreeing that labour rights do not feature in the Sustainable Living Plan targets diagram, he observed that:

Through certification, Unilever are prioritising labour rights more than the graphic suggests. The Sustainable Agriculture Network has higher standards for working conditions. 10 years ago, few companies were committed to certification, it was a niche approach. Now some of the biggest supply chains are committed to it. In future all products will be certified, and the fact that Unilever is opening themselves up to this research shows they are serious about this.

Marc Monsarrat, Rainforest Alliance⁸⁷

A third pointed out that company communications are often weak on labour practices:

Accounts about what companies have achieved in improving labour practices are often a weak element in these

pro-active public communications. It's hard for companies to be as definitive about labour issues as they can be about other CSR issues and therefore to meet the expectations of their customers and stakeholders. Labour rights should be at the heart of these frameworks as there's nothing more material to the way a business is run than its labour. Workers build the wealth.

Dan Rees, ILO Better Work programme⁸⁸

Unilever included a commitment to the UNGP in the company's 2011 progress report against the Sustainable Living Plan.⁸⁹

Internal capacity on labour rights lies mainly with the Procurement Operations Director – Supplier Compliance and Assurance, the Vice President of Human Resources – Global Supply Chain and the Vice President of Global External Affairs. Unilever has a clear division of responsibilities at the global level and dedicated resources for the implementation of the policies, though no specialist expert on labour rights. Internal capacity was strengthened in 2011 via several trainings.⁹⁰

In Viet Nam, the CoBP principles are translated into Vietnamese and given to new employees, who can ask questions of the human resources department.⁹¹ All employees hear updates at the Annual Refresh Programme and there is an annual quiz with prizes. However, the code includes very little information on labour rights.

During interviews with the research team, Unilever employees at the Cu Chi factory could not recall the content of the code. It was visible on the notice board, but only in English and employees had to ask supervisors what it meant. A worker told the research team:

We were only trained about the code when we first came to the factory but to be honest, we cannot even remember what it is. Much of the information, including the code, is only available in English and for us, who are often high-school graders from rural areas, we cannot read it. Our supervisors remind us of the rules and policies but quite rarely and only when we violate the rules.

UVN worker in an interview with the research team

The procurement function is responsible for dissemination of the Supplier Code. This code was revised in 2010 and has since been the subject of extensive communication and training to staff within the procurement function, with high level support.⁹²

There is a tradition of long-term relationships with key suppliers, which are prerequisites for compliance and continuous improvement. Unilever has a special position with its suppliers and manufacturers in Viet Nam, being seen as a key client by the majority contacted; it is therefore in a strong position to require remediation and continuous improvement.

Supplier selection and awarding of contracts are carried out by the global buying hub in Singapore, using a supplier qualification system (Unilever Supplier Qualification System – USQS). Suppliers are given a briefing on the Supplier Code; they are then asked to complete a questionnaire to demonstrate their awareness, and to sign the Unilever master contract, which requires them to comply with national laws and regulations.

Selected agricultural suppliers receive expert support from a third party, paid for by Unilever, who coach and advise on sustainable agriculture practices.

Supply chain staff in Viet Nam acknowledged that labour rights are not discussed with suppliers or proactively addressed. Reasons given included the absence of specialists in the in-house auditing team and the staff's belief that if there were any violations at supplying companies, workers would leave for new jobs. The subject was also seen as too sensitive to discuss with suppliers, who can view this as meddling in their internal affairs.⁹³

Oxfam found the UVN Vice President for supply chain management had a good relationship with the third-party manufacturers and appeared to have a strong understanding of labour standards in these companies.⁹⁴ The research team's shortlist of 'high risk' suppliers for the deep-dive stage of the study accorded with his judgement. His knowledge has enabled him to raise concerns directly with the relevant management board, which he has done in some cases.

Through different sources, I got to know that workers in Company A are often abused by some managers in the company and they are not happy about this. I did discuss with the management board when we met, to warn them about the potential consequences and ask them to address the problem as soon as possible. Of course, the action remains at their decision.

UVN VP for supply chain management in an interview with the research team

Twenty-eight of the 48 suppliers with whom a phone survey was conducted confirmed they were asked by Unilever to commit to complying with the Supplier Code, while the rest said it was never mentioned. Thirteen companies reported that they were either provided with the Supplier Code booklet or their top management were briefed about it, or both. Only one supplier reported that Unilever actively supported them to improve labour standards, in the context of a supplier improvement programme.

Unilever's procurement policy is that, if a non-compliance is found, it will encourage that suppliers to improve and will not immediately end a contract; time will be given to make improvements (typically three months).⁹⁵ According to the phone survey, this was not well known. As the chart shows, one in four suppliers surveyed thought there would be no consequences if a non-compliance was found; only one in eight thought time would be given for improvements.

In response to a question about whether labour standards featured in negotiations, three out of four suppliers who responded to this question said that Unilever never discussed labour issues in negotiations with them. More than one said UVN staff sometimes called them to ask if they had enough workers for production or to check if they were paying above the minimum wage.

Price negotiations are carried out by the global buying centre in Singapore. For suppliers this is generally done every four to six months and for third-party manufacturers every five years (due for renewal in 2012). Labour costs are calculated by production unit,⁹⁶ for instance, per tonne of soap or per cubic metre of packaging, and determined in a detailed way, including:

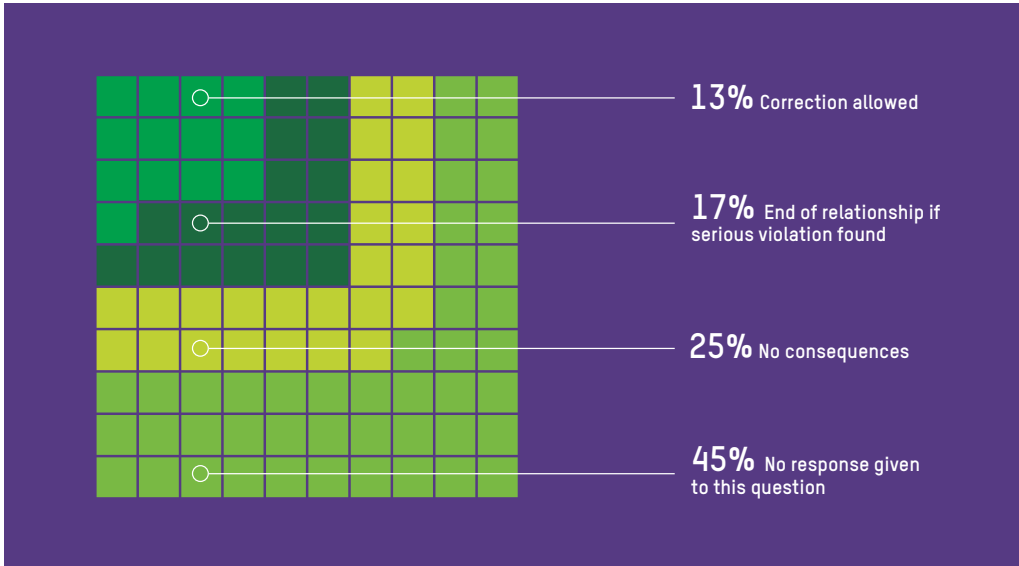


Figure 15
Supplier responses to the question: What do you think the consequences are of not complying with the code? (phone survey)

- a) Wages (including management cost);
- b) Allowances;
- c) Social and health insurance contributions;
- d) Unemployment insurance;
- e) Work uniforms;
- f) Protective clothes and equipment;
- g) Miscellaneous.

This shows that Unilever has a lot of influence over labour costing and therefore the wages and benefits that workers receive.

A supplier’s human resource management is not a criterion in the selection process, though this is

actively being considered.⁹⁷ However, the buying office in Singapore does try to assess whether they are managers who will not drive workers too hard, or put reputation or business continuity at risk. Such assessment is conducted remotely, and then followed-up by a visit after short-listing. The supplier database also contains ‘supplier passports’, which hold comprehensive information on the supplier and are used to brief procurement managers.

Principle 3: Tools and processes for due diligence

| PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|---|--|
| PRINCIPLE 3: TOOLS AND PROCESSES FOR DUE DILIGENCE | |
| In order to identify, prevent, mitigate and account for how they address their adverse human rights impacts, business enterprises should carry out human rights due diligence. ⁹⁸ | |
| <p>3.1 Impact assessment:</p> <p>Companies need to identify and assess the nature of actual and potential impacts on the rights of people either their their own activities or as a result of their business relationships.⁹⁹</p> | <p>Indicators for risk assessment:</p> <ul style="list-style-type: none"> • A risk management system that takes into account risks for people, as well as for the business;¹⁰⁰ • Consultation with stakeholders and relevant experts; • Setting priorities according to where the risk of adverse impacts is most significant (e.g. at which suppliers); • Meaningful consultation with potentially affected groups and other relevant stakeholders.¹⁰¹ |

| | |
|---|--|
| <p>3.2 Acting on findings: Preventing or mitigating impact</p> <p>The company uses the findings internally to adapt policies and processes to prevent or mitigate any actual or potential impact it may contribute to, and then integrates them across relevant internal functions and processes.¹⁰²</p> <p>Remediating impact</p> <p>The company acts upon the findings of actual impact which it has caused or contributed to.¹⁰³</p> <p>Where adverse impact is directly linked to a company's operations, appropriate action depends on:</p> <ul style="list-style-type: none"> • Leverage; • Cruciality of the relationship; • Severity of the abuse, and whether terminating the relationship would have adverse human rights consequences. <p>Leverage is considered to exist where the enterprise has the ability to effect change in the wrongful practices of the entity that causes the harm.</p> | <p>Indicators for preventing or mitigating impact:</p> <ul style="list-style-type: none"> • Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise; • Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts.¹⁰⁴ <p>Indicators for remediating impact:¹⁰⁵</p> <ul style="list-style-type: none"> • Where the company has caused or contributed to negative impact, the company provides for or co-operates in their remediation through legitimate processes (e.g. grievance mechanisms), and takes appropriate action in order to mitigate, prevent or remediate adverse impact; • Where a company has not caused or contributed to an adverse impact, but it is nevertheless directly linked to its operations, products or services by its business relationship with another entity, then it should seek to use its leverage to address such impact;¹⁰⁶ • The company should: use its leverage (e.g. set contractual provisions or incentives); form partnerships with sector associations, organizations and others (increasing leverage); and provide support and advice to suppliers to make improvements; • Where serious breaches of the code persist, companies should only terminate a supplier relationship after reasonable attempts have been made to work with the supplier to implement improvements. |
| <p>3.3. Tracking effectiveness:</p> <p>The company should track the effectiveness of their responses in addressing adverse human rights impacts.¹⁰⁷</p> | <p>Indicators for tracking effectiveness:</p> <p>The company should:</p> <ul style="list-style-type: none"> • Develop quantitative and qualitative indicators; • Draw on internal and external sources for feedback; • Integrate this into internal reporting processes. |
| <p>3.4 Transparency:¹⁰⁸</p> <p>The company should communicate externally how impacts are addressed.</p> | <p>Indicators for transparency:</p> <p>The company should:</p> <ul style="list-style-type: none"> • Provide information that is accessible to the intended audiences, especially those affected by the company; • Provide information that is accurate and sufficient in order to evaluate the adequacy of responses; • Disclose its codes and policies; • Provide information that includes indicators concerning how enterprises identify and address adverse impacts on human rights.¹⁰⁹ |
| <p>3.5 Stakeholder¹¹⁰ engagement:¹¹¹</p> <p>A company should identify and consult with its stakeholders</p> | <p>Indicators for engaging stakeholders:</p> <p>A company should:</p> <ul style="list-style-type: none"> • Identify and list stakeholders; • Consult meaningfully so that views can be taken into account in planning and decisions; • Inform stakeholders how the company has responded to their views and concerns. |

With a presence in 190 countries in the world, employing 171,000 people (as of 2011) and many thousands of suppliers worldwide, Unilever needs to prioritize actions to respect human rights via effective **risk assessment**.

Ten agricultural raw materials have been chosen in the Sustainable Living Plan as priorities, on the basis of high environmental impact. For the other materials, Unilever uses the following criteria to determine whether a supplier is high, medium or low risk:¹¹²

1. Country risk: As defined by risk management company, Maplecroft;
2. Company size/ turnover: If it is a small or medium enterprise (i.e. with fewer than 250 employees or turnover of less than €1m), then it is higher risk;
3. If a supplier is in the agriculture sector, it is higher risk.

Checking of standards at certified beverage suppliers is delegated to the Rainforest Alliance.

Suppliers deemed to be low risk only go through a self-assessment, developed by SEDEX, which includes questions on (minimum) wages, types of contract, working hours and freedom of association. Suppliers deemed to be medium or high risk are audited by third-party auditors, based on the SMETA methodology.¹¹³

Unilever set itself a target to roll out formal auditing to between 2,000 and 3,000 high-risk suppliers during 2011, with associated corrective actions. It also works collaboratively with peers in the sector via AIM-PROGRESS.¹¹⁴ Around half the members are also members of SEDEX, enabling supplier assessments

and audit reports to be shared to minimize parallel audits. AIM-PROGRESS also hosts joint supplier events for the sharing of good practice.¹¹⁵

High impact on people has not been a criterion for prioritization, although the agricultural sector is high labour risk, as well as high environmental risk. Unilever does not currently assess potential adverse impact on workers through its risk management system.

Most Vietnamese suppliers have never been audited since they are not considered medium or high risk. Risk assessment and prioritization are carried out by the global buying hub in Singapore, rather than at Viet Nam level. Where audits have taken place, UVN's roles were to contact suppliers, translate the questionnaire and arrange the audits; the results of these are only shared with UVN staff on request. They do, however, have a role in monitoring supplier performance and decision-making on supplier selection and retention.

The Centre for Research on Multinational Corporations (SOMO, using the Dutch acronym) and the IUF have been particularly active in campaigning to highlight violations of labour rights by Unilever. In 2011, SOMO published a report in which it identified many problems in tea plantations which had been audited and certified by Rainforest Alliance for Unilever.¹¹⁶ SOMO explains this as follows in its report:

'Possible explanations for the apparent disconnect between the theory of Rainforest Alliance's standard system and the reality on the ground are that the social auditing is not sensitive enough or Rainforest Alliance

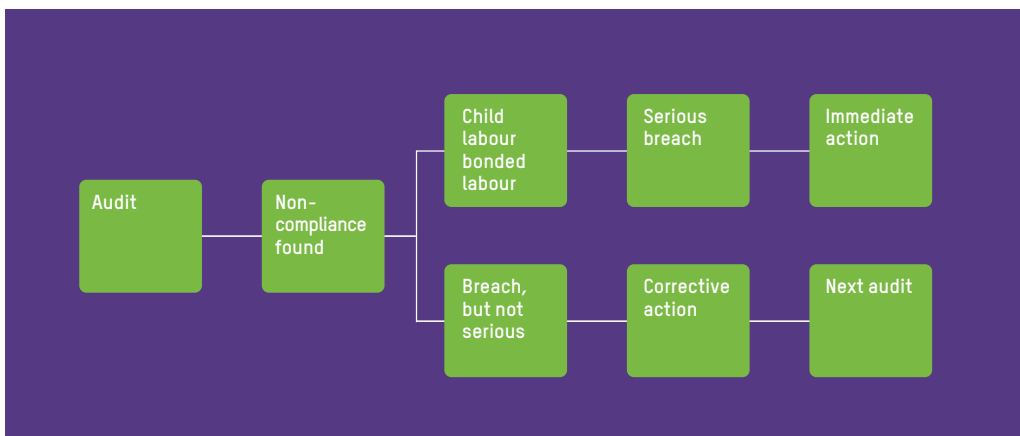


Figure 16
Unilever process for acting on findings with suppliers

standards not being interpreted strictly enough, or a combination of the two. Social audits were in fact found to be thoroughly manipulated (by which producers ensured that the auditors received a flawed and badly informed view of the actual living and working conditions of workers), to be too shallow (not picking up many issues raised in this study) and being biased (centred only on the industry or dominant trade union perspective and apparently not looking further). In addition it was noted that at least in Kenya there is a fundamental lack of trust and confidence amongst workers to speak openly and freely to auditors [and other authorities for that matter].¹¹⁷

In terms of **acting on findings**, priority is given by Unilever to managing 'extreme violations' (defined as bonded labour, child labour, serious health and safety breaches, serious environmental issues and excessive working hours).¹¹⁸ A view was expressed by a senior manager that this is black and white: 'There are easy issues and there are difficult issues. It's very easy to say, 'we don't go anywhere near companies that use slave labour or child labour, where's it not a grey area.'¹¹⁹

Violations like these, which also pose a reputational risk, are dealt with immediately; some are escalated to the Global Code and Policy Committee and receive senior management attention. Unilever believe it is best for local teams to report issues to the headquarters and allow those with broad knowledge and a dispassionate view to agree the best way to facilitate correction.

As an ultimate action, Unilever will terminate the relationship if compliance is not reached after reasonable time.

For negative impact in Viet Nam, the buying office in Singapore is in charge of following up with suppliers in case of non-compliance, based on the global guidelines. According to UVN, no major labour problems have occurred so far; in two cases Unilever reviewed their relationship with suppliers, but these were unconnected to issues of labour rights.

Unilever recognizes the dangers of over-reliance on commercial audits. However, given the small number of non-compliances found, and a legacy where no audits were conducted, they believe they provide valuable insights into supplier capabilities and will drive a great deal of compliance via continuous

THE TIMBERLAND COMPANY

'In 2005, partly because stakeholders pushed us, we made a radical shift in practice—from the posture of compliance police, with audits and checklists, to a different posture. Instead of leaving a list of violations for factory owners to resolve and then checking back to verify improvements, we challenged ourselves to work more closely with factory management and their workers to understand the root cause of workplace issues in our factories. This commitment included helping factories to take responsibility for workers' experiences, building new and different factory management systems and increasing staff awareness, from floor supervisors to top management. Our collaborative approach positions all sides working together for the same goal. Rather than relying on documents and factory managers/supervisors to tell us the conditions of the factory, we put the workers themselves at the center of the process. Instead of compliance being the goal, worker empowerment and strengthened communities became our goal.'

Global Compact, Sustainable Supply Chains, Resources and Practices

improvement. They acknowledge they have an enormous task ahead.

A number of companies have started to look beyond compliance and audits to more sustainable approaches founded on ownership of problems and solutions in the workplace.

In relation to **tracking effectiveness**, Unilever has set indicators for its performance on sustainability, but not yet in relation to human and labour rights. Indicators need data, and while the company now collects data on, for instance, the number of grievances, disciplinary processes and cases of absenteeism, these are very limited as a means of assessing labour impacts. The company sets targets for 'activities', such as the number of audits commissioned, but not yet for 'outcomes' of the activities, such as issues raised and resolved.

As the Director of Human Resources understood well, it is important to break the perception that a low

number of grievances is a signal that human rights impacts are addressed effectively – low scores could simply mean violations are not being identified. Unilever is working on a more effective mechanism for its own operations, only then will they think about a system for suppliers.

In relation to **transparency**, Unilever makes a lot of information available on their website concerning labour and human rights, including the settlement of disputes.¹²⁰ Its co-operation with Oxfam via this study is exceptionally transparent for a global company. At the Viet Nam level, UVN was completely unaccustomed to sharing sensitive information externally, yet agreed to co-operate with Oxfam to map out the labour issues in their own company, as well as in their supply chain, which deserves significant credit.

One stakeholder interviewed – SOMO – believes they could go further in sharing the processes they follow and the challenges they face. For instance, they would prefer to have suppliers disclosed together with information on their performance on labour rights, following the example of some sportswear and footwear companies.¹²¹

In relation to **stakeholder engagement**, Unilever has many different stakeholders, and consults with and informs them at different levels, often very proactively. It is active in a number of multi-stakeholder initiatives. Speakers are invited from NGOs and other organizations to share learning on good practice.¹²²

For labour issues, Unilever at global level sees IUF and Oxfam as its main stakeholders. The 'business case' for this engagement is that it prevents problems and enables the company to address external criticism; it also allows Unilever to learn from each engagement.¹²³ Through the relationship with IUF, Unilever now benefits from their expertise and knowledge, via annual meetings. Through these forums, IUF concerns are recognized and a level of trust is created.¹²⁴

When critical stakeholders, such as IUF and SOMO bring negative impacts to the attention of Unilever, the company's response is seen by them as quite defensive. On the other hand, Unilever is acknowledged as having taken issues seriously and has communicated publicly about remediation. Unilever acknowledges that in northern Europe, there is a stronger tradition and willingness to engage with stakeholders than in other parts of the world, where staff will wait for organizations to come to them

rather than engage them proactively.¹²⁵

In Vietnam, Unilever defined its stakeholders as the government at different levels and its suppliers and business partners; this study represents their first engagement with an NGO.

Principle 4: Remediation by grievance mechanisms

According to Unilever's internal global policies:

'all Unilever companies must have grievance procedures that provide for any employee to discuss with their line manager or, if not appropriate, an independent manager, any situation where they believe they have been discriminated against or treated unfairly or without respect or dignity without fear of victimisation.'

Unilever has two hotlines to deal with non-compliances with the CoBP: a global hotline (in English) which goes straight to Unilever global headquarters and a country-level hotline (in Vietnamese). The study found no cases where either had been used to report a labour grievance.

Interviews with stakeholder informants at IUF, SOMO and ILO Better Work raised questions about whether hotlines were an effective mechanism:

The IUF perspective: 'We don't believe in internal company complaints mechanisms. They are there to short circuit the collective bargaining process. Our general experience is that management soon get to hear who has complained.'¹²⁶

SOMO's experience is that workers often do not feel safe enough to use a hotline: 'For workers to share complaints with the management, you need trust. The company needs to consciously build that kind of climate.'¹²⁷

ILO Better Work echoed this: 'Alone, workers don't have a voice. Complaint systems are important but where people are really vulnerable other measures are needed. You can only complain if you're safe and feel you will be heard. Just giving people a hotline probably won't work.'¹²⁸

| PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|---|---|
| PRINCIPLE 4: REMEDIATION BY GRIEVANCE MECHANISMS | |
| <p>The company ensures remediation through legitimate processes, such as an effective grievance mechanism to identify impact and to address grievances.¹²⁹</p> | <p>Indicators of integration</p> <p>The policy:</p> <ul style="list-style-type: none"> • Should not undermine the role of trade unions; • Should not preclude access to judicial or non-judicial grievance mechanisms; • Should be <ol style="list-style-type: none"> a) Legitimate; b) Accessible; c) Predictable; d) Equitable; e) Transparent; f) Rights-compatible; g) A source of continuous learning; h) Based on engagement and dialogue.¹³⁰ |

According to the workers interviewed, none of the available mechanisms are effective:

‘We truly want the company to create a mechanism for workers to express our concerns. The union cannot do this job because the union leaders are paid by the company. They only listen to us without reporting to the management. The other channels such as hotline and emails are too sensitive for us to use.’

Worker at the Unilever Cu Chi Factory

Reliance on line management for grievance-handling was found to be common amongst those suppliers consulted in the phone survey, with line supervisors (shift leaders and team leaders) regarded as the key channel for grievance-handling. One in eight suppliers said workers do not have any grievances and a mechanism was not needed; only one in four had an assigned person and procedures for addressing workers’ grievances.

Good practice example: Grievance mechanisms

At one of Unilever’s suppliers we found good practice in their use of multiple grievance mechanisms. Elected inspectors receive grievances from the workers and transfer them to the management. Workers trust these inspectors and see them as a reliable channel. At the same company a three-stage dispute settlement process is in place. A dispute is addressed at the production unit level, then at the HR department level and finally by the union executive board and the enterprise conciliation council. The HR department also conducts frequent surveys, including a quarterly survey on shift meals and an annual survey on wages and benefits.

Summary of findings: Good practice and gap analysis

Principle 1: Policy commitment to respect human rights

- Unilever has a significant commitment to social responsibility and sustainability, with the CoBP endorsed by the CEO and an explicit commitment to the UNGP.
- The company's values are founded on doing the right thing; employees take pride in this, and a motivated workforce is seen as key to its business success.
- The policy needs a commitment to progressive payment of a Living Wage and an absolute limit on acceptable working hours.

Principle 2: Integration of the policy in the business and implementation with suppliers

- Communication of policies to staff and suppliers has been a clear priority. Investment is being made into international industrial relations capacity. Less emphasis has been put on ensuring people are aware of their rights, particularly where English is not spoken.
- Human and labour rights are conspicuous by their absence from the company's the Sustainable Living Plan. Social targets focus on the well-being of customers, not on the well-being of people who make their products, with the exception of agricultural commodities.
- Suppliers are often not aware of Unilever's relevant labour standards policies.

Principle 3: Human rights due diligence process

- There is a risk management system, involving self-assessment and auditing, but it is not sensitive to the vulnerability of workers.
- More use could be made of local knowledge about suppliers in Viet Nam.
- UVN management lack guidance in dealing with differences between national law and international standards.

- It is positive that the company will give time for improvements if problems are found; suppliers need to know this is the case and to understand the standards better.
- Unilever generally demonstrates a good level of transparency. Vietnamese staff members, though not accustomed to opening up to NGOs, helped Oxfam map out the labour issues both broadly in Viet Nam and in their supply chain.
- Based on the study, Unilever engages well with stakeholders at a global level, but could seek out stakeholders at country level to identify and prioritize issues, advise on good practice and check interventions are effective.

Principle 4: Remediation via grievance mechanisms

- The various grievance mechanisms used by Unilever – line management, national and international hotlines, and auditor interviews – are not trusted to report sensitive grievances and do not meet the criteria set out in UN guidance on good practice.
- Based on the phone survey, 44 per cent of suppliers regarded enterprise unions as effective channels for handling grievances. However, the main method of handling grievances was via line management.
- An example of good practice in using grievance mechanisms, including elected inspectors trusted by workers, was found at one supplier.

Unilever in comparison with competitors

Oxfam undertook desk research to compare Unilever with five key global competitors, on the basis of information provided on the companies' websites. Findings are given in the table below. These show that most of the companies have relevant corporate commitments but very little information was given about how they are implemented. Oxfam was not, on the basis of this, able to compare their performance on labour rights in a meaningful way.

Table 3
Unilever in
comparison with
competitors

| | Unilever | P&G | L’Oreal | Henkel | Nestlé | Kraft |
|--|--|--|---|---|---|---|
| References to the UNGP | Participant in the development of the principles ¹³¹ | Participant in the development of the principles ¹³² | Participant in the development of the principles ¹³³ | No statement | Participant in the development of the principles ¹³⁴ | Participant in the development of the principles ¹³⁵ |
| Relevant ILO Conventions and Recommendations | States that the code of business principles for suppliers is aligned to ILO conventions ¹³⁶ | No mention of ILO conventions on the website | States it supports the fundamental ILO conventions and that all suppliers are required to comply with ILO guidelines ¹³⁷ | No mention of ILO conventions on the website | States that it is committed to the core conventions of the ILO ¹³⁸ | States that it expects suppliers to comply with the ILO convention principles relating to child labour ¹³⁹ |
| ILO MNE Declaration | No mention of ILO Declaration on the website | No mention of ILO Declaration on the website | No mention of ILO Declaration on the website | No mention of ILO Declaration on the website | Corporate Business Principles state it adheres to ILO Declaration ¹⁴⁰ | No mention of ILO Declaration on the website |
| ISO 26000 | No mention of ISO 26000 on the website | States it was involved in the development of ISO 26000 ¹⁴¹ | States its approach to fair trade is consistent with the forthcoming ISO 26000 on societal responsibility ¹⁴² | No mention of ISO 26000 on the website | No mention of ISO 26000 on the website | No mention of ISO 26000 on the website |
| ETI¹⁴³ | Not a member | Not a member | Not a member | Not a member | Not a member | Not a member |
| GRI | Kraft is the only company that does not use GRI guidelines. ¹⁴⁴ However, Henkel is the only company to report in practice against indicators related to labour rights. ¹⁴⁵ Of the six relevant indicators Henkel reports against two (LA4 and LA1). ¹⁴⁶ The other companies do not report against any of these six indicators. ¹⁴⁷ | | | | | |
| UN Global Compact Self-Reporting | Self-assessment score not publicly available ¹⁴⁸ | Not a signatory | Self-assessment score not publicly available ¹⁴⁹ | Human Rights 50 per cent ¹⁵⁰ Labour Rights 88 per cent ¹⁵¹ | Human Rights 79 per cent ¹⁵² Labour Rights 79 per cent ¹⁵³ | Not a signatory |
| OECD Guidelines for Multinational Enterprises | Unilever has stated its support for the guidelines ¹⁵⁴ | Participated in the 2010/11 updating of guidelines roundtable ¹⁵⁵ | No mention of the guidelines on the website | No mention of the guidelines on the website | Corporate Business Principles state that Nestlé adheres to OECD guidelines ¹⁵⁶ | No mention of the guidelines on the website |

6 Unilever's management of labour issues

In this section we analyze to what extent the study showed workers are able to realize their rights in Unilever's operations and supply chain, and provide a gap analysis, in order to signpost approaches to meeting international standards more fully in the future. For this section, principles and indicators are drawn from the OECD Guidelines on Multinational Enterprises and other selected frameworks, as the scope of UNGP is limited to policies and management processes.

Freedom of association and collective bargaining

Importance of the issue for labour rights

Freedom of association and collective bargaining were selected as a focus for the study because they are enabling rights, making it possible to promote and realize decent conditions at work.¹⁵⁷ The right to freedom of association and collective bargaining are among the fundamental rights of the ILO.¹⁵⁸

Despite the core value of these rights and their re-affirmation time and again by the international community,¹⁵⁹ half the total labour force of ILO member states lives in five countries that have not yet ratified the Convention on Freedom of Association and Protection of the Right to Organize: Brazil, The People's Republic of China, India, Iran and the USA.¹⁶⁰

Oxfam regards participation and empowerment as

vital to poverty reduction. When industrial relations are weak, workers have no mechanism through which they can express their concerns in a safe way. Good relations between management and workers benefit both sides: they enable better dispute resolution and reduced conflict; they minimize disruption and enhance productivity; they increase worker satisfaction and co-operation; and allow for mutually agreed mechanisms for introducing and achieving support for changes in the workplace.

The most scalable way to assure labour rights is to have mature industrial relations in the workplace, through which vulnerable workers can collectively articulate their concerns and interests:

'Understand the issues of these workers and consult; it all starts with the workers being organized and having a coherent agenda. Businesses cannot deal with 300,000 individuals. They can deal with them if the workers are organized. A fundamental issue is their vulnerability.'

Dan Rees, ILO Better Work programme

Mature industrial relations involve transparent rules, which are consistently applied, effective grievance and disciplinary procedures, the opportunity to join or form a union, and regular discussions about matters of mutual concern.

Figure 17
Monitoring the
production line
for dishwasher
liquid bottles
(Unilever Viet
Nam 2012)



| PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|--|---|
| FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING | |
| <p>Principle 1: Recognition and commitment The company should recognize and commit itself to the international standards on freedom of association and collective bargaining.¹⁶¹</p> | <p>Recognition and commitment</p> <ul style="list-style-type: none"> • Promote consultation and co-operation between employers and workers and their representatives on matters of mutual concern.¹⁶² • Have an open attitude towards the activities of trade unions and their organizational activities.¹⁶³ • Be careful not to encourage the government to restrict the exercise of the internationally recognized rights of freedom of association and collective bargaining.¹⁶⁴ E.g. Locating a subsidiary or sourcing from companies located in specialized industrial zones where freedom of association is restricted or prohibited, even if national regulation recognizes that right, and refrain from participating in incentive schemes based on such restrictions. |
| <p>Principle 2: Protection of workers' representatives The company ensures that workers' representatives and employees participating in lawful trade union activities are adequately protected.¹⁶⁵</p> | <p>Protection of workers' representatives</p> <ul style="list-style-type: none"> • Prohibit discrimination or adverse actions against worker representatives or employees for participating or refraining to participate in lawful trade union activities.¹⁶⁶ |
| <p>Principle 3: Freedom of choice The company should allow workers to establish and join representative organizations of their own choosing.¹⁶⁷</p> | <p>Freedom of choice</p> <ul style="list-style-type: none"> • The company should allow workers to establish and join representative organizations of their own choosing without previous authorization. • There should be no acts of interference with the object of placing the organization under control.¹⁶⁸ |
| <p>Principle 4: Collective bargaining on terms and conditions of employment The company should allow the workers employed to have trade unions and representative organizations of their own choosing for the purpose of collective bargaining and engage in constructive negotiations, either individually or through employers' associations, with such representatives with a view to reaching agreements on terms and conditions of employment.¹⁶⁹</p> | <p>Collective bargaining</p> <ul style="list-style-type: none"> • Can authorized representatives of the employees negotiate on collective bargaining or labour-management relations issues?¹⁷⁰ • Are the parties allowed to consult on matters of mutual concern with representatives of management who are authorized to take decisions on these matters?¹⁷¹ • The company has a committee, with participation of employee-elected representatives, which is responsible for hearing, processing, and settling disciplinary cases and employee grievances.¹⁷² |
| <p>Principle 5: Disputes and grievances There is an agreement on fair hearing in case of disputes and grievances.¹⁷³</p> | <p>Disputes and grievances</p> <ul style="list-style-type: none"> • Provisions are included in the collective agreement for the settlement of disputes arising over their interpretation and application and for ensuring mutually respected rights and responsibilities.¹⁷⁴ |
| <p>Principle 6: Risk assessment The company should identify operations and significant suppliers in which the right to exercise freedom of association and collective bargaining may be violated or are at significant risk either in terms of type of operations or geographical areas.</p> | <p>Risk assessment</p> <ul style="list-style-type: none"> • This risk is incorporated into company's risk assessment process. |

How Unilever manages freedom of association and collective bargaining

Findings and evidence – Global level

In the CoBP, as well as in internal policies and the Supplier Code, Unilever has shown commitment to the fundamental rights of freedom of association and collective bargaining.

In relation to protection of workers' representatives, the policy includes a requirement that employees must be treated fairly and equally without unlawful discrimination on the grounds of position in the organization.

In relation to the right to join or form a union, the policy states that: 'All Unilever companies must respect the right of their employees to join or not to join a legally recognized trade union, or any other body representing their collective interests.' This means neither companies nor governments should interfere with the choice of workers' representation and that there may be more than one workers' organization per enterprise; so-called 'closed shops', where only one union is allowed, would violate this principle.¹⁷⁵

In relation to collective bargaining, Unilever's internal policy states that Unilever companies must bargain in good faith on employment conditions, labour management relations and matters of general concern.

Corporate policy appears to provide a good overall framework for these rights. The challenges arise when it comes to implementation, since, in Unilever, industrial relations policy may be country-specific and locally determined.¹⁷⁶

The commitment to effective implementation at global level has been demonstrated by the actions taken to resolve industrial relations disputes, and by Unilever's subsequent corporate engagement with the IUF. This followed four complaints to the UK National Contact Point responsible for the OECD Guidelines on Multinational Enterprises, concerning violations of trade unions' rights.¹⁷⁷

In June 2012, the IUF lodged a further complaint with the National Contact Point, alleging non-implementation by Unilever of the agreement reached in 2010 concerning the Doom Dooma factory in Assam, India manufacturing personal care products.¹⁷⁸ The IUF website points out that 'this latest complaint against Unilever brings to 10 the number of cases filed against this company for violations of the guidelines, making it the corporate record holder'.¹⁷⁹

In his interview with Oxfam in 2011, Peter Rossman, Head of Campaigns and Communications at IUF, confirmed Unilever's commitment at corporate and regional level. However, IUF recommend more commitment at local level. Awareness and commitment depends on staff and communications.¹⁸⁰

Unilever has taken an important step in recognizing the value of a relationship with the IUF, in order to attempt to resolve issues concerning trade union rights. After the OECD process, there was a change in attitude. What can be said is that in some cases Unilever has recognized the need for change at the level of local management in order to resolve disputes.¹⁸¹

Unilever has recognized the need to strengthen its management capacity on industrial relations. In 2011, Unilever invited the Danish Institute for Human Rights to run a Train the Trainer course for HR managers (reaching 80 per cent of HR staff) and developed an e-learning module for line management and human resources, which has been delivered to 80 people. The company has also worked with the Chartered Institute of Personnel Development to develop a course in international employee relations:

Industrial Relations are difficult and technical and require study. We want to get people qualified and raise the level of professionalism, improving the standard of employee relations, and improving the standard of what they expect from professionals in the area of industrial relations.¹⁸²

It has been internationally recognized that Viet Nam is among the countries that restrict these rights. There is a clear risk that workers will not be able to exercise their rights under international law. Since this is a very sensitive area, the ILO Conventions, ILO MNE Declaration and the OECD Guidelines do not prescribe solutions. This presents a dilemma for companies.

Unilever does not have a specific policy or guidance for staff or suppliers in these countries but advises that they should be 'practicable taking into consideration the applicable national laws'. However, there is emerging good practice, as suggested in an interview for this study:

'Where the national context limits freedom of association, Unilever has no choice but to ensure their operations are within the law. But they should seek to get employers and workers into dialogue within the confines of the law. There might be other things Unilever can do to promote worker consultation and open up dialogue. They should use their influence where possible. For instance a labour management committee can be a vehicle for training for workers and workers' representatives. They can take non-compliances and discuss solutions, they can focus on training as a form of conflict resolution.'

*Dan Rees, ILO Better Work programme*¹⁸³

Findings and evidence – Unilever Viet Nam

Interviewed by the research team, Unilever's Viet Nam country management said they were unclear how the international principles could be applied in Viet Nam, and questioned whether finding ways to promote management-worker dialogue in the supply chain was their responsibility.¹⁸⁴

The UVN union started from its joint venture with Vinachem set up in 1995. The enterprise union leadership came mainly from the Vinachem factory's union, which was seen by the UVN management board to be strong and active. The nominations for union election in 2007 were made by the preceding union chairman and the vice-director, rather than the workers.¹⁸⁵ The fact that the leadership of the enterprise union is dominated by managers is not exceptional in Viet Nam. The unions of all the three suppliers in the 'deep-dive' research are led by senior managers. In two companies, the union chairmen were vice-directors and a manufacturing manager was chairman in the third.

The key functions of the UVN union include organizing entertainment, sport events and annual excursions for workers, and managing welfare programmes. The function of representing and protecting workers' rights and interests has been limited to informing workers of the company's policies and rules. Union congresses have not been organized since 2007, due to an unresolved dispute about its affiliation. Since then the collective bargaining agreement (CBA) has been automatically renewed without re-negotiation.¹⁸⁶ Consequently

the union has not fulfilled its role of representing workers in their communication and negotiation with the management for at least four years. UVN workers said they had lost trust in the union officials:

'We dare not raise our voice through the union leaders because they are paid by the company, they are the company's people. They will listen to us but they never bring our concerns and demands to the management. Our only way of communicating to the upper-level management is through our supervisors.'

Unilever worker in an interview with the research team

With a CBA from 2007 and a union dominated by the management, Unilever workers at the Cu Chi factory have little meaningful opportunity to have their voice heard in matters of mutual concern, such as wages, working hours or employment conditions. Wages, the issue that workers were most concerned about, as the union chairman acknowledged, are determined solely by the management. The workers are entitled to vote, but the voting system lacks meaning because they cannot elect someone they trust to represent them. The UVN HR manager told the research team:

'Wage review often takes place in April each year. Before that is the performance evaluation. New wage rates are fixed on the basis of the labour market and at what level of pay we want to be. The second criterion is the performance evaluation. Then the management announces the new scale. We do not need to consult the union or workers because they all understand this process very well.'

HR manager at Cu Chi in an interview with the research team

In theory, workers can approach the HR manager directly, bypassing their line manager. In discussion, UVN managers made clear that 'our offices are always open to workers'.¹⁸⁷ In practice, workers are not aware of this or do not feel comfortable or secure in approaching their managers.

In relation to 'fair hearing' of grievances, a particular mechanism is in use in the Cu Chi factory. According to several interviewees, and as observed by the research team, HR management tour the factory, asking key contact people, such as cleaners and canteen workers, what workers are talking about. This is beyond the awareness of many workers in the factory.

From the management's perspective this enables them to have early notice of issues so they can be addressed promptly. Though well-intentioned, the practice highlights the lack of opportunities for open social dialogue, and the lack of a functioning trusted mechanism for workers to use to report grievances or simply to discuss their concerns.

'We truly want the company to create a mechanism for workers to express our concerns. The union cannot do this job because the union leaders are paid by the company. They only listen to us without reporting to the management. The other channels such as hotline and emails are too sensitive for us to use.'

Unilever worker in an interview with the research team

UVN commented that the trade union representatives are voted for by employees and that 'the CLA was circulated for them to say agree or not agree and it is only signed if more than fifty per cent agreed'.¹⁸⁸ They also have a suggestion box and a staff survey.

In the supply chain, suppliers are relied on to develop their own system of industrial relations and to ensure the CoBP, which they are required to sign, and national laws, to which they are bound, are complied with. This is monitored via SEDEX self-assessments and audits.¹⁸⁹ Suppliers self-assess against questions including:

- Are workers free to join workers' organizations (other than trade unions) of their choice?
- Do you have any trade unions or workers organizations/committees in your workplace that represent the views/rights of workers?
- Are workers' representatives democratically elected by the workforce?
- How many workers are covered by a CBA and what type of workers?
- Are minutes kept of discussions between workers and management?

Findings and evidence - Suppliers

In the phone survey conducted with 48 suppliers, seven out of eight suppliers said they had a union. The survey

suggested a number of enterprise unions had made encouraging efforts to represent workers. Seventy-five per cent of respondents regarded their unions as more than just a welfare body and 44 per cent relied on the unions as an effective grievance-handling channel.

One of the suppliers visited by the research team explained how they set up a new union after an audit, initiated at Unilever's request, found the previous union was not functioning. The company consequently organized a union election to choose a new leadership. This example showed that Unilever not only has strong leverage, but also available mechanisms for remedying of non-compliances, although trade unions might question how democratic the process would have been.

During the phone survey, suppliers were asked about wage negotiation. Fifty-two per cent of respondents put workers outside the wage adjustment process; workers and their representatives were only informed about the new wage rate when the final decision had been made by the management. In the case of the foreign-owned supplier visited, wage-setting was done by the foreign operations manager, leaving not only workers but also the Vietnamese managers unaware of how the new wage scale had been set.

Summary of findings

- Unilever has a commitment to the UNGP and a high-level endorsement of its CoBP. It is increasing its internal capacity on industrial relations, has reached agreement on four outstanding OECD complaints (though one has not been implemented according to a new complaint in 2012) and has a meaningful dialogue with IUF.
- The UVN union comprises managers appointed by the joint venture, Vinachem. Although workers are entitled to vote, this lacks meaning as they are unable to elect someone they trust to represent them; this is common practice in Viet Nam but more could be done to promote mature industrial relations.
- The practice in Unilever's factory of listening in on workers' conversations hinders trust and dialogue between management and workers.
- Based on the phone survey, almost all the suppliers had a union, but half of these put workers outside the wage setting process. Three-quarters regarded enterprise unions as more than a welfare body and nearly half saw them as providing an effective grievance-handling mechanism.

Unilever and wages

‘Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.’

United Nations Universal Declaration of Human Rights. Article 23(3)

Importance of the issue for labour rights

A statutory minimum wage is established in more than 90 per cent of ILO member states. The minimum wage has been designed as an instrument to provide workers with protection. As conceived by the ILO, it should meet the basic needs of workers and their families and therefore be a Living Wage.¹⁹⁰

Oxfam defines a Living Wage as one which, for a full-time working week without overtime, would allow a family to meet its basic needs – including shelter, clothing, and nutrition – and allow an amount for discretionary spending.¹⁹¹

In practice, minimum wages in developing countries are often established at a low level in the first place, and then not revised on a regular or adequate basis, for a range of political, social and economic reasons. So wages can be compliant with national legislation

but not meet international standards. This means that companies cannot rely on the local minimum wage being sufficient to meet the basic needs of workers and their families.

Research suggests real business advantages can flow from paying higher wages.¹⁹² Businesses report that higher base pay and benefits attract more qualified employees, and that those employees have high morale, are more productive and require less supervision. Higher wages reduce employee turnover and absenteeism, reducing costs in recruitment and training, and often deliver improvements in the quality of products and services.¹⁹³

The challenge of a Living Wage

The issue of a Living Wage is currently causing a great deal of debate. In recent years what a Living Wage is, how it should be calculated and whose responsibility it is have been the subject of much debate, with companies, NGOs and trade unions bringing different perspectives.

The issue of in-kind benefits is also a subject of debate between companies, NGOs and trade unions. Civil society organizations argue that a basic wage should be a Living Wage, without depending on allowances, bonuses, in-kind benefits or overtime. Nevertheless research suggests that benefits can be of great importance to workers. For instance, recent research by Impactt suggests that workers put a high value on health care, savings schemes, subsidized

| STAKEHOLDER | TYPICAL POSITION |
|---------------------|---|
| Companies | We meet our obligations under national law (which many of our competitors do not) and provide other benefits. How can we audit to a Living Wage when there is no agreed definition? Isn't it the governments' job to make sure a minimum wage is a Living Wage? We are under price pressure from our customers and our leverage is limited. |
| NGOs | Workers tell us they cannot live on the wages provided and have no voice in the way they are set, particularly women. Yet multinational corporations make huge profits from their labour. The definitional challenge should not be an excuse for inaction; workers must get a fairer share of value from the value chain. |
| Trade unions | A living wage is not just a number; the most sustainable basis to deliver it is through collective bargaining between management and workers, who know best what their basic needs are. Yet union freedoms are undermined by precarious work and corporate practices. |

food, as well as other aspects of working life, such as skills development, job security and work–life balance.¹⁹⁴

Many multinational corporations have made a commitment to a Living Wage at policy level, including all 80 corporate members of the ETI, which includes retailer customers of Unilever. Until recently this has remained largely aspirational; however, in the last five years there has been an increased acceptance by some companies, including Unilever, that low wages are a significant issue in their supply chain. There is now greater readiness to move on from discussion to action, but when they do so companies face a range of obstacles:

- Limited involvement by workers in collective bargaining processes;
- Statutory minimum wage levels which do not meet basic needs in many countries;
- Lack of an authoritative formula and process to calculate and implement a Living Wage;
- Variable leverage by sourcing companies which diminishes down the supply chain;
- The lack of available evidence that product certification has a positive impact on wages beyond compliance with statutory requirements;

- Price pressure from consumers/retailers;
- Lack of published data on the business case for improving wages, so companies fear loss of price competitiveness, what might be termed ‘first mover disadvantage’;
- Difficulty of ensuring that any additional payments reach workers and are equitable and sustainable.

In the last two to three years a range of different initiatives have been taken to tackle the issue of Living Wage using a step-by-step approach, for examples see Appendix 2.

How Unilever manages wages in relation to international principles

Findings and evidence – Global level

Unilever does not have a specific wage policy for its own employees, but its Supplier Code states that, ‘Wages and working hours will, as a minimum, comply with all applicable wage and hour laws, and rules and regulations, including minimum wage, overtime and maximum hours in the country concerned’.

At global level there is a belief that people are the company’s principal assets, and that it pays relatively highly: ‘Our working assumption is that

Figure 18
Workers viewing
information boards
at the Cu Chi factory
(Unilever Viet Nam
2012)



| INTERNATIONAL PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|--|---|
| WAGES | |
| <p>Principle 1: Meeting basic needs Ensure that wages are sufficient to meet the basic needs of the worker and his or her family.¹⁹⁵</p> | <p>Basic needs that wages need to meet are:</p> <ul style="list-style-type: none"> • Sufficient to meet basic food, clothing and housing needs;¹⁹⁶ and • Provide some discretionary income for workers and their dependants.¹⁹⁷ <p>Assessing basic needs:</p> <ul style="list-style-type: none"> • Takes costs of living into account;¹⁹⁸ • Ensures that wages, benefits and conditions of work are not less favourable to the workers than those offered by comparable employers in the country concerned;¹⁹⁹ • Considers the general level of wages in the country; • Takes social security benefits and the relative living standards of other social groups into account; • Considers economic factors, including requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment. |
| <p>Principle 2: Determine wages by collective bargaining In determining wages and working conditions that reflect these considerations, a company should bargain collectively with its workers or their representatives, in particular trade unions, in accordance with national systems for collective bargaining.²⁰⁰</p> | <ul style="list-style-type: none"> • Authorized representatives of the employees can negotiate on collective bargaining or labour-management relations issues.²⁰¹ • The parties are allowed to consult on matters of mutual concern with representatives of management who are authorized to take decisions on these matters.²⁰² |

Unilever pays well above the living wage in own operations, though this is difficult to quantify given the definitional challenges.²⁰³

One of Unilever's companies, Ben & Jerry's Ice-cream, applies a 'liveable wage' formula in the USA. However, Unilever is not convinced such a formula could be applied in different parts of the world:

'It's difficult to apply a formula consistently in different parts of the world. It's always about politics and power as it is inevitably a negotiation. Even with a Living Wage formula, it turns into a collective negotiation

in the absence of government involvement. Essentially, even a formula is a negotiation.'²⁰⁴

In negotiations with suppliers and third-party manufacturers, Unilever allows for adjustment of labour costs in step with increases in the legal minimum wage. Contracts are normally negotiated every four to six months and if the applicable minimum wage is adjusted during the contract term, the supplier can require Unilever to pay the increased wage for that period. The UVN supply chain department reportedly call suppliers and manufacturers from time to time to check whether they are paying at least the minimum wage.

BEN & JERRY'S LIVABLE WAGE

Ben & Jerry's commitment to economic justice starts with our employees. That's why we are committed to paying all of our full-time manufacturing workers a livable wage – enough to allow for a quality of life that includes decent housing, health care, transportation, food, recreation, savings, and miscellaneous expenses. Every year, we recalculate the livable wage to make sure it's keeping up with the actual cost of living in Vermont. In recent years, Ben & Jerry's livable wage has been nearly twice the national minimum wage, landing at \$13.94 in 2009.

Source: www.benjerry.com/activism/peace-and-justice/livable-wage/

Findings and Evidence – Unilever Viet Nam

In 2011, at UVN's Cu Chi factory, 1,539 people were working, of which 748 people (54 per cent) were employed by a third party, Thang Loi (see Section 6 for more information).

When Unilever set up its business in Viet Nam in the late 1990s, it was among the top paying companies in the country, paying well in excess of the minimum wage. Amongst Unilever management, there is still a perception that wages are higher than that of competitors in the same product categories. However, according to two of the three wage experts who reviewed the draft findings at Oxfam's request, the salary of UVN workers is relatively low compared with other companies operating in Cu Chi.²⁰⁵ Participants in the focus group discussions (with both UVN and Thang Loi workers) were in agreement that compared with wages at companies, such as Saigon Beer or Kym Dan, the UVN salary for an equivalent role is much lower.

Wages paid by UVN are set after benchmarking in the labour market, consultation with the local authority / union (Hepza Cu Chi union) and a review of workers' performance.

Wages were found by the research team to exceed legal minima comfortably; indeed to be at least double the statutory minimum (Table 4 and Figure 19). However consultation during the study with workers and key informants, including three wage experts, confirmed previous research by Oxfam Viet Nam, that the legal minimum wage does not meet workers'

basic needs, in all enterprises but particularly those which are state-owned.²⁰⁵

The lack of detailed policy guidance from the Unilever headquarters has allowed different interpretations at national level on how this issue should be dealt with. A UVN manager said:

'We are changing our wage strategy... We have been gradually reducing the gap between UVN's wage level and the minimum wage. In the future if the minimum wage is sufficient for workers' living expenses, we may pay at the minimum wage level only.'²⁰⁶

UVN's supply chain manager stated:

'We do need a clear definition of Living Wage so that we can accommodate it in our strategy. However, because there is no clear definition, we do not know how to do it.'

Workers' perspectives on wages and benefits at the Cu Chi factory

Issues relating to wages and benefits were raised repeatedly in the focus group discussions and in-depth interviews of both UVN and Thang Loi workers in July 2011.

Wages

Workers interviewed were in agreement that current wages merely covered the basic expenses of one person and were insufficient to make savings or support dependants. Eighty per cent of workers interviewed, both local and migrant, said they needed another source of income to feed their families. Examples from UVN's own employees were:

'We cannot live with the current salary. Therefore, after working hours (usually my shift ends at 2pm) in the factory, I have to work as waitress in a café shop from 3-9pm to have enough money to cover all family costs.'

'The current salary can only cover 60 per cent of the actual needs of a single worker and 40 per cent of the needs of a married and migrant worker with one child. I worked for UVN since 2002 and now have three kids. However, two of my elder sons drop out from school to run errands for the villagers last year because I could not afford their school fees.'

There were some discrepancies between the wage figures provided by UVN and those cited by workers in the focus group discussions. While UVN referred to take-home pay as including many different benefit elements, interviewees tended to refer to their wages and benefits separately.

Wages of women compared with men

The research team did not find evidence of direct discrimination, but observed that there were more men in higher paid roles, as is often the case in workplaces.

Performance review

None of the 25 UVN employees interviewed during the focus group discussion or in-depth interviews mentioned receiving a performance bonus. Some UVN workers expressed concern that in the performance reviews undertaken by supervisors (to which salary increases and bonus payments are linked), workers do not have the opportunity to challenge the assessment, nor can they give feedback on the behaviour of supervisors.

Reward differentials between workers and senior staff

Some UVN workers highlighted the significant gap in salary between employees in different positions. The salary and benefits of senior staff were seen as much higher than that of workers, with free holidays for senior staff per year but only one holiday trip organized for workers over many years.

Long service

A concern of longer-serving UVN employees was that the number of years worked does not impact on the wages; one worker who started in 2001 received higher wages than two workers who had worked there since 1997, raising a question about equity. A member in the group discussion suggested that: 'the company should take care of people who have contributed for a long time.'

Bonuses and allowances

UVN workers said they received a housing allowance, a thirteenth month salary (at the end of the year), and bonuses for national day and labour day. However, according to the group discussion, the scale of these is low and has been fixed for many years at \$4,800,000 VND (approximately \$233) a year; the only change has been in the timing of payments.

Non-wage benefits (lunch, health checks, sickness benefit)

UVN workers expressed their appreciation of having a good lunch, two medical examinations a year, good support in pregnancy and support to workers who have serious illnesses. Some, however, suggested that the current procedure for medical payment and reimbursement is inaccessible for workers. For example, if a worker has a serious problem and needs surgery, they need to pay first before being able to claim the cost from the company. Consequently, they do not rely on such support and still list medical expenses in their cost of living.

Relationships with supervisors

During in-depth interviews with workers, as well as focus group discussions with both Thang Loi and UVN workers, some workers said that treatment by managers can be dependent on personal relationships that can lead to corrupt practices. One said: 'Some managers are deceitful, they stay at work late to get credit from extra time worked, have an unclear relationship with female colleagues and promote them unfairly. In some cases, managers even buy false certification to increase the wages.'

Differential treatment of UVN and outsourced workers

In the two group discussions, workers pointed to unequal treatment between workers from UVN and Thang Loi in salary, allowance and bonus (see Section 6).

Oxfam estimate of workers' basic needs

Results from the focus group discussions with UVN and Thang Loi workers concluded that the basic monthly living expenses for one local worker with one child were around 5,420,000 VND (approximately \$263). Expenses for a single local worker were estimated to be 2,520,000 (approximately \$122). Expenses for a single migrant worker were estimated to be 2,870,000 VND (approximately \$139).

The estimate for a local worker with a child is significantly higher than the AFW estimate for Viet Nam. The explanation appears to lie partly in the fact that expenses for a child were estimated to be slightly more for a child than for an adult, compared with one half as assumed in the AFW methodology, with child care, milk and petrol (e.g. for a moped) being significant cost elements.

Table 4
Oxfam's estimate of living expenses for a local worker in Cu Chi, location of UVN factory (see section on methodology)

| Monthly living expenses for a local worker | VND |
|--|--|
| Food | 1,300,000 |
| Electricity and clean water | 70,000 |
| Petrol | 300,000 |
| Soap, shampoo | 100,000 |
| Gas | 100,000 |
| Telephone | 150,000 |
| Funerals, weddings | 400,000 |
| Clothes | 100,000 |
| Total expenses for a local worker | 2,520,000 (Approximately \$122) |

| Monthly expenses of a local worker with one child under 6 | VND |
|---|--|
| Milk | 1,000,000 |
| Food and childcare | 1,500,000 |
| Diapers | 200,000 |
| Medical fees | 200,000 |
| Total expenses for one child under 6 | 2,900,000 |
| Monthly living expenses of a local worker with one child | 5,420,000 (Approximately \$263) |

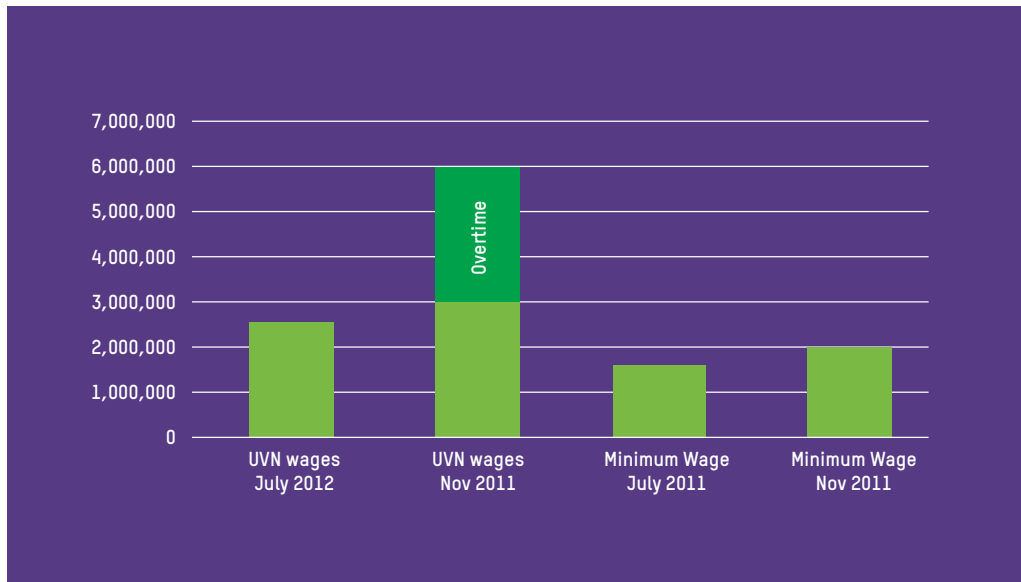


Figure 19
UVN wages reported by workers showing the impact of wage rises and overtime. Source: Oxfam research team.

After the research was carried out in July 2011, significant wage increases took place, to bring wages into line with the 30 per cent increase in legal minimum wage to 2,000,000 VND (approximately \$97, October 2011). The research team verified with a sample of workers that they did receive the increase;²⁰⁸ they also said that after July they had a lot of overtime work, normally four hours per day (except for the night shift). The workers spoken to thanked Oxfam because the increase in wages was greater than expected following the visit by the research team.

Additional information from UVN on wages and benefits

During the writing of the report in 2012 UVN provided a detailed breakdown of wage and benefits data, used in the wage ladder, and additional information and comments on compensation of employees. This is summarized below and presented in charts.

UVN commented that, unlike other employers in Viet Nam, it does not avoid social insurance by paying 40–50 per cent of workers' income in allowances, bonus and overtime; in UVN these comprise only 28 per cent. Although it is customary in some FDI enterprises for lower wages to be paid to women and migrant workers, this is not the case in UVN.²⁰⁹

Performance-related pay is an important component of UVN take-home pay, with two reviews per year: in April, based on personal performance and in October

based on a combination of personal and business performance. Performance is rated on a scale of 1–5 and the salary increase and performance bonus are based on the assessment.

UVN conducted a comparison of wages and benefits between UVN and a comparable company, Mercer in 2011. This showed that, with benefits included, wages were higher than Mercer. In 2011 and 2012 employees were given a special payout to reduce the impact of high inflation.²¹⁰

For more information on the compensation of sub-contracted workers see Section 6.

Wages at Unilever's factory in relation to wage and poverty benchmarks

The wage data for UVN's Cu Chi factory, accurate for July 2011, was provided by UVN during the writing of the report. There were 1,385 workers in the factory; 637 were UVN employees, of which 172 were semi-skilled (band WL1A), 348 were skilled (band WL1B). There were 748 workers employed by the labour provider Thang Loi in five wage bands, S1 to S5. Slightly more than half the workers (54 per cent) were therefore sub-contracted.

The 'wage ladder' in Figure 20 shows wages in UVN's Cu Chi factory at the time of the study in the context of national minimum wage benchmarks, national and international poverty benchmarks, and the AFW

benchmark for a Living Wage.²¹¹ The ladder was developed for Oxfam by Ergon Associates.

Based on the wage ladder, Oxfam concluded that, at the time of the study:

- All wages comfortably exceeded the level of the applicable minimum wage so were compliant with national law and Unilever policy, and exceeded international poverty benchmarks
- However, the average basic wage of semi-skilled UVN workers was only two thirds of the AFW benchmark for a Living Wage. Even with cash benefits included, their take home pay was some way below this benchmark.
- The basic wage of a sub-contracted worker was less than half the AFW benchmark.

- The General Minimum Wage – applicable to SOEs, such as Thang Loi – was lower than all household poverty benchmarks.

If we also compare wages and benefits with Oxfam's estimate of monthly expenses for an adult with one child (Table 3), undertaken during focus group discussions in July 2011, the take home pay of semi-skilled workers falls well short of meeting these expenses. Based on Oxfam's estimate of monthly expenses for a single migrant worker, he or she would not be able to support a dependant. This is consistent with workers' evidence from the interviews and focus group discussions.

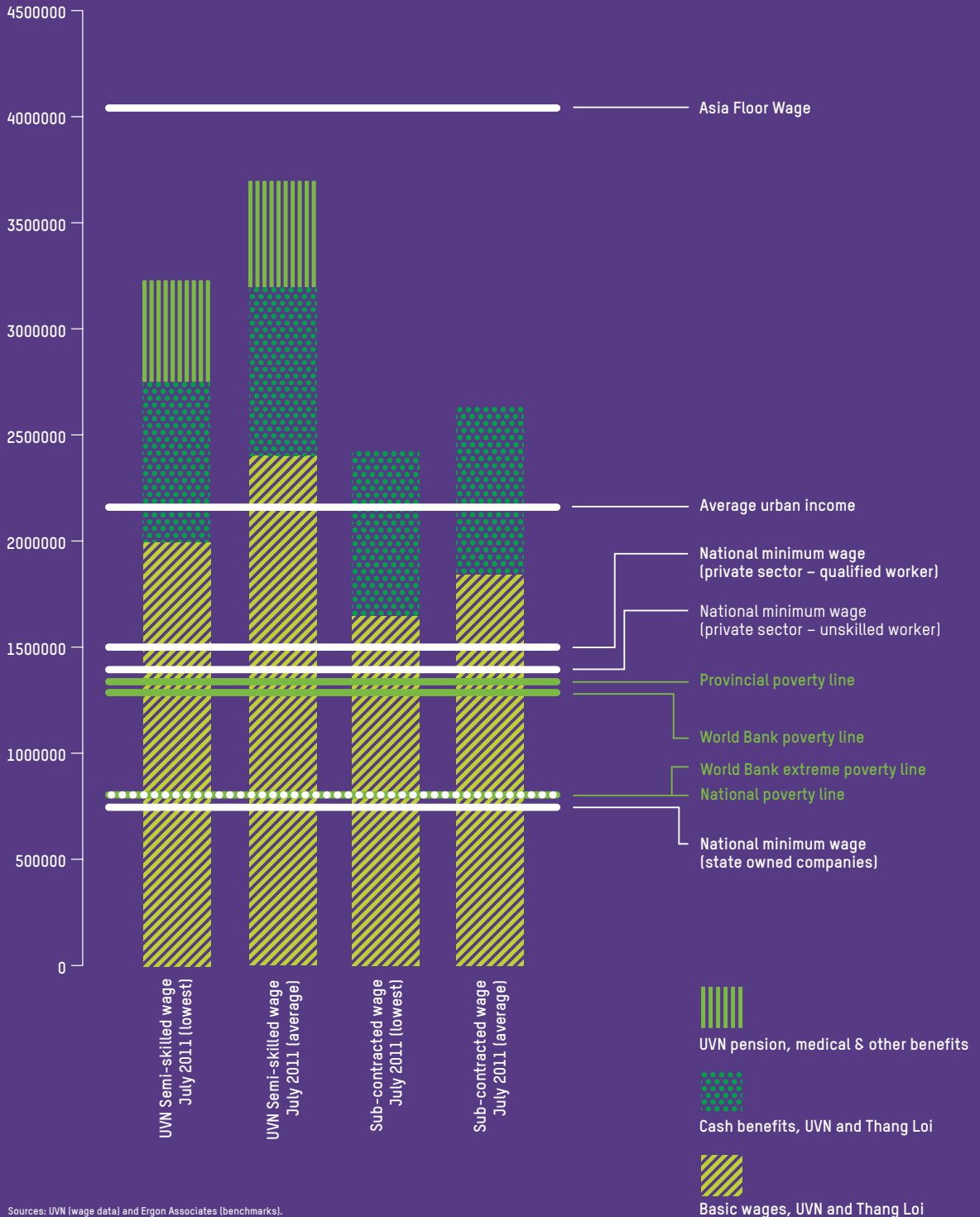
Working significant overtime, as in November 2011 (see Figure 20) could take workers above the AFW benchmark and the Oxfam estimate, for that month.

| Wage ladder benchmarks | VND / month |
|--|---------------|
| Asia Floor Wage (2011, net) [\$540 Purchasing Power Parity (PPP) at 2009 World Bank PPP conversion factors] | 4,036,909.97 |
| Average urban income / person / month (2010, South East region) | 2,165,000 |
| National minimum wage, private sector – qualified worker (2011, net) | 1,500,942.5 |
| National minimum wage, private sector – unskilled worker (2011, net) | 1,402,750 |
| Provincial poverty line (2011, Ho Chi Minh city environs, household / 1.82 earners) | 1,350,733 |
| World Bank \$2 2005 PPP / day poverty line (household / 1.82 earners, monthly, inflated to 2011 prices) | 1,299,694.788 |
| World Bank \$1.25 2005 PPP / day extreme poverty line (household / 1.82 earners, monthly, inflated to 2011 prices) | 812,309.2423 |
| National poverty line (household / 1.82 earners) | 810,439.5604 |
| National minimum wage (July 2011, state-owned companies, net) | 751,150 |

Notes provided by Ergon Associates

- Poverty benchmarks, which are normally calculated for individuals, have been adjusted to take into account typical household size (3.9) and number of earners (1.82), based on demographic data provided by Oxfam Viet Nam. The one exception to this is the AFW benchmark, which is based on AFW's own methodology. AFW assumes a single earner in a household, who needs to provide for two adults and two children (three consumption units). Assumptions on food requirements are 3000 calories/adult/day. Assumptions on ratio of food costs to costs of basic services is 1:1. The methodology implicitly assumes a single earner in order to account for childcare costs.
- Wages are presented as take-home pay, net of statutory employee contributions (social security/tax) and of overtime.
- Until 2011, the NMW distinguished between NMW applicable to employees of foreign-owned or invested companies and employees of Vietnamese companies. The latest increase repealed this distinction, as the country prepares to meet WTO accession requirements. However, the applicable minimum wage for a state owned enterprise remained significantly lower.²¹²

Figure 20: Wages and benefits in UVN factory with wage and poverty benchmarks (VND monthly, July 2011)



Sources: UVN (wage data) and Ergon Associates (benchmarks).

Table 5
Wages and
benefits in UVN
factory

| UVN/THANG LOI WAGES AND BENEFITS (VND, MONTHLY) JULY 2011 | | | | |
|--|--------------|--|--|---------------------------|
| | Gross | Employee social security contribution (@9.5%) | Employee income tax due (@5%) after social security and 4m VND monthly personal allowance | Monthly net income |
| WAGES | | | | |
| WL1A (Semi-skilled) basic wage, July 2011 (lowest) | 2,204,000 | 209,380 | 0 | 1,994,620 |
| WL1A (Semi-skilled) basic wage, July 2011 (average) | 2,655,955 | 252,316 | 0 | 2,403,639 |
| Thang Loi basic wage, July 2011 (lowest) | 1,824,000 | 173,280 | 0 | 1,650,720 |
| Thang Loi basic wage, July 2011 (average) | 2,039,118 | 193,716 | 0 | 1,845,402 |
| WAGES - RELATED BENEFITS | | | | |
| Cash benefits (13th month, CLA, Target bonus) WL1A, July 2011 (lowest) | 757,001 | 0 | 0 | 757,001 |
| Cash benefits (13th month, CLA, Target bonus) WL1A, July 2011 (average) | 794,664 | 0 | 0 | 794,664 |
| Cash benefits (13th month, CLA, Target bonus) Thang Loi, July 2011 (lowest) | 803,667 | 0 | 0 | 803,667 |
| Cash benefits (13th month, CLA, Target bonus) Thang Loi, July 2011 (average) | 821,146 | 0 | 0 | 821,146 |
| NON-WAGE BENEFITS | | | | |
| Pension, Unikhoe and other benefits WL1A, July 2011 (lowest) | 475,105 | 0 | 0 | 475,105 |
| Pension, Unikhoe and other benefits WL1A, July 2011 (average) | 497,703 | 0 | 0 | 497,703 |
| Pension, Unikhoe and other benefits Thang Loi, July 2011 (lowest) | 0 | 0 | 0 | 0 |
| Pension, Unikhoe and other benefits Thang Loi, July 2011 (average) | 0 | 0 | 0 | 0 |
| Source: UVN | | | | |

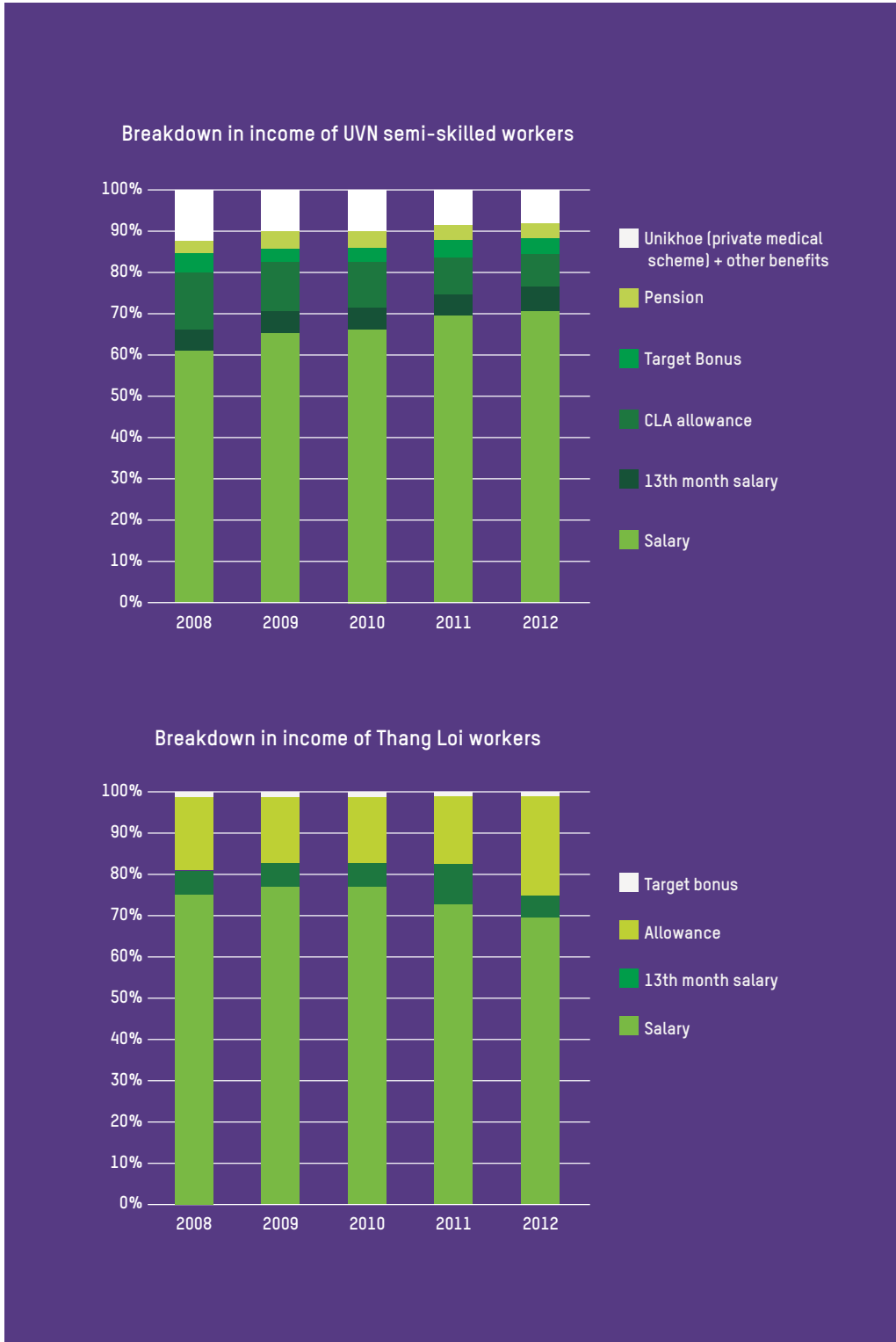


Figure 21
Breakdown in income of UVN semi-skilled employees and Thang Loi employees

Figure 22
Trend in UVN
factory wages
compared with
minimum wage
benchmarks.
Source: UVN
(2012).

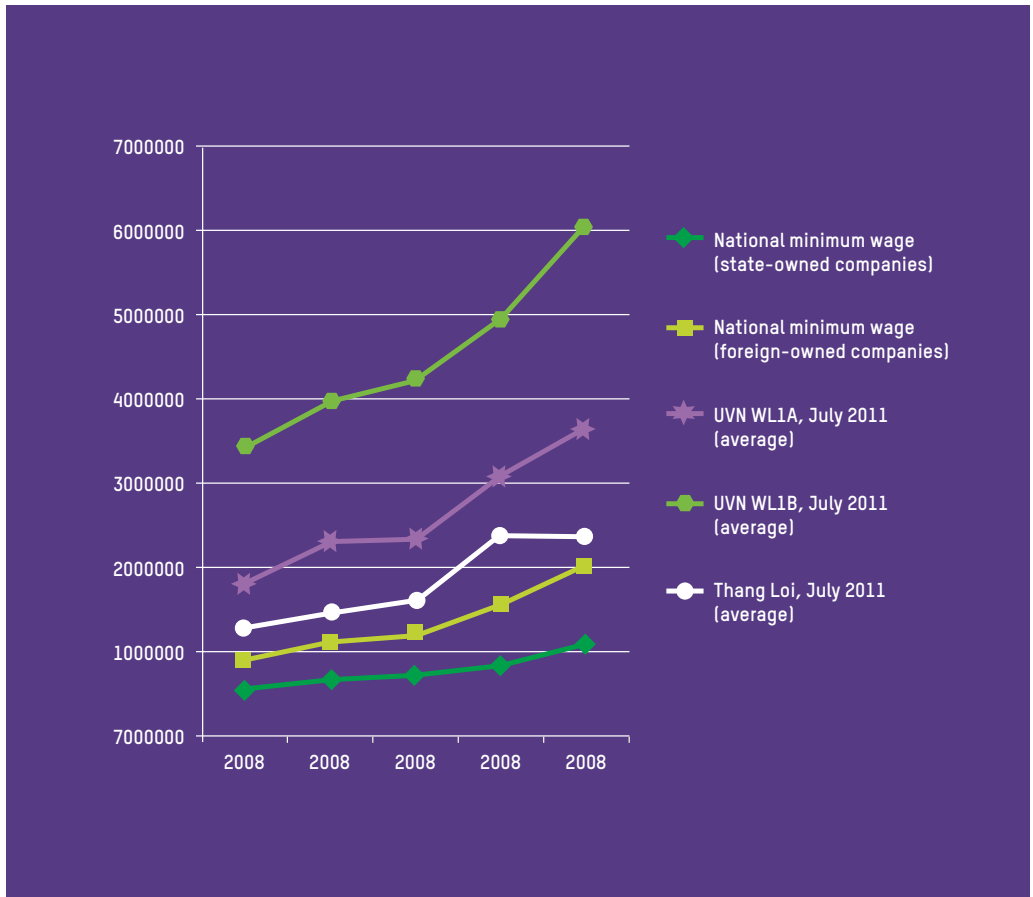


Figure 23 shows the number of workers in the different employment categories in the factory. This shows that two-thirds of Thang Loi workers were in the two lowest wage bands, S1 and S2; these comprise over a third of the workers in the factory. Figures 24, 25 and 26 shows the wage distribution in UVN (semi-skilled and skilled wage bands) and

Thang Loi, which show that most workers are in the lower wage bands.

In relation to collective bargaining, the second principle, UVN wages are not negotiated with the Unilever union, demonstrated by the fact that the CBA includes only the legal minimum wage (see Section 6).

NB. WL1A is a wage band for semi-skilled work, WL1B for skilled work and Thang Loi is the outsourced labour provider providing services such as packing and cleaning.

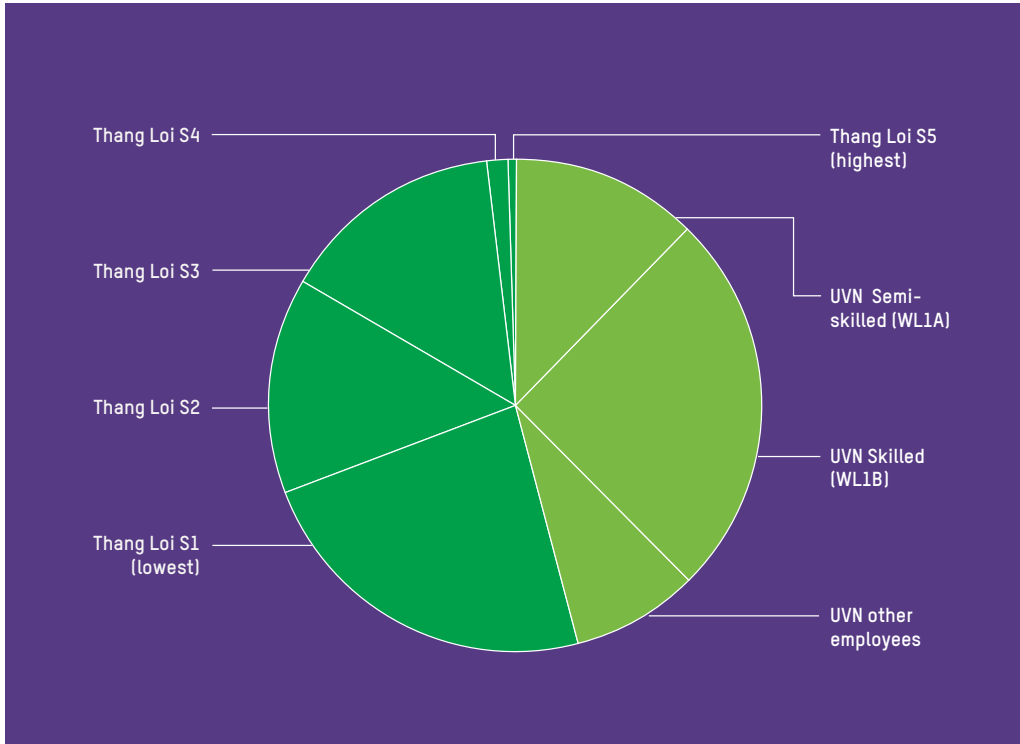


Figure 23
Employment categories at UVN Factory, July 2011

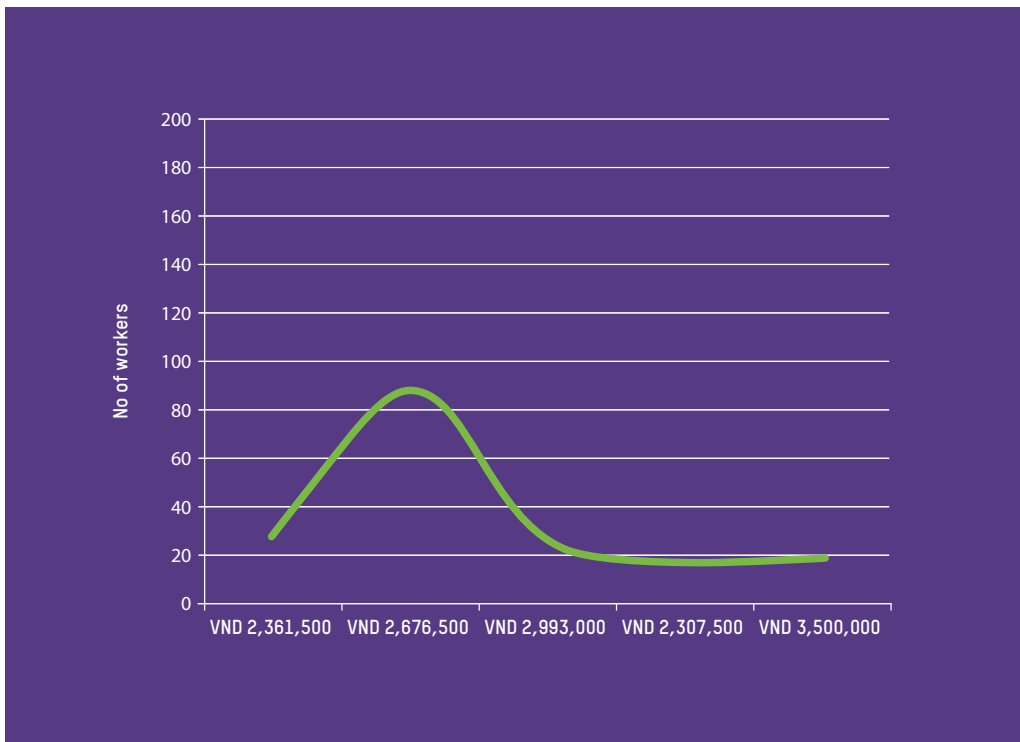


Figure 24
Wage distribution at UVN Factory – semi-skilled

Figure 25
Wage
distribution at
UVN Factory –
skilled

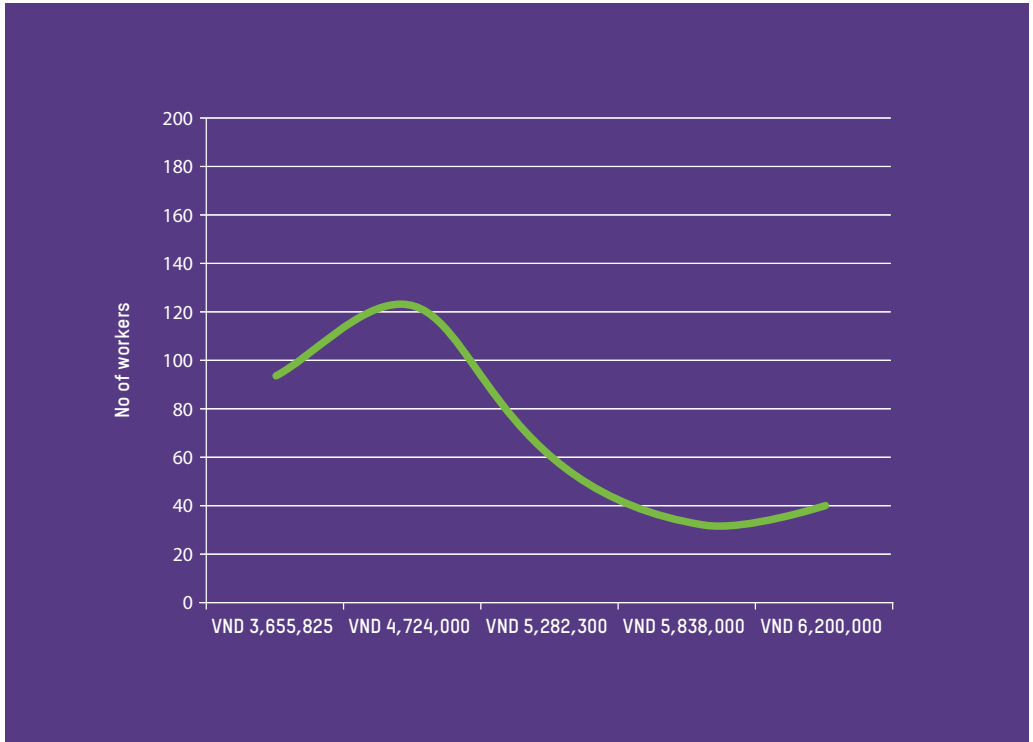


Figure 26
Wage
distribution at
UVN Factory –
Thang Loi



Findings and evidence – Suppliers

The in-depth research conducted with the three 'deep-dive' suppliers showed that all paid above the minimum wage; however, none was paying a wage that could be described as a Living Wage, based on Oxfam's estimate of workers' basic needs.

In the supply chain, wages are monitored via SEDEX self-assessment and audits. The self-assessment includes many questions about the wages paid; however, auditors only check that the legal minimum wage is paid; they do not assess wages against any benchmarks of basic needs.

Supplier A (an FDI) was found to adjust wages without consulting either the Vietnamese managers or the trade union/workers. It pitched its (basic) wage level at the mid-range for the industrial zone while encouraging workers to do a lot of overtime to improve their income. When asked why the company did not raise the basic wage and reduce the overtime hours, the operations manager explained:

'It is not possible to raise the basic wage because the labour cost (of the factory) in Viet Nam accounts for 10 per cent of the final price whereas in Thailand and Indonesia, the cost is only 7 per cent. Also the productivity here is low compared to the productivity in other branches of our corporation. But workers can increase their income by working overtime. That (overtime payment) is the reason for them to stay with our company.'

Operations manager of Supplier A in an interview with the research team²¹³

This company intentionally created the opportunity to work overtime by reducing the labour force to 70 to 80 per cent of the maximum to ensure overtime was available. They were convinced that otherwise workers would leave, since this had happened before.²¹⁴ Twenty-five per cent of take-home pay came from overtime. The research team concluded it is likely the workers left not because of a lack of overtime, but because of the low basic wage.

Workers said they could only cover their monthly food and non-food expenses by working four hours of overtime every month except June and July 2011 when this was not required. With an average age of 20 years, most of the workers remained single. These workers would not be able to support a dependant: a child would cost them an additional \$2.8m VND per month.

| | |
|---|---------------------|
| Average monthly wage including overtime | \$4.76m VND (\$231) |
| Basic monthly living expenses – male | \$3.41m VND (\$165) |
| Basic monthly living expenses – female | \$2.99m VND (\$145) |

Table 5
Supplier A:
Average wages, including overtime, of semi-skilled workers compared to basic living expenses for a single worker without dependants (November 2011)
Source: Worker interviews verified by the supplier

Supplier B (an SOE) had more business difficulties than Supplier A. With UVN as its only buyer, the company was more exposed to production fluctuations. During 2011, its workers had little overtime and Supplier B could only manage to pay workers at the very low minimum level (see wage ladder). Due to their older ages, the interviewed workers were reluctant to take the risk of leaving the company for new jobs.

| | |
|--|---------------------|
| Average monthly wage including overtime | \$3.42m VND (\$166) |
| Basic monthly living expenses (worker 40 years old, living in Hanoi) | \$3.22m VND (\$156) |

Table 6
Supplier B: Average wages of semi-skilled workers compared to basic living expenses for a single worker without dependants (November 2011)
Source: Worker interviews. These were sent to the supplier for verification but no response was received.

According to both the managers and workers of Supplier B, wage adjustment depends first and foremost on terms negotiated with UVN; consultation with workers was consequently believed to be out of the question. The workers interviewed held Unilever responsible for their low wages rather than the company's management. Supplier B negotiated prices with UVN through Vinachem, who in 2009 established a team to negotiate manpower costs with UVN. Based on the latest contract, the monthly salary for one rank-and-file worker was \$4.54m VND (\$220); however this included benefits and a management fee.

Supplier C: An example of good wage practice

The third company visited, Supplier C, seemed to value its skilled and loyal workforce. Wage fixing was based both on workers' demands and profit sharing. The HR department conducted an annual survey of workers' opinions on wages. They also shared profits

with them every quarter through a generous bonus scheme. The bonus made up 40 per cent of the total monthly income of an average worker. Depending on their skills, they could earn between \$3.9m and \$5.9m VND a month. According to the HR deputy manager, the wage scale was designed in order to 'ensure workers' commitment to the company; the longer they work in the company, the more they receive.'²¹⁵ This would mean for the older workers, they could afford to have one child.

With this wage policy, Supplier C not only lowered the overtime hours and minimized the labour turnover almost to zero, but increased workers' productivity, contributing to the company's commercial success.

important role in ensuring the rights of workers in an enterprise, is not working as well as in some other multinational companies in Viet Nam.

The experts pointed out that, since 2011, minimum wage regulations have been harmonized so they are now the same for domestic and foreign areas and in all four regions of Viet Nam.

One of the experts commented that: 'Currently, Living Wage is seen through a poverty-reduction perspective. What should be considered is a profit-sharing perspective, i.e. the company should discuss a proportion of profit sharing with workers.'

Summary of findings

- Unilever has a global commitment to ensure that wages are paid at, or preferably above, the legal minimum wage. It benchmarks itself against local competitors on wage policy. However, the lack of clear guidance allowed a range of assumptions about the level of wages that are paid and which could or should be paid. Unilever did not have good information about what its wages meant for workers, whether men/women, local/migrant, with or without dependants.
- The study found that all wages paid in UVN's own factory exceeded the level of the applicable minimum wage, were compliant with national law and Unilever policy, exceeded poverty lines and were close to the median urban income. However, the working assumption at headquarters that production workers were paid well above a Living Wage was not borne out by the study.
- Workers stated that wages do not meet the basic needs of employees and their families. The average basic wage of semi-skilled UVN workers was only two-thirds of the AFW benchmark for a Living Wage. It also fell short of Oxfam's estimate of monthly expenses for an adult with one child, based on focus group discussions.
- This confirmed the views of workers, Vietnamese experts and a union survey that the legal minimum wage benchmarks are not an adequate proxy for the basic needs of workers.
- The basic wage of a sub-contracted worker was less than half the AFW benchmark. According to Oxfam's estimate, a migrant worker would not be able to support a dependant. Two-thirds were in the two

Table 7
Supplier C: Average wages of workers compared to basic living expenses for a single worker without dependants (November 2011)
Source: Worker interviews, verified by the supplier.

| | |
|--|-------------------------------|
| Average monthly wage including overtime | \$3.9m-\$5.9m VND (\$189-286) |
| Basic monthly living expenses – male | \$2.8m VND (\$136) |
| Basic monthly living expenses – female | \$2.8m VND (\$136) |

Perspectives of wage experts invited to comment on research findings

All three experts consulted by Oxfam (through sharing of the draft sections on wages and working hours, see Methodology) firmly asserted that the minimum wage regulated by the state does not ensure a Living Wage (usually covering only 75 per cent of this). Therefore, workers will be disadvantaged if an enterprise bases its wage rates on this. A policy adviser at MOLISA highlighted that, based on the Amended Labour Code (Articles 92 and 93), companies have a legal requirement to determine wages based on the basic needs of workers and their families, the social and economic conditions, and wages in the labour market.

Two out of three experts confirmed observations made by workers, and by participants in a workshop on Living Wage, that the wages paid by UVN are relatively low compared to the average level in the market and expressed disappointment that the collective bargaining process, which plays an

lowest wage bands; these comprise a third of the workers in the factory.

- Bonuses and allowances raise the level of take-home pay significantly, as does overtime in months where that is worked. Performance-related pay is also an important factor in take-home pay; however only 25 per cent receive a performance bonus and workers do not have the opportunity to challenge their performance rating.
- Feedback from worker interviews suggests the consequence of low wages can be that a second job is required or that children of employees are missing out on education in order to work.
- Workers are not able to bargain collectively on wages and benefits: the CBA with the UVN union contains only the legal minimum wage.
- In the supply chain, UVN checks that the legal minimum wage is met or exceeded, but wages at two of the three suppliers studied were found to be lower than those in UVN's factory:
 - Supplier A (FDI) reduced the workforce to ensure overtime was available as they believed that otherwise workers would leave. Workers could only meet their needs by working four hours overtime a day for ten months of the year. Neither workers nor the Vietnamese manager knew how wages were set.
 - Wages at Supplier B (SOE) were also very low and here overtime could not be relied on because of fluctuations in demand; workers could not afford to support a dependant.
 - Supplier C (POE) showed it was possible to keep workers satisfied with a higher basic wage, sharing of profits and limited overtime. Some but not all wages met the AFW benchmark.
- Unilever has significant influence over wages and benefits paid in the supply chain due to the detailed negotiation of costs.
- There was general agreement by the global and Viet Nam stakeholders consulted that families need a Living Wage, not a minimum wage, and that a good first step is to frame the debate about what can and should be done in practical terms towards achieving this.

Unilever and working hours

'We know low voltage gives us less light and full voltage gives us full power. Human beings are not machines, they need some rest to be able to use their energy at full power.'

A production manager quoted in R. Hurst (2011)

Importance of working hours for labour rights

The ILO estimates that 22 per cent of the global workforce, or 614.2 million workers, are working 'excessively' long hours, which is more than 48 hours a week, often merely to make ends meet.²¹⁶

Limits on working hours preserve workers' health for a productive working life; enable workers to balance work and family life and are important for gender equality. It is a basic freedom that workers should have some choice about the hours they work.

Working hours need also to be looked at in a wider context of low wages. If a worker has to take a second job to make ends meet, total working hours could be greatly in excess of legal limits, sufficient to cause harm to health. On top of this are the hours spent working in the home, 80 per cent of which is known to fall on women.²¹⁷

According to the ILO, excessive working hours can tip over into forced labour:

'Although workers may in theory be able to refuse to work beyond normal working hours, their vulnerability means that in practice they may have no choice and are obliged to do so in order to earn the minimum wage or keep their jobs, or both.'

Q&A on Business and Forced Labour, ILO

Reasonable working hours, with a good basic salary, mean workers will be less tired and less vulnerable to accident or illness, with a positive reinforcing effect on worker satisfaction, productivity and quality.

This has also been shown to reduce the turnover of workers so that highly skilled workers are retained.²¹⁸

How Unilever manages working hours

Findings and evidence – Global level

Unilever does not have a global policy for the working hours of its employees, beyond compliance with national laws and regulations. This is monitored at local level by management.

Unilever requires from suppliers that 'working hours will, as a minimum comply with applicable laws, rules and regulations, including overtime and maximum hours in the country concerned' (Article 3 of the Supplier Code). It also prohibits the use of forced or compulsory labour. This is monitored via the SEDEX system, whose self-assessment questionnaire includes questions about working hours. Audits following the SMETA guidance would look at the link between forced labour and overtime, and at the link between wages and long working hours. Non-compliances would be followed by corrective action and the next audit would verify whether changes have been made.

Findings and evidence – Unilever Viet Nam

At the time of the research team's visit to the Cu Chi Factory in July 2011, the factory was in 'low season', and many workers were working no more than three

days a week. Even in high season (September to December), UVN management stated that overtime is within the four-hour limit, and is compensated as required.²¹⁹

Feedback from workers suggested hours are not excessive and overtime is paid at a premium, which suggests that the relevant policy is implemented effectively.

The principal concern of interviewed Cu Chi employees regarding working hours concerned annual leave arrangements. The workers said that when there was not enough work, the days off would automatically be counted as annual leave; when the annual leave quota is over, the time off would be compensated by working more days when they had enough work.²²⁰

According to UVN management, workers preferred this arrangement because instead of being paid 70 per cent of salary in the low season, as the law provides, they would be paid the full salary including paid annual leave.²²¹ In their view workers prefer to earn more and are not keen to take annual leave. However, this annual leave was not negotiated with the trade union as is required, nor did workers have a choice of payment instead of unused annual leave.

| INTERNATIONAL PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|---|--|
| <p>Principle 1: Maximum normal working hours and overtime as an exception</p> <p>Normal company working hours should be limited to eight hours a day and 48 per week by both company policy and practice, or fewer if provided by national law, collective agreement or industry standards and overtime is an exception.²²²</p> | <p>Indicators for working hours and overtime</p> <ul style="list-style-type: none"> • Work exceeding 48 hours a week is considered overtime. Permanent or periodic exceptions to the general rule of 48 hours are not considered overtime.²²³ • Overtime worked must be 'reasonable' and must be 'prescribed in line with the general goal of the instruments, namely to establish the eight hour day and 48-hour week as a legal standard'.²²⁴ |
| <p>Principle 2: Compensation for overtime</p> <p>A company should compensate workers for overtime in accordance with laws, regulations or collective agreements.²²⁵</p> | <p>Indicators for overtime compensation</p> <ul style="list-style-type: none"> • Compensation: Under ILO Convention No. 1,²²⁶ the rate of pay for overtime must be at least 25 per cent more than the normal rate.²²⁷ • If the worker has agreed to overtime under duress or compulsion, this can form an illegal situation and in some circumstances overtime can constitute forced labour. |

During interviews with workers contracted through Thang Loi, interviewees said they were not aware of their right to break time in the middle of a shift:

'We do not have any break during our shift. Even when we want to use the bathroom, it is difficult for us to leave the line.'

Thang Loi workers in an interview with the research team

Findings and evidence – Suppliers

The procurement team of UVN evaluates suppliers' capacity, both in terms of machinery and manpower, taking into account productivity and labour arrangements. After the initial evaluation, UVN assists suppliers in making production plans. To ensure working hours stay within legal limits, UVN calculates the lead time based on the maximum machinery capacity of the supplier or manufacturer. However, according to the procurement team, the orders that UVN give to suppliers rarely meet the maximum capacity on which plans are based and therefore their assumptions are not realistic.

The study found that, although there are regular visits by staff,²²⁸ they do not check the actual number of people working on the production lines and the system may lead to excessive working hours and precarious work.²²⁹

The planning is made upon the maximum factory capacity. But Unilever rarely gives us enough order for maximum factory capacity. We can produce 700 tonnes of soap per week but they often give us only 500 tonnes per week. We cannot keep all workers and pay them 70 per cent of their basic salary for days without work. That's a burden for the company and the workers cannot survive with such low wage either. Therefore, we can only keep a minimum number of workers for production, for the rest we rely on temporary workers. *Deputy Director Manufacturing, Supplier B in interview with the research team*

If work requires excessive working hours, Unilever relies on audits to pick up on this.²³⁰

At one supplier, the research team found that workers said that, except for June and July 2011, they had been

working the maximum overtime – four hours per day – for all of 2011. The HR manager also admitted that the overtime hours ranged from 30 to 80 hours per month. Given the legal limit of 200 hours overtime per year, if workers were at the top end of the range through the year they could be working 800 hours overtime, or four times the legal limit. The excessive overtime was noted by the SEDEX auditing team in October 2010. By the time of the research team's visit, the company had not found a solution and the non-compliance still stood.

Unilever recognizes that forced labour is a serious issue. When overtime becomes a regular practice instead of an exception, employers may be in a grey area for forced labour. Suppliers may not be aware of this.

One supplier had such fluctuating orders from Unilever that they maintained a minimal labour force and relied on overtime and temporary workers to meet demand.

'Initially we recruited sufficient workers for all production lines but we did not have enough work for them and overtime was limited. Consequently, half of the decoration team quit due to low wages. We then decided to maintain a labour force smaller than needed, usually 80 per cent of the maximum capacity so that workers would have overtime work to increase their income.'

Manager at Supplier A in an interview with the research team

Supplier C: An example of good practice with working hours

Supplier C, also faced fluctuations in production, but the company decided not to reduce its labour force during low season. The low season was used to provide multi-skill training to improve productivity and flexibility, which also increased workers' income. In high season, they employed sufficient temporary workers to ensure full capacity while allowing regular employees one day off per week; no excessive overtime was required. With a skilled and sufficient labour force, workers maintained high productivity and a good income.

Summary of findings

- Hours worked in UVN's factory were found to be within legal limits and paid at a premium as required.
- UVN employees were concerned about annual leave arrangements which had not been negotiated, while workers employed by the sub-contractor said they were not getting the half-hour break to which they were entitled.
- Two out of the three suppliers studied were found to pay a low basic wage that required overtime to be worked to earn a decent income; they assumed overtime was necessary to retain workers.
- At one supplier, excessive overtime had been found in an audit in October 2010, but at the time of the study, no solution had been found. The research team concluded this was because if hours were brought into compliance, wages would be so low workers would leave.
- Some Unilever contracts were found to be based on unrealistic assumptions of full capacity working; this can drive excessive working hours and precarious work.

Unilever and contract labour

‘Precarious work is rapidly becoming the biggest obstacle to the respect of workers’ rights. Every day, more and more workers find themselves in precarious jobs where they have no right even to join a union, let alone to bargain collectively with their employer.’
 IMF/IUF submission to UN Special Representative John Ruggie²³¹

Importance of the issue for labour rights

The trend towards informalization of jobs threatens to leave millions of workers without employment protection. They may be denied rights in law, be unable to enforce rights which exist on paper, or be too afraid to speak out for fear of losing their jobs. Precarious work can be used by companies to evade obligations to provide social security and pensions, maternity and family leave, overtime payments, vacation and holidays, and occupational health and safety. Wages of precarious workers are frequently much less than for permanent workers.²³²

ILO research found that precarious work deprives people of the stability required to take long-term decisions and plan their lives; they are unable to plan marriages, have children or purchase homes. The longing for a ‘coherent life plan’ is especially high among temporary agency and fixed-term workers.²³⁴

| Having an employment contract is vital for a worker, for three reasons ²³³ | |
|---|--|
| The importance of an employment contract | Employers Workers can claim entitlements from an employer |
| | Government Workers can claim social welfare entitlements from the government |
| | Civil Society Workers become visible to organizations offering support or help to organize |

Oxfam has highlighted in previous research its concerns that costs and risks are passed down the supply chain to those least able to bear them, i.e. the workers.²³⁵ Women are often disproportionately affected because, as well as working long unpredictable hours, they are still expected to carry the biggest workload in the home. And there can be a wider cost for society: children may be left without childcare or a daughter can be asked to take on a caring role, cutting short the education of the next generation.²³⁶

An employment relationship is important because it determines the nature and extent of employers’ rights and obligations towards their workers.²³⁷

Many companies contest the principle of employment security in an arena of intense global competition, and call for flexibility in the labour market. However, this can conflict with a company’s wish to ensure their business principles are met in relation to supply chain labour standards.

One stakeholder interviewed for the study observed that companies often lack an understanding of this issue:

‘In my experience companies don’t understand precarious work, and don’t understand the impact it has, nor how changes in business practice can reduce precarious working. I agree with Oxfam’s analysis that this is a key issue for workers. A company needs an understanding of the impact they have and how to maximise opportunities for regularisation of work.’
Dan Rees, ILO Better Work programme²³⁸

The role of private employment agencies deserves special attention, since they are an important instrument in the labour market for temporary workers. They can play a positive role as intermediaries in modern labour markets, allowing enterprises flexibility to increase or decrease their workforces, while providing workers with job security, opportunities and employment standards.²³⁹ However not all employment agencies provide decent employment conditions to temporary workers.

Precarious work keeps direct labour costs low for businesses. But there are significant indirect costs which are often not quantified, such as low productivity and poor quality standards. Low mutual

commitment is often accompanied by high worker turnover, so new workers must constantly be recruited, trained, and managed.²⁴⁰

| INTERNATIONAL PRINCIPLES | INDICATORS OF GOOD PRACTICE |
|--|---|
| CONTRACT LABOUR | |
| <p>Principle 1: Security of employment Provide stable employment for employees and observe obligations concerning employment stability and social security.²⁴¹</p> | <p>Indicators Maximum normal working hours and overtime is an exception.</p> |
| <p>Principle 2: An employment relationship Avoid disguised employment that hides the true legal status to avoid obligations under labour law or social security.²⁴²</p> <p>A disguised employment relationship occurs when the employer treats an individual as other than an employee in a manner that hides his or her true legal status as an employee, and that situations can arise where contractual arrangements have the effect of depriving workers of the protection they are due.²⁴³</p> | <p>Indicators for an employment relationship²⁴⁴</p> <ul style="list-style-type: none"> • The work is carried out according to the instructions and under the control of another party or • The worker receives a periodic payment of remuneration |
| <p>Principle 3: Private employment agencies A company should ensure that they contract or sub-contract work only to organizations that are legally recognized or are otherwise able and willing to assume the responsibilities of an employer and to provide decent working conditions.²⁴⁵</p> | |

How Unilever manages contract labour

Findings and evidence – global level

The number of people directly employed by Unilever decreased by 45 per cent between 2000 and 2009 (from 295,000 employees to 164,000). However, turnover remained stable and even slightly increased (by 4 per cent) as did profits.²⁴⁶ As the Dutch union FNV Mondiaal notes,²⁴⁷ Unilever is doing better business with fewer people. However, the work of 131,000 people did not disappear. According to Unilever, in 2009 this work was being done instead by 86,000 people that were outsourced and/or under temporary contracts.²⁴⁸

In relation to the use of private agencies, Unilever insist their policies apply to anyone in a direct employment relationship with Unilever or a supplier.²⁴⁹ 'If people are employed by a third party, even in

Unilever's suppliers or directly by the supplier, Unilever expects fundamental labour rights to be applied by the third party to their employees.'

Unilever was involved in two complaints to OECD in 2010 relating to precarious work in their South Asian supply chain. Following the OECD cases, Unilever reviewed the ways in which contract and temporary labour are used across their business²⁵⁰ by:

- Conducting an internal review of the use of temporary and contract labour in all manufacturing operations. This was completed in 2011 and is now being acted on.
- Widening the scope of the audit programme under the Supplier Code to include third-party labour providers of temporary or contract workers at its factory operations.

In 2011, workers picking tea for Unilever in India and Kenya were also found to be subject to precarious working conditions, even though the tea carries the Rainforest Alliance certificate.²⁵¹

Unilever has the following guidance for managers on the circumstances in which temporary work is acceptable:

- Work follows a seasonal pattern;
- There is product variability (e.g. if work on a promotional product requires extra labour for a short time);
- If the business is losing volume and they may not otherwise be able to sustain employment levels; or
- For technical reasons (e.g. if they plan to mechanize).

Findings and evidence - Unilever Viet Nam

Seven hundred and forty-eight of the 1,539 people working at the Cu Chi factory (53 per cent) are employed by a third party, Thang Loi, who was contracted by Unilever to provide packaging services. Thang Loi workers undertake a range of tasks (divided into five bands) involving lower skills than UVN employees such as unloading cases, palletizing, dealing with waste, as well as packing.²⁵²

Following the OECD complaints, UVN adjusted its policy so that sub-contracted workers should only do non-core work, such as packing and cleaning. The company stated its aim was to reduce the ratio of contracted workers to 30:70 (30 on temporary contracts to 70 on permanent contracts) by the end of 2011.²⁵³ In Cu Chi, the ratio at the time of the study was 53:47.

Thang Loi has a particular history, because it was set up and run by the Cu Chi Federation of Labour (trade union) as a state-owned company, with the objective of providing employment for disadvantaged workers in the region.

According to the vice chairman of the Cu Chi union, most Thang Loi workers (42 per cent of them female) are migrants from other provinces including Soc Trang, Long An, and Thai Binh and Nghe An in the north. He admitted that recruiting workers has become very difficult as local workers do not like such temporary work and migrant workers are in high demand in the same industrial zone.

A few years ago UVN was involved in a serious dispute with workers at this site around the unclear employment relationship between the sub-contracted workers and Thang Loi, and the unequal treatment between these workers and Unilever's direct employees.²⁵⁴

Thang Loi workers were not only involved in packing but also in the following categories of work, which also determined their wages:

- **Level 1: Cleaning**
- **Level 2: Packaging**
- **Level 3: Back-up (multi-tasking)**
- **Level 4: Supporting a machine operator**
- **Level 5: Team leader**

Thang Loi workers worked on the production lines alongside UVN workers. The line was divided into two sections: Section 1 that involves mixing materials and machine operating, this section was operated by UVN workers. Section 2 mostly involves packaging and was operated by Thang Loi workers. However, according to a human resources officer at Cu Chi factory, Thang Loi workers who reached levels 3 and 4 also worked alongside UVN workers in Section 1, especially in supporting the machine operators. While visiting the factory, around 10 per cent of workers in the machine-operating section were Thang Loi workers, mostly women. According to the shift leader the reason for this was that he sometimes had to summon Thang Loi workers to support UVN workers to repair machines or mix materials.

Based on an interview with shift leaders at the factory, workers' interviews and a human resources officer

Two days prior to the research team's visit in July 2011, 50 Thang Loi workers at the Comfort workshop started a go-slow to demand higher wages. Thang Loi managers were called to the factory. After listening to their workers' demands, Thang Loi managers negotiated with UVN management and managed to gain an increase of 214,000 VND in basic wage for all Thang Loi workers at Cu Chi.²⁵⁵ With this intervention the dispute was resolved. This case suggests Thang Loi acted more like an intermediary rather than an employer.

When the research team visited in July 2011 they found that these were issues still very current. A number of problematic arrangements were found, based on interviews both with workers and with management.

The research team found a lack of clarity about whether Thang Loi workers are in disguised employment. Although Thang Loi recruits and contracts the workers and pays social and health insurance, the remuneration is fixed by UVN itself and all the work is carried out under the instruction and control of Unilever shift leaders. Based on the UNGP, these characteristics are those of an employment relationship.

An unclear distinction was found between work carried out by UVN workers and by Thang Loi workers. UVN management stated that Thang Loi workers were only assigned to packing work, and as such they did not do the same work as UVN workers. However around the time of Oxfam's visit, and according to various people at the factory, Thang Loi workers sometimes worked in the machine section.

During the focus group discussion, Thang Loi workers asserted unfair treatment between UVN workers and themselves. 'We were very upset last year as both UVN and Thang Loi workers work in the same line, but UVN only gave the annual bonus to their workers while we were given nothing'. The HR manager of UVN responded that both UVN and Thang Loi workers are given an opportunity to participate in relevant trainings, and if Thang Loi workers want they can apply for a position in UVN. However, half of the workers interviewed in the focus group discussion said: 'We are not given any chance to be trained and become workers on the main production lines'.

There are indications that the arrangements affect productivity as well as labour standards. A UVN worker said: 'unfair treatment in term of salary and annual bonus reduces the commitment of Thang

Loi's workers, so they often come to the factory late or do not commit to increase the productivity of the line. As the result, our UVN workers' annual bonus is also seriously affected.'

Some Thang Loi workers, who had worked at Cu Chi for between one and three years, also complained of repeat short-term contracts. One said: 'I have been working for UVN for the last five years but most of my contracts are only for six months.' When the research team checked the draft findings with UVN, Thang Loi managers contested this finding, and the research team was not able to reach a conclusion on this point.

Following the visit to Cu Chi in July, the research team heard from some Thang Loi workers who participated in the study that they had two wage increases: in September (back paid to 1 July) and in October 2011. Some of these workers thanked Oxfam because of the increases in wages following the visit by the research team.

According to Thang Loi's licence, shown to the research team in August 2012, the labour provider was legally established in 2006 by Ho Chi Minh Department of Planning and Investment to provide services including packing and cleaning. The contract with UVN was signed in 2008 based on this understanding.²⁵⁶ Under the new 2011 Labour Code, companies must have a licence to provide outsourcing or sub-leasing services. The research team concluded that the fact that Thang Loi does not have a licence to supply services as defined in the 2011 legislation exposes it to legal risks.

UVN stated that the contract for all services provided by Thang Loi had been confirmed as being on a legal basis and to reflect accurately the services provided.

Additional information from UVN on contract labour

During the writing of the report in 2012 UVN provided additional information on the employment of sub-contracted workers. UVN acknowledged that 'there are about 60 workers (out of total 800) from Thang Loi who are doing similar work as UVN workers at the factory'.²⁵⁷ These workers cover for UVN workers who are temporarily absent. For this they receive higher pay which is continued afterwards to provide the flexibility to make further such requests. This has the 'good intention to turn Thang Loi workers

into permanent workers of UVN' and is part of the company's Contingent Labour Reduction Roadmap.

According to UVN management, Unilever made a commitment that by 2012 all outsourced workers 'touching the production line' would be employed directly.²⁵⁸

Findings and evidence - suppliers

The production of consumer products including food, home care and personal care, is highly seasonal. In order to meet market demand during high season, many companies use temporary workers, usually for one to three months.

Unilever monitors the use of temporary and sub-contracted workers by its suppliers via SEDEX self-assessment and audit. The self-assessment questionnaire has a number of questions about payment of wages and benefits (such as paid annual leave and paid sick leave) for temporary/contracted workers.

Thirty-two out of 48 surveyed companies reported that they were using temporary or sub-contracted workers or both; the number of such workers ranged from a few to 300. They were often employed for: (i) packaging; (ii) simple food processing; and (iii) supporting machine operators.

During the research team's visits, suppliers were found to pay above the minimum wage and temporary workers were provided with welfare benefits equal to those of regular workers doing the same jobs.

The research team visited one third-party manufacturer which only produces two home-care products and Unilever is its only client. Orders rarely require the factory to operate at maximum capacity, the assumption on which Unilever's planning is based. The research team found this company subsequently reduced its labour force to a minimum, retaining only core workers in each production unit. When demand increased, it recruited temporary workers to fill the vacant positions in the production lines.²⁵⁹ The company had 120 regular employees, 80 on a fixed contract and between 50 and 80 temporary workers, a very high ratio of temporary to permanent contracts. In interviews, the management said they had difficulty recruiting temporary workers and that their productivity is much lower than regular workers.

Another supplier ensured that the sub-contracted workers received proper remuneration by requiring the sub-contracting firm to publicize the payroll at the factory.

Summary of findings

- Unilever managers in London stressed that the intent of the policy is that all workers in the supply chain are entitled to benefits from their employment, whoever the employment is with.
- Eight hundred of the 1,500 people working in the Cu Chi factory were found to be employed by a third party, Thang Loi, who was contracted by Unilever to provide packaging services. Several problematic issues were identified including claims by some sub-contracted workers of unfair treatment and repeat temporary contracts.
- UVN acknowledged during the report writing that 60 Thang Loi workers (7 per cent) sometimes do work similar to UVN workers but get enhanced pay and opportunities to apply for UVN jobs.
- The ratio of sub-contracted to directly employed workers, at 53:47, was significantly higher than the target ratio of 30:70 which UVN set for itself following the OECD complaints. However, a commitment had been made to employ directly all sub-contracted workers 'touching the production line' by 2012.
- The research team identified a legal risk to UVN arising from its contract with Thang Loi to supply low-skilled services, in light of a change to the Labour Code in 2011 that requires companies to have a licence for outsourcing and subleasing services, which Thang Loi does not have. However, UVN stated that the contract with Thang Loi provides an accurate description of services provided and has been confirmed to be legal.
- In the supply chain one supplier, faced with volatility in demand from Unilever, reduced its labour force to a minimum and had a high ratio of temporary to permanent contracts.
- An example of good practice was found at the third supplier which trained core workers in a range of skills so fewer temporary workers were required. This company also publicized the payroll to enable sub-contracted workers to check they received proper remuneration.

7 Conclusions and recommendations

Summary gap analysis

In this section we provide a gap analysis, draw conclusions and make recommendations for changes that would strengthen labour rights in Unilever's operation and supply chain.

| Key | |
|---|--|
| Significant gap between Unilever's management and international standards | |
| Partial gap between Unilever's management and international standards | |
| Good match between Unilever's management and international standards | |
| Insufficient information to assess | |

| Policies and management processes for labour rights | Global level | Viet Nam level |
|--|--------------|----------------|
| Principle 1 (Commitment): A company should show its commitment to respect for human rights, including labour rights, by expressing their commitment in a public statement. | | |
| Principle 2 (Integration of the policy in the business and implementation with suppliers): The policy is reflected in operational policies and processes necessary to embed it throughout the business enterprise. | | |
| Principle 3 (Tools and processes for due diligence): | | |
| Principle 3.1 (Risk assessment) Companies need to identify and assess the nature of actual and potential impact on the rights of people either by their own activities or as a result of their business relationships. | | |
| Principle 3.2 (Acting on findings) The company uses findings internally to adapt policies and processes to prevent or mitigate potential impact; it may contribute and integrate them across relevant internal functions and processes. The company acts upon the findings of actual impact which it has caused or contributed to. | | |
| Principle 3.3 (Tracking effectiveness): The company should track the effectiveness of their response to address adverse human rights impacts. | | |
| Principle 3.4 (Transparency) A company should communicate externally how impacts are addressed. | | |
| Principle 3.5 (Stakeholder engagement) A company should identify and consult stakeholders. | | |
| Principle 4 (Remediation via grievance mechanisms): The company ensures remediation through legitimate processes, such as an effective grievance mechanism to identify impact and to address grievances. | | |

| Freedom of association and collective bargaining | Unilever factory | | Viet Nam suppliers |
|--|------------------|-----------|--------------------|
| | UVN | Thang Loi | |
| Principle 1 (Recognition and commitments): The company should recognize and commit itself to the international standards on freedom of association and collective bargaining. | Green | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 2 (Protection of workers' representatives): The company ensures that workers' representatives and employees participating in lawful trade union activities are adequately protected. | Orange | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 3 (Freedom of choice): The company should allow workers to establish and join representative organizations of their own choosing. | Orange | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 4 (Collective bargaining): The company should allow the workers employed to have trade unions and representative organizations of their own choosing for the purpose of collective bargaining, and engage in constructive negotiations, either individually or through employers' associations, with such representatives with a view to reaching agreements on terms and conditions of employment. | Orange | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 5 (Disputes and grievances): There is an agreement on fair hearing in case of disputes and grievances. | Orange | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 6 (Risk assessment): Identify operations and significant suppliers in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk either in terms of type of operations considered at risk or geographical areas with operations considered at risk. | Orange | Orange | Supplier A |
| | | | Supplier B |
| | | | Supplier C |

| Wages | Unilever factory | | Viet Nam suppliers |
|--|------------------|-----------|--------------------|
| | UVN | Thang Loi | |
| Principle 1 (Meeting basic needs): Ensure that wages are sufficient to meet the basic needs of the worker and his or her family. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 2: (Determine wages by collective bargaining): In determining wages and working conditions that reflect these considerations, a company should bargain collectively with its workers or their representatives, in particular trade unions, in accordance with national systems for collective bargaining. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |

| Working hours | Unilever factory | | Viet Nam suppliers |
|---|------------------|-----------|--------------------|
| | UVN | Thang Loi | |
| Principle 1 (Maximum normal working hours and overtime is an exception): Normal company working hours are limited to 8 hours a day and 48 per week by both company policy and practice, or fewer if provided by national law, collective agreement or industry standards and overtime is an exception. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 2 (Compensation for overtime): A company should compensate workers for overtime in accordance with laws, regulations or collective agreements. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |

| Contract labour | Unilever factory | | Viet Nam suppliers |
|---|------------------|-----------|--------------------|
| | UVN | Thang Loi | |
| Principle 1 (Security of employment) Provide stable employment for employees and observe obligations concerning employment stability and social security. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 2 (Avoid disguised employment): Avoid disguised employment that hides the true legal status of employees to avoid obligations under labour law or social security. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |
| Principle 3 (Private employment agencies): A company should ensure that they contract or sub-contract work only to organizations that are legally recognized or are otherwise able and willing to assume the responsibilities of an employer and to provide decent working conditions. | | | Supplier A |
| | | | Supplier B |
| | | | Supplier C |

Conclusions

Unilever has made a high-level commitment to social responsibility and sustainability, employees take pride in the company's values, and a motivated workforce is seen as key to its business success.

People must be the source of the company's value. Unilever must be best in class as we charge a premium for our brands, so we must invest in training and working conditions... We compete on operating efficiency, quality, specification of products and responsiveness to customer demand. All this requires an empowered and skilled workforce...All Unilever's analysis shows that where there are good conditions and empowerment of employees, the factory has the best results.
Nick Dalton, Unilever, VP HR Global Supply Chain²⁶⁰

Oxfam concluded that Unilever's analysis shows that the best results come from factories with good conditions and empowered workers, however its business model does not fully reflect this. Based on the study, competitive advantage is still in practice pursued through downward pressure on labour costs, which pushes costs and risks onto workers.

We had expected to find endemic global supply chain issues such as low wages, weak industrial relations and precarious work within Unilever's 'high risk' suppliers, but were surprised to find them in its own factory. We also found that workers, both in Unilever's factories and in the supply chain, had a weak voice and experienced 'inadvertent neglect'. We took it to be inadvertent as Unilever gives every sign of wanting to behave responsibly. However, it was clear that the workers experience neglect, given the lack of a safe space to talking frankly about their concerns. This could mean that potentially severe labour violations do not come to the company's attention.

Demand for higher quality standards and pressure on limited resources require smarter production and a more resilient and responsive supply chain from all companies. This in turn requires more skilled, efficient managers and workers who are open to innovation in the workplace. Unilever's control over its manufacturing

operations and stable, long-term supply relationships make it well placed to deliver on this agenda.

Given that Unilever has committed to respect international labour rights, it now needs to incorporate the UNGP more fully into the way it runs the business, which will help them to ensure those rights can be realised. This will require the company to adopt a more people-centred approach, in which workers identify issues and priorities that matter most to them, give feedback on the quality of their working lives and the effectiveness of Unilever's mechanisms; as one stakeholder said in interview, 'it all starts with the workers'.²⁶¹

Proactive steps will be needed to address low wages and precarious work, to strengthen the due diligence process and to collaborate with other stakeholders, including competitors, civil society and governments. The implications of not addressing these concerns are continued civil society criticism and difficulty in retaining skilled workers and security of supply in the face of increasing competition for both. Unilever would need to play a leadership role while treating this as a 'pre-competitive' issue in which a range of other stakeholders – governments, civil society organizations, other companies, need to play their part.

Oxfam recommendations to Unilever

1. Adjust policies and business model to deliver better quality jobs for workers

- Change corporate policies (CoBP and Supplier Code) to build in a commitment to a Living Wage and minimize precarious work in Unilever's operations and supply chain.
- Acknowledge that the minimum wage is not always an adequate proxy for the basic needs of workers and their families.
- Identify and address low wages and precarious work in Unilever's own operations.
- Source only from suppliers with good HR management, industrial relations and grievance mechanisms.
- Ensure any certification scheme with which Unilever is associated effectively enables the realization of labour rights.
- Select strategic supply chains and work with competitors and other stakeholders to improve job quality (for instance, the tea industry).

2. Better align business processes with policy

- Introduce tools to support the strategy including:
 - Training for buyers to understand the impact of their decisions on working hours, low wages and precarious work in the supply chain;
 - Measurable targets for buyers to place an increasing value of orders with suppliers who are proactive in raising labour standards;
 - Incentives for suppliers who are proactive in raising labour standards.
- Implement, alone or with industry peers (e.g. via AIM -Progress), a training programme for business partners and key suppliers at country level, addressing specific local issues relating to labour standards.
- Communicate expectations more clearly to suppliers, making clear where Unilever will take a continuous improvement approach, contingent on the supplier being transparent.
- Make better use of the knowledge of Unilever staff in-country about good practice in local conditions

and provide guidance in the promotion of international standards, as well as compliance with national law.

3. Strengthen the due diligence process to take account of people's vulnerability to speak out

- Modify the risk management system to make it more sensitive to the situation of vulnerable workers, such as women with family responsibilities, migrants and those in precarious work, and rate as 'high-risk' those countries which place limitations on freedom of association.
- Develop targets to help monitor the effectiveness of measures taken to address negative impact and seek information and feedback from civil society stakeholders at country level.
- Bring local grievance processes into line with best practice based on the UNGP of being legitimate, accessible, predictable, equitable, rights-compatible and transparent.
- Recognize that a commercial audit programme, while necessary in an environment of poor legal compliance, is not sufficient for the realization of rights and needs to be strengthened by other mechanisms:
 - Commission additional off-site worker interviews (e.g. conducted by NGOs) for 'high risk' and strategic sites;
 - Specify a higher level of competence/training for third party auditors;
 - Require auditors to assess wages against a credible basket of needs;
 - Supplement audits with other mechanisms, such as anonymous worker surveys, assessment of Human Resource Management, records of grievances raised and resolved, and frequency of negotiation of a Collective Bargaining Agreement.

4. Work with others to promote scalable ways to realize rights and increase collective leverage

- Where Unilever has influence within its own business and over suppliers, it should encourage an environment in which industrial relations can develop and there can be bargaining on wages and benefits.

- Use Unilever's influence with governments to advocate that legal minima are adequate for basic needs, and to promote public/private strategies for social and economic upgrading.
- Consider joining a multi-stakeholder initiative such as the ETI to gain access to best practice know-how and approaches and opportunities to collaborate with others to address difficult issues.
- Write a report about progress against Oxfam recommendations and Unilever commitments within two years, and enable Oxfam Viet Nam to check what has changed, particularly from workers' perspective, in that time. Ensure responsibility is assigned internally to this.

5. Five things Unilever could do in Viet Nam

- Share the findings of this study with managers, suppliers, the Viet Nam General Confederation of Labour and Cu Chi workers, and pilot in Viet Nam the changes recommended in this report.
- Implement changes in ways of working at the Cu Chi factory. This should include regular meetings between management and workers; worker surveys; worker input into performance review processes; and understanding causes of underperformance.
- Review the ratio of directly employed to sub-contracted workers, employ those involved in production and packing directly, and address grievances about unfair treatment between UVN and Thang Loi employees.
- Take a closer look at standards in the 32 suppliers who reported using temporary and contract labour on production and packing lines and change sourcing and contracting processes to deliver more open-ended jobs and wages that progress to a Living Wage.
- Provide more training and guidance to UVN managers to understand international standards and make better use of their knowledge in the audit programme and supplier management and development.

6. Integrate into the Sustainable Living Plan and/or public reporting process measurable targets for labour rights and job quality

Unilever must incorporate measures of labour rights and job quality into its public reporting processes so that stakeholders can assess its progress in managing the issues highlighted in this report.

The principles and indicators developed for this study provide a useful tool for companies to assess their performance. Other suggested measures include:

- Wage levels for a standard working week relative to minimum wage and the best available estimate of a Living Wage;
- Ratio of permanent to temporary contracts;
- Percentage of workers with an employment contract;
- Percentage of workers covered by a recent collective bargaining agreement;
- Number of significant grievances raised by workers and resolved by management;
- Awareness of workers' rights by workers and their supervisors (based on a survey).

Unilever response and commitments

Unilever would like to thank Oxfam for the effort taken and for the detailed way in which it has carried out the research and prepared this report. Oxfam is one of Unilever's Foundation partners and we are collaborating in several long-term projects on smallholder farming, sustainable sourcing and labour rights. Unilever values the feedback from external partners and acknowledges that it is only through multi-stakeholder collaboration that the Unilever Sustainable Living Plan objectives can be achieved.

In November 2010, Unilever launched its Unilever Sustainable Living Plan with the ambitious goal of doubling the size of our company while decoupling our growth from our environmental footprint and at the same time increasing our positive social impacts. This is because we believe that long-term sustainable and equitable growth is the only acceptable model of growth and our future success depends upon our ability to put sustainable living at the heart of everything we do.

The Plan establishes around 50 time-bound commitments by 2020 and a rigorous set of metrics that address many of the material environmental, economic and social impacts of our business. These are based on the recognition that our products can make a difference to people's health and well being, and that our supply chains support the 'sustainable livelihoods' of millions of people.

In June 2011, the UN Human Rights Council endorsed the Guiding Principles for the Implementation of the UN 'Protect, Respect and Remedy' Framework (often known as the 'Ruggie Principles' after their author Professor John Ruggie). However, the question of how an individual company can best formalize the integration of human and labour rights into its core business strategy is one which companies of all sizes are grappling with. It is at the heart of wider emerging societal debates on sustainable and inclusive growth models.

Like many other companies, Unilever has been undertaking a comprehensive assessment of how best to operationalize and implement the Ruggie framework and ensure alignment with Unilever's Sustainable Living Plan. As part of this assessment,

we therefore welcomed the proposal by Oxfam, one of our key NGO partners, to conduct this ground-breaking study in Vietnam. As with the earlier 2004–5 Oxfam Unilever Indonesia socio-economic impact study, *Exploring the Links Between Business and Poverty Reduction: A Case Study of Unilever Indonesia*,²⁶² we believe that this report on our supply chain in Vietnam has many insights and lessons to offer us.

We agreed that Oxfam could publish the report as a means of stimulating this wider debate and encouraging other companies to follow our lead. We hope that it will be taken in this spirit. As a business we have a process of continuous improvement, and it is fair to say that this report highlights areas where we still have a lot more to do. However, it will spur us on to redouble our efforts. We have recently decided to further strengthen our capabilities in this area by appointing a Vice-President for Global Social Development who will lead the process of helping implement the Ruggie framework across our business and work to ensure alignment with Unilever's Sustainable Living Plan.

We are convinced that addressing these complex social issues across our value chains are best tackled by working together with our workers, peers, governments and civil society, including trade unions. We will continue this dialogue through a number of external and internal events throughout 2013.

Responding to Oxfam's recommendations, we want to set out how we plan to take action both at a global and local level. With regard to Vietnam, our business stands fully committed to implement Oxfam's recommendations and to reviewing progress with Oxfam in two years' time. We will similarly be prepared to make any future learnings public. Specifically we are already taking steps to:

- Organize human and labour rights training workshops for our internal business stakeholders (including our factory leadership in Cu Chi) and key suppliers to promote best practice;
- Work with our 80 top suppliers to address non-conformance issues with our Supplier Code;
- Review our worker grievance mechanisms for both permanent and temporary workers to ensure that they are more accessible, predictable and transparent.

At a global level, Unilever will take steps to continue to:

Ensure that we promote sustainable livelihoods for all our workers and those in our value chains. The Oxfam Study, for example, demonstrates that all workers – including the temporary workers in our Cu Chi factory – are paid above the legal minimum wage. Our full time semi-skilled employees are paid twice the minimum wage and our skilled employees are also paid above both the Asia floor rate and Oxfam's own evaluation of a 'living wage.' Our core approach is to pay all our workers a 'fair, decent and competitive' salary package. Unilever's business model is one that is based on localized production which means that we must compete with other national as well as international business operations. This is why we generally set our wage levels to take account of the local competitive environment market by market. This being said, we aim to ensure that our overall compensation package is always above the minimum wage (where applicable), offers additional benefits (such as pensions, free or subsidized canteens, medical insurance, etc), and provides training and skills development for all workers. We will be conducting a market by market 'sustainable living' review of each of the 180 countries in which we operate by the end of 2015 to assess whether all of our workforce – including our temporary or contract labour – are fairly and competitively remunerated in line with the above core principles.

Mitigate the 'casualization' of labour within our workforce wherever possible. We are taking steps to review our use of temporary workers to ensure that wherever possible we can offer permanent employment opportunities for skilled and semi-skilled workers in our supply chain operations. As a result, over the last three years Unilever has already reduced its use of contingent labour in Asia and Africa by more than 40%. This being said, we also acknowledge that within our own supply chain we will always need a certain amount of temporary workers due to the seasonal nature of parts of our business and fluctuations in demand.

Invest in ensuring that our Supplier Code is understood and acknowledged by 100 per cent of our Tier 1 suppliers by the end of 2014. It is our responsibility to make sure our suppliers know what is expected of them when it comes to ensuring workers rights and other areas of compliance. We are already working with our top 13,000 Tier 1 suppliers but as the report highlights we still have some way to go. We will therefore ensure that 100 per cent of our key suppliers have positive assurance statements in place as well as corrective programmes to improve compliance levels by the end of 2014.

Ensuring that we meet the same standards as we expect of our suppliers. We are committed to ensuring that our own manufacturing facilities are subject to the same assessments and transparency as those of our suppliers. We will ensure that all our data is available under the SEDEX (Supplier Ethical Data Exchange) by the end of 2014.

Partner with others to mainstream the integration of human and labour rights by business. We recognize that progress can best be made by working with other key industry, NGO, trade union and supplier partners to scale up and accelerate the mainstreaming of human and labour rights integration by business. To achieve this, we will work proactively with organizations such as SEDEX, the UN Global Compact and the Global Business Initiative on Human Rights.

Lastly, we fully acknowledge the need for greater transparency, and will work to set relevant Key Performance Indicators on labour and human rights by the end of 2013. Thereafter we will report on progress on an annual basis.

We look forward to the opportunity this report provides for further constructive dialogue with our key stakeholders.

Paul Polman
Chief Executive Officer

8 Appendices

Appendix 1: The project team and acknowledgements

Project team

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We would also like to thank Oxfam staff including: Penny Lawrence, Joyce Kortlandt, Erinch Sahan, Sloane Hamilton, Bernard Gouw, Claire Mortimer, Jonathan Mazliah, Irit Tamir, Andrea Maksimovic and Gerry Boyle.

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Appendix 2: Examples of initiatives to address the issue of a Living Wage

There are an increasing number of initiatives under way to address low wages in sectors ranging from garments to bananas, in both private and public procurement.

Purchasing power parity approach: Asia Floor Wage (AFW)

The AFW is an initiative of the Asia Floor Wage Alliance, a consortium of trade unions, labour rights activists and academics working in the garment industry across Asia, Europe and North America. The consortium developed a benchmark using the World Bank's Purchasing Power Parity methodology that would allow workers to purchase equivalent baskets of goods and services across garment-producing countries. <http://www.asiafloorwage.org>

Industry-wide approach: World Banana Forum, bananas

The World Banana Forum has brought together the most influential stakeholders in the banana industry including (Southern) governments, retailers, trade unions, NGOs and banana companies. They have publicly stated that workers are entitled to a Living Wage and that a 'common basket' of needs bears little relation to the minimum wage. Their programme has attracted financial support from the UN FAO to apply the programme in Ecuador, Colombia and Cameroon. Steps taken to date include gathering benchmark data on basic needs and wages, reviewing the effectiveness of collective bargaining and reviewing the distribution of value along the value chain. <http://www.fao.org/wbf>

Productivity approach: Marks & Spencer, garments

Several garment companies have encouraged/incentivized suppliers to introduce productivity and training programmes that create the necessary momentum and margin to raise wages. Marks & Spencer set out a commitment to a 'fair living wage' in its corporate plan and set itself a target relating to its supplier factories in Bangladesh, India and Sri Lanka. In addition to a modest uplift in wages, benefits have been found in reduced worker turnover and absenteeism and enhanced product quality. <http://plana.marksandspencer.com/about/the-plan/fair-partner>

Advocacy approach: Levi Strauss, garments

Levi Strauss has engaged with governments in Bangladesh, Cambodia and Mexico to advocate raising minimum wages that fall short of basic needs. <http://levistrauss.com/sites/default/files/librarydocument/2012/1/wages-benefits-2011.pdf>

Improving audit methodology: the Fairwear Foundation

The Fairwear Foundation has started to use wage ladders in its auditing processes, and has made a range of ladders publicly available. Social Accountability International (SA8000) has started to build Living Wage methodologies into their audit processes. <http://www.fairwear.org/563/wage-ladder>

Stimulating a Living Wage: Dutch government procurement

The Dutch government now applies social conditions to European tenders to promote international working standards and human rights in the international supply chain. Companies supplying the Dutch government are required to commit to ensure the ILO core conventions and human rights are respected. For some products (coffee, tea, cocoa, flowers and textiles), and in case specific risks are known, an additional commitment to a Living Wage is required. <http://www.pianoo.nl/themas/duurzaam-inkopen/sociale-aspecten-van-duurzaam-inkopen/sociale-voorwaarden> (document in Dutch)

Appendix 3: Frequently used sources

Throughout the notes section there are several references for which the sources are the same website or organization. These frequently used sources have been listed below for the reader's convenience.

All URLs last accessed in December 2012.

Ethical Trading Initiative (ETI)

ETI (2012) 'ETI Base Code', <http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code>

ETI (2012) 'ETI Management Benchmarks', <http://www.ethicaltrade.org/resources/key-eti-resources/eti-management-benchmarks>

Global Reporting Initiative (GRI)

GRI (2011) 'Sustainable Reporting Guidelines: version 3.1', Amsterdam: Global Reporting Initiative, <https://www.globalreporting.org/resource/library/G3.1-Guidelines-Incl-Technical-Protocol.pdf>

International Labour Organization (ILO)

ILO 'Database of International Labour Standards', <http://www.ilo.org/ilolex/english/convdisp1.htm>

ILO publications, <http://www.ilo.org/declaration/info/publications/lang--en/index.htm>

International Organization for Standardization (ISO)

ISO (2010) 'ISO 26000: Guidance on social responsibility', Geneva: ISO, <https://www.iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en>

Organization for Economic Co-operation and Development (OECD)

OECD (2011) 'OECD Guidelines for Multinational Enterprises', Paris: OECD Publishing, <http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/48004323.pdf>

UN Global Compact

UN Global Compact (2012) 'The Ten Principles', New York: UN Global Compact, <http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html>

UN Global Compact's 'Self-Assessment Tool', <http://www.globalcompactselfassessment.org/>

UN Guiding Principles on Business and Human Rights (UNGPR)

J. Ruggie (2008) 'Protect, Respect and Remedy: a Framework for Business and Human Rights'. A/HRC/8/5. Geneva: UN Human Rights Council. <http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf>

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Vietnamese Labour Code

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The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-243-1 in January 2013.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

Oxfam is an international confederation of 17 organizations networked together in 94 countries, as part of a global movement for change, to build a future free from the injustice of poverty.

Cover image: Hom Market, Hanoi, Viet Nam (2008). Abbie Trayler-Smith/Oxfam.

