

Lost in translation or learning to walk? On CSR and risk-based due diligence in ship recycling and textile sector supply chain management

Published on 28 October 2016 by the Business of Society blog (Copenhagen Business School)
<http://blog.cbs.dk/BOS/2016/10/28/lost-in-translation-or-learning-to-walk-on-csr-in-ship-recycling-and-textile-sector-supply-chain-management/>

By Karin Buhmann

Over the past weeks, news has emerged that Maersk, the *world's* largest shipping company, which is based in Denmark, is having some of its container ships scrapped (cut up for materials to be recycled) under sub-standard conditions at beaches in India and Bangladesh. While Danish media have paid considerable attention to this and investors are asking critical questions of Maersk's alignment between its CSR policies and practices, much less attention was paid to a case of severe critique of a Danish textile company that sourced from a supplier in the Rana Plaza building around the time of the *building's* collapse.

What do these two cases have in common? More than one might expect, judging from the way they have been treated by media and business association statements. This applies with regard to business practices as well as research. But whereas one company's understanding of due diligence appears very weak, the other displays a due diligence understanding that holds bigger promise for the longer term.

Company challenges in relation to risk-based due diligence

Both cases concern businesses' exercise of risk-based due diligence. This is a process for businesses to avoid causing social or environmental harm. According to OECD's Guidelines for Multinational Enterprises, enterprises should carry out due diligence to identify, prevent and mitigate actual and potential adverse impacts on human rights, industrial issues including labour standards, the environment etc. Enterprises should also carry out due diligence in relation to their suppliers and other business relations, to seek to prevent or mitigate adverse impact that is directly linked to their operations, products or services. This applies to yards scrapping ships as well as factories sewing clothing to be sold in stores in Denmark or elsewhere.

The Maersk case is an example of company that has problems walking its own CSR talk. But it is also an example of a company that has paid attention to the risks caused by its decision to scrap ships in India and taken certain steps to prevent such damage from occurring, suggesting due diligence has been exercised to a certain extent. However, the information that has emerged in recent weeks suggests that the due diligence process has not been adequately carried through from beginning to end of the activity in question. The textile case concerns a company that did not adequately carry out core due diligence elements in regard to its supplier in Bangladesh, where the prevalence of severe building safety issues was well-known already prior to the Rana Plaza collapse.

NCP: severe critique of Danish textile producer sourcing from Rana Plaza

On October 17, 2016, the Danish National Contact Point (NCP) under OECD's Guidelines issued a statement (English language version: <http://businessconduct.dk/final-statements>) following a complaint concerning the practices of a Danish textile company in relation to, amongst others, occupational health and safety standards at the supplier in Rana Plaza. The NCP statement severely criticized the due diligence processes of the Danish company. Amongst others, the statement noted that the company neglected to make adequate requirements of the supplier in relation to a CSR policy; neglected to require the supplier to perform self-evaluation; and neglected to monitor and follow up on such self-evaluations.

This is the first time not only in Denmark but internationally that a public institution with expertise in CSR states specific critique of the due diligence processes of a company supplying from Rana

Plaza. In view of the large number of casualties resulting from the collapse on 24 April 2013 and the subsequent attention that the tragedy has generated with media and consumers, one wonders why the critique of the Danish company has received such limited attention.

Press releases from business associations and the organization that lodged the complaint have highlighted the fact that the NCP did not pronounce the company accountable for the collapse (in some cases mistakenly communicated as 'liability' rather than accountability). Notwithstanding that the NCP's powers do not enable it to attribute legal liability and the fact that the NCP made its assessment on the basis of documentation that it has been presented with or was able to investigate, that part of the statement has been allowed to dominate. The critique and the lessons on the importance of due diligence that the statement holds for Danish (and other) companies has received much less attention. Apart from the critique of the specific company, the NCP statement also underscores that it follows from OECD's Guidelines that companies should require suppliers to protect their employees' occupational health and safety, and that this responsibility today includes risk assessment in relation to building safety and integrity. From a research perspective it is surprising that business associations, despite differences in the way they have covered the issue, have not made more of an effort to explain the significance to their members.

Complexity and context

Ensuring responsible business conduct in chains of business relations is often complex. Turning talk (or policies) into walk (or practice) is frequently challenging in view of the conditions in some of the countries from which Danish companies supply textiles, or where ships are scrapped. Poverty and local socio-economic conditions lead to employees accepting salaries and working conditions far below international standards. Unfortunately, these problems are rarely solved overnight. Implementing norms for occupational health and safety does not just require the relevant rules to be in place, but also that they are communicated and explained to employees and managers, and that qualified training and monitoring takes place. Changing dangerous working methods or buildings requires not just investment, but also time and attention. And as in other fields, perfection requires practice.

Outlook

Maersk has a CSR problem because its ship scrapping practices are not in accordance with the company's own standards. Yet, Maersk has also demonstrated awareness of risks. When Maersk decided to have ships scrapped at the Alang beach in India, it was also decided to take on three employees to monitor the observance of Maersk's standards. This suggests a degree of due diligence. However, due diligence is a continuous process. The Alang-case demonstrates that having employees in place to monitor observance of standards is not sufficient, if this is not followed by processes to ensure that the monitoring identifies the problems it is intended to find. The related case of ships previously owned by Maersk now being scrapped on beaches in Bangladesh demonstrates the significance of also incorporating risk-based due diligence in relation to economic stipulations incorporated into contracts. However, the Maersk case also offers an example of a company that is working on practicing to walk its talk. The commitment to improve and to internal learning expressed by Maersk in follow-up to the media reports and investor critique raises more hope for the implementation of due diligence than does the reception of the critique of the textile company.

About the author: Karin Buhmann is Professor with special responsibilities in Business & Human Rights at the Department of Intercultural Communication and Management at Copenhagen Business School.