

BUSINESS ISSUES BULLETIN

CAMBODIA

No. 4



The Case for Sustainable Business Practices

What is Sustainability?

Sustainability in business is about “ensuring long-term business success while contributing toward economic and social development, a healthy environment and a stable society.”¹ As part of their core principles, companies that are committed to sustainable business adopt high standards in areas that can include environmental protection, gender equity, working conditions, employee benefits, capacity development, community development and a set of transparent relationships between a company’s management, its board, its shareholders and other stakeholders that fall under the term ‘corporate governance’.

Implementation of sustainable business practices in Cambodia has been limited to date. According to recent World Bank research,² barriers to implementing sustainable business practices include 1) lack of awareness of the concept, 2) production inefficiencies that are the result of implementing multiple codes of conduct (CoC) at the same time, 3) lack of financial and technical resources to implement such practices (particularly true for SMEs), 4) confusion that arises due to differences between the national labor code and CoCs, and 5) national regulations that impede CoC implementation.

What are the benefits of Sustainability?

Companies that implement higher levels of environmental responsibility, employment and labor standards, community engagement and corporate governance help to create stronger and more vigorous economies, and sustainable long term business prospects and employment. Benefits of sustainability are apparent across all business sectors and scales of activity (from SMEs to large companies), and include:

- Better performance of the company
- Enhanced brand value, reputation and competitiveness
- Better access to finance and lower cost of capital
- Better labor relation and increased productivity
- Cost savings through more efficient resource use
- Revenue growth and increased market access
- Better risk management and enhanced “license to operate”
- Promoting sustainable export earnings and increasing the country’s competitive advantage

Businesses can demonstrate that they practice sustainability by obtaining any of a number of internationally recognized credentials. Indeed, a small number of companies in Cambodia have already done so.³ However, companies that cannot access and/or afford such certification can still reap tangible benefits by adopting sustainable business practices.



The “Business Issues Bulletin” provides those interested in business issues with a short summary and analysis of a particular topic affecting the business environment in Cambodia, and exposure to different opinions held by various stakeholders on the topic.

This bulletin is published with support from the Mekong Private Sector Development Facility (MPDF), a multi-donor funded initiative managed by the International Finance Corporation (IFC), the private-sector arm of the World Bank Group.

The statements and opinions presented here are only meant to provide additional reference material and do not reflect the official opinion of the Mekong Private Sector Development Facility or IFC.

¹ See Developing Value: The Business Case for Sustainability in Emerging Markets Sustainability, SustainAbility and IFC, 2002, page 7. Sustainability is also often referred to as corporate social responsibility (CSR) or corporate citizenship. In many respects, the concepts are synonymous and cover the same broad aspects of business: governance of the company, treatment of employees, impact on the environment, impact on local communities and business relationships with suppliers and customers.

² World Bank (Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains) October 2003.

The business case for Sustainability

Companies that engage in sustainable business practices achieve benefits that include cost savings, higher revenues, a better image, lower staff turnover, increased productivity and access to finance and new markets. In addition, consumers, investors, and policymakers around the world are becoming increasingly concerned about the impact of globalization on workers rights, the environment, community welfare and corporate responsibility to shareholders, and will demand that producers around the world act in a more responsible manner. And with Cambodia's recent entry into the World Trade Organization (WTO), local businesses that do not adopt sustainable business practices may find it difficult to compete in the international market.

Some examples from other developing countries are presented below to help Cambodian companies better understand the benefits of sustainable business practices for themselves as well as for the natural environment and local communities.⁴

Reduce costs and increase productivity

Businesses can save money by committing to cleaner production. A large paper producer in Poland saved approximately \$12 million USD over five years by installing new equipment which reduced water use by 7%, and water and air pollutants by 70% and 87% respectively.

Effective human resource management can also cut costs and boost productivity considerably. Fair wages, a clean and safe work environment, training opportunities, and health and education benefits can all help make a company more profitable by increasing productivity, reducing absences and lowering costs of recruiting and training new staff.

Increase revenues

Investment that supports local economic growth can lead to a better qualified pool of labor, cheaper and more reliable suppliers, and ultimately, to increased revenues. Hindustan Lever, a subsidiary of Unilever in India, was operating at only 50% capacity and incurring significant losses because of inadequate supplies of milk. To combat this, the company established an integrated program to help farmers increase milk production. This included training farmers in animal husbandry, improving basic infrastructure and setting up committees to organize local suppliers. As a result of these efforts, milk-supplying villages increased from six to more than 400. With production matching capacity, Hindustan Lever has become Unilever's most profitable enterprise in India.

³ Well-known examples include ISO 9001-2000 (focusing on quality management systems for services), QWG and ERO1 WFGS Listed (focusing on water quality), Enviro Research (focusing on environmental impact assessment). Large multinational companies like Nike, Timberland, Gap, Wal-Mart, etc. often have their own codes that suppliers must adhere to.

⁴ Examples are summarized from the IFC's report, Developing Value (<http://www.sustainability.com/developing-value/contents.asp>).

For many companies, obtaining a credential that demonstrates social responsibility can generate higher revenues. Aserradero San Martin, a Bolivian logging and wood producer, was able to access the North American market where prices are 10-15% higher, after the company obtained Forestry Stewardship Council certification.

Enhance reputation

There can be significant benefits to brand value and reputation for companies that are environmentally and socially responsible. An enhanced reputation can help build sales, attract capital and business partners, and recruit and retain employees. Multi-nationals such as The Body Shop (a UK-based producer of skin and hair care products) and the Swedish furniture retailer IKEA, are both well-known not only as suppliers of affordable, quality products, but also as good corporate citizens who are concerned about the environment and social welfare.

Attract and retain quality labor

A quality workforce is crucial for a business that wants to achieve high productivity and product quality. In emerging markets—where there are often large pools of workers but few quality workers—attracting and retaining well-qualified, committed workers can be a significant challenge. Employers who offer their workers fair wages and benefits, training, healthcare and a clean working environment are much more likely to attract and retain good staff.

Grupo M, a large textile producer in the Dominican Republic, provides subsidized transport, day care centers, medical and dental services for employees and their families, and training and salaries that are double the country's minimum wage. Rather than worry about the costs of these investments, the company's founder and president consider it smart business: "Everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty and innovation."

Sustainability in Cambodia

At present, a relatively small number of companies in Cambodia have active sustainability agendas, and these are mainly at the request of buyers. At this time sustainability is a priority primarily for garment and footwear companies that export to the United States and European Union (EU) countries under the quota system. The Ministry of Commerce enrolls those companies in a labor monitoring program implemented by the International Labor Organization (ILO) which monitors their compliance with Cambodian and ILO labor, employment and health and safety standards. Examples of environmental stewardship and community engagement, however, are less common.

The Ministry of Commerce and IFC/MPDF are launching a "Corporate Citizenship Award" in Cambodia in November 2004. The goals of the award are to: raise awareness of the need for sustainable business practices

within the Cambodian business community; highlight sustainable business practices both internationally and in Cambodia; encourage the adoption of good practices more widely; and highlight the assistance that IFC/MPDF and other international organizations can provide to companies that want to become better corporate citizens. Companies are invited to apply for one of four awards in (1) employment and labor practices, (2) environmental stewardship, (3) community engagement and (4) corporate governance. The awards will be announced in February 2005, and winning companies will receive a tailored package of technical assistance worth up to US\$ 30,000 per award to further aid improvements in corporate citizenship. More information can be obtained by contacting the MPDF office at No. 70 Norodom Boulevard, Phnom Penh, Cambodia, Tel: 023 210 922. Information can also be found in the Upcoming Events section of MPDF's website - www.mpdf.org.

VIEWPOINTS

...of relevant Cambodian authorities

The Ministry of Environment encourages all businesses to practice environmental management as it is set out in the Environmental Law. The Ministry provides advice on pollution and natural resource management, helps businesses meet environmental standards, and disseminates environmental guidelines. The Ministry also provides incentives to businesses that adhere to environmental standards.

Irrespective of the law, businesses should be aware of and actively pursue good environmental practices as their actions affect customers and the community in which they operate. Their good environmental practices will reflect well on them as a company, and it could help them gaining preference from their customers and communities.

H.E. Dr. Yin Kim Sean, Secretary of State of the Ministry of Environment

The Ministry of Labor and Vocational Training (MOLVT) plays an important role in enforcing the labor law and regulations to improve health and safety standards, and working conditions of workers. We are also actively establishing a mechanism for resolving individual and collective labor disputes. Our labor inspectors visit enterprises to monitor their compliance with the labor law and regulations. The MOLVT will continue to increase the level of implementation of the Labor Law and regulations and continue to develop policies related to labor and employment issues.

H.E. Prak Chantha, Secretary of State of the Ministry of Labor and Vocational Training

The policy of the Ministry of Commerce is developing the private sector by preparing a number of laws aimed at assisting companies to conduct business. Specifically, the

draft law on Commercial Enterprise deals with corporate governance. The MOC has prepared a sample of articles of incorporation which sets out roles and responsibilities of company directors and officers that can be used by businesses.

H.E. Mao Thora, Under Secretary of State of the Ministry of Commerce

...of Cambodian manufacturing companies

Our company is concerned with the welfare of our employees and customers. We pay wages to our employees at rates that are comparable with wages in the garment industry. Moreover, we offer our workers other benefits, including two meals per day, medical care, and money to our female workers who are on maternity leave or who undergo surgery. We also organize recreational activities for our workers and bear the costs for these activities. These incentives have improved our staff morale and have helped us to retain good, skilled workers.

Mr. Im Chum, Director of a Medical Supply Co., Ltd.

Our company recognizes the union's right of bargaining and permits the union to exercise it in consultation with management on issues related to working conditions and employee benefits. Although unions have different ideologies, factories should understand that unions are not the enemy, but rather, partners in improving working conditions.

Keeping workers happy will result in higher levels of worker morale and productivity as well as quality. Our company provides workers with better benefits and wages than those required by the Labor Law. Our employees are informed about our wages and benefit policies and the manner in which their wages are calculated. Our temporary workers are entitled to the same benefits as our regular workers.

There are always challenges in adopting best practice. Before we resort to using laws and regulations as the basis for dealing with workers' grievances, we should use our hearts and brains to address their concerns and seek support from management, shop stewards and the unions to find solutions.

Our factory is inspected by the ILO and our buyers to verify our compliance with their codes of conduct. Our current practices help us meet our buyers' demands in this area.

Human Resource Manager of a Garment Factory

... of service companies

Our staff takes part in designing our human resource policies, clean workplace policies as well as health and safety standards. Our employee benefit policies provide equal benefit entitlement to staff and management. These practices have helped us retain good employees, improve staff morale, and increase productivity. Customers are satisfied with our services. This will help expand our market share and boost our long-term competition.

ACLEDA also follows IFC microfinance environmental standards and does not lend to a number of operations that could cause serious damage to natural resources.

We adopt transparent corporate governance practice. We publish reports annually. Our books are properly audited by both internal and external auditors in order to ensure accurate representation of our performance to our shareholders. Our shareholders are treated equally and they have equal access to information and reports. These practices have increased the confidence of our shareholders, who have switched from talking about an exit strategy as they did when they initially decided to invest in ACLEDA to an expansion strategy for ACLEDA's operation a few years later.

Mr. In Channy, General Manager of ACLEDA Bank Plc.

... of multinational companies

All GAP garment factories must be monitored by the ILO. GAP encourages its vendors throughout the world to adopt social compliance practices and share their profits with the communities where they do business.

GAP has developed a compliance program for its vendors, which is implemented by 100 Vendor Compliance Officers worldwide. This program is intended to verify and strengthen compliance with the local law and the GAP Code of Vendor Conduct (COVC).

The GAP COVC sets out requirements for its vendors and factories related to social compliance practices. If the local law sets out a standard that is higher than that of our COVC, the vendors and factories must follow the requirements of the local law. If our COVC sets out a standard higher than that of the local law, the vendors and factories must follow the COVC. GAP will not tolerate any serious violation of the local law or the COVC, and will stop doing business with factories that are in serious violation of local laws and GAP COVC.

We will continue our compliance program in the future. Our customers want to buy products made by factories that have ethical best practices, maintain good working conditions and care for their workers. Our efforts in implementing this compliance program addresses GAP customers' concerns.

Mr. Leng Vann Chhai, Senior Vendor Compliance Office of GAP, Inc.

... of organizations that promote or certify Sustainability/Corporate Citizenship standards

Companies belong to communities, and thus should adopt corporate citizenship practices. They should not only consider profits, but should also give more back to their communities by respecting the local law and operating in a manner that could create a better environment. GMAC

encourages its members to comply with the Labor Law. GMAC also encourages its members to participate in the ILO garment project whereby their factory is monitored to ensure compliance with the Labor Law and ILO's labor, health and safety standards. While companies should continue to improve compliance with the Labor Law as they are required to, it is the best practice that they should pursue. Buyers also require companies to be in compliance with buyers' Codes of Conduct. If they do not meet this requirement, their buyers will stop doing businesses with them.

The government should reward companies achieving best practice in corporate citizenship. This reward should not be only in the form of certification, but also in a tangible form like a tax rebate or cash reward.

Dr. Ken Loo, Secretary General of the Garment Manufacturers Association in Cambodia (GMAC)

The ILO Garment Sector Project (GSP) creates a win:win situation for garment factories. They can increase their profitability at the same time as improving working conditions for their employees. Compliance with labor law is a critical issue for many international buyers.

The GSP monitors all factories which hold an export license for their compliance with Cambodian Labor Law. At the moment there are 214 factories registered with the project. In addition to the monitoring, the ILO provides training and resources to the industry to improve quality, productivity and working conditions for the industry.

Cambodia leads the world in monitoring labor standards and should be proud of its record.

Ms. Ros Harvey, Chief Technical Advisor of the International Labor Organization's Garment Sector Working Conditions Improvement Project in Cambodia

Corporate citizens are those who respect the law and the rights of workers. More importantly, corporate citizens are those who maintain honesty and ethics. We have conducted research on wage policies and labor compliance practices with the aim of feeding into policy dialogue to promote fair labor practices.

We also actively engage in labor advocacy by working to have clear labor rules and regulations, for example on the service charge for hotel employees and overtime policy for garment workers.

Companies have to respect Cambodian laws. They should also have ethics and their own codes of conduct to protect workers and consumers. As they make profits by establishing their presence in a community, they should contribute to the development of that community as a way of giving back a portion of what they earn by being there.

Mr. Seng Phally, Director of Cambodian Labor Organization (CLO)