IMPROVING WORKERS' WELL-BEING: A NEW APPROACH TO SUPPLY CHAIN ENGAGEMENT

LEVI STRAUSS & CO.



ENGAGING STAKEHOLDERS

ANDREA MOFFAT, VICE PRESIDENT



There are many millions of workers whose labor enhances our lives and supports our global economy, but who remain largely invisible. Leading businesses and investors understand that the wellbeing of these workers is an urgent priority, because

a company is only as strong as the weakest link in its supply chain. When human rights are honored, and workers and their families are healthy, safe, secure, educated and respected, supply chains are more robust, reliable and resilient.

Twenty years ago, Levi Strauss & Co. (LS&Co.) set new standards and expectations for labor, health and safety, and environmental performance by partners throughout its global supply chain, one of the first major companies to do so. LS&Co. understood that the well-being of the people and communities that help make its products wasn't just an ethical imperative, it was good business and a key to long-term value creation.

Last year, LS&Co. took a hard look at whether its workplace code of conduct, in place since 1991, was doing enough to improve the quality of life for workers and their communities. To its credit, LS&Co. dug deep and concluded that a focus on compliance, monitoring and reporting on various benchmarks of supplier performance wasn't getting the job done. If the company wanted more from its suppliers, it had to expect more both from its vendors and itself.

At last year's Ceres annual conference, LS&Co. started the journey of rethinking its approach to engage suppliers and workers on key sustainability issues. A critical part of this process included working with Ceres to engage key stakeholders with expertise in labor, human rights, international development and the environment. This report details LS&Co.'s plans for building a leadership supplier program and captures the feedback and recommendations gathered from stakeholders throughout the engagement process. The report highlights key challenges such as accessing the worker voice, establishing a living wage, and engaging local governments, and is candid about the need to develop solutions to these complex issues through collaboration with workers, suppliers, stakeholders and other companies.

Most importantly, the report envisions a paradigm shift that ramps up the role of companies from passive compliance monitoring to active development and implementation of specific programs to address the needs of workers and their communities. This new approach focuses on five priority areas inspired by the United Nations Millennium Development Goals (MDGs): economic empowerment; health and family well-being; equality and acceptance; education and professional development; and access to a safe and healthy environment.

Make no mistake: the commitment required to meet the ambitious goals established in this report is enormous, the challenges and obstacles to overcome are formidable, and the need for the collaboration from many different stakeholders is essential. No single company or organization can go it alone. Thus, this document isn't simply a new approach or plan; it's a call to action that invites the coordinated efforts of suppliers, workers, local governments and community groups, investors, labor organizations, health care providers, NGOs and other major companies from every economic sector to share best practices and scale up promising initiatives and programs.

LS& Co.'s continued leadership in advancing corporate supply chain engagement reflects a keen understanding that strong, sustainable economies and companies rest in the hands of millions of workers around the globe, and that their well-being is essential to our own. We hope this report will inform, but more importantly we hope it will inspire, because the change we seek requires that we come together to forge a new path.

Andrea Moffat Vice President, Ceres

April 2012

TAKING THE NEXT STEP

DAVID LOVE, CHIEF SUPPLY CHAIN OFFICER



As Levi Strauss & Co.'s Chief Supply Chain Officer, I manage the sourcing of our products for three global brands from around 700 suppliers across 42 countries for 110 destination markets. But in addition to getting our products to market, I'm also respon-

sible for making sure they are made in a way that aligns with our longtime values of profits through principles.

Global, integrated supply chains are the norm for small business and multinational corporations alike. How these supply chains are managed — from the harvesting of raw commodities to the treatment and well-being of the workers who produce the final goods — impacts business success and reputation.

Twenty years ago, Levi Strauss & Co. put in place an industry pioneering supplier code of conduct — our Terms of Engagement (TOE) — with our contract suppliers. Over these past 20 years our TOE has helped us to build the fundamentals of social compliance in our supply chain, focusing on the basic rights of workers who make our garments.

While we will continue to implement and strengthen the TOE program, Levi Strauss & Co. is now ready to build on these fundamentals to drive new progress for workers in the long run. We believe a focus on worker well-being will not only benefit individual workers and their families, but strengthen the factories in which they work; improving efficiency and productivity, and ultimately Levi Strauss & Co.'s bottom line. It will create the enabling environment for business success.

Last May, Levi Strauss & Co. announced our commitment to design a new approach to engage suppliers to create local, factory-level programs to address their workers' well-being. We worked with BSR to research and develop this approach. We then partnered with Ceres to obtain valuable feedback from external stakeholders and business partners. This white paper captures our initial thinking on goals, indicators and plans, informed by consultations with stakeholders and suppliers.

Through the development of this program, it became clear that we need to hear more from workers themselves about their goals and aspirations, about how they define their well-being. And we learned that we can't do this alone. It takes the commitment of our suppliers and leaders across our industry to ensure scale and impact. The vision is big so it needs the action of many to realize it.

There is clearly more work to do. It is for this reason that we will take a "test and scale" approach Our suppliers are located in economies at different levels of development and have employees with differing needs and aspirations. So we know a one-size-fits-all approach won't work. We want to learn, adapt and improve to maximize adoption and effectiveness as we bring suppliers into the program. We also want to encourage other brands and retailers to join us in this effort. We welcome ongoing engagement and feedback from our stakeholders as we progress to scale.

While we are taking this measured approach, we firmly believe that the time to act is now. We have more than 20 years experience following the same path and the results are mixed. It is time to evolve social compliance not just to look at the letter of the law, but to look more broadly at the worker and their community.

We hope you will join us on this path.

David Love Chief Supply Chain Officer, Levi Strauss & Co. April 2012

BACKGROUND

Levi Strauss & Co. (LS&Co.) knows that to be a successful global company it has to set high workplace standards for itself, as well as its supply chain. In 1991, it became the first multinational apparel company to establish a comprehensive workplace code of conduct for its manufacturing suppliers. Also known as its **Terms of Engagement (TOE)**, the compliance-focused, "do no harm" code established labor, health, safety, and environmental requirements for its suppliers based upon internationally recognized standards, such as the United Nations Universal Declaration of Human Rights (UNDHR) and the International Labor Organization (ILO) core conventions.

Once considered pioneering, such codes — requiring that supply chain workers be treated with dignity, respect and fairness within safe and clean factories — are now widespread in global companies within and outside of the apparel industry. Expectations for companies and their suppliers have been raised, and compliance, monitoring, and reporting are now the norm for most global supply chains.

Over the years LS&Co. coupled its efforts to identify problems and monitor compliance improvements with the direct engagement of factory management to increase the ownership of improved performance. The company collaborated with other brands and retailers, as well as international worker rights stakeholders, to improve compliance, training and remediation and also shifted its own purchasing practices to consider the effect on workers. The impact and pace of these efforts — as well as the limited evidence of tangible improvements to the lives of workers on the ground made it clear, however, that there is still much work to be done.

Upon **the twentieth anniversary of its TOE**, LS&Co. considered whether its current efforts were having the desired impact. The simple answer was, no. Although the TOE has made significant strides in several areas of worker rights, through expert assessments of the industry's monitoring and compliance approach and LS&Co.'s own review, three things became starkly evident:

- 1. You must expect more to get more. The "do no harm" approach does not incentivize suppliers to exceed the minimum compliance expectations.
- 2. The monitoring approach has limitations. With many companies working with similar suppliers, compliance monitoring can have the unintended consequence of duplication and resource ineffi-



ciency — resulting in far too much time and money dedicated to policing, rather than improving, operations and employment conditions.

3. You can't go it alone. In order to see and scale change on the ground, collaboration is critical. There must be a commitment to working with suppliers and workers themselves, as well as other stakeholders, including companies, trade unions, nongovernmental organizations (NGOs), and governments, to achieve meaningful impact.

LS&Co. recognized that it was time to raise the bar for itself and for its supply chain. There was a clear need to expand its approach beyond "do no harm" to focus on developing programs aimed at improving the lives of its suppliers' workers, their families, and the communities in which they live. This initiative will be an integrated part of LS&Co.'s business strategy, with the expectation that raising supplier performance will have a positive impact on the success of the company by strengthening LS&Co.'s supply chain partnerships. Improvements in supply chain efficiency, productivity, reliability, and overall resiliency will contribute to the success of the company in the long term.

SETTING A NEW APPROACH

Pioneering a new strategy for its supply chain requires that LS&Co. also design a new approach to the engagement and support of its manufacturing suppliers. At the heart of this new approach is the company's ongoing commitment to the protection of human rights and improvement of supplier performance through its current TOE, which remains as relevant today as it was 20 years ago. Additionally, the new approach will require the development of expanded worker-focused initiatives that make a material difference to the people and communities within the LS&Co. supply chain. In the development of these new requirements, LS&Co. turned to the United Nations **Millennium Development Goals** (MDGs) for inspiration, specifically the goals that were identified as most relevant to workers in the apparel industry, which are:

- Eradicating extreme poverty and hunger;
- Improving maternal and child health;
- Promoting gender equality and empowering women;
- Combating HIV/AIDS, malaria and other diseases; and
- Ensuring environmental sustainability

The long-term partnership between LS&Co. and **Levi Strauss Foundation** (LSF) has been a critical relationship for better understanding the impacts upon supplier workers. For more than 20 years, the company and LSF have been working together to design and implement projects focused on driving changes, many of which are related to achieving the Millennium Development Goals.

THE MILLENNIUM DEVELOPMENT GOALS



In October 2011, the world's population reached 7 billion. That is nearly 1 billion more people on the planet than in 2000 when the UN Millennium Development Goals were established. With a popula-

tion of 7 billion, the world is facing increasingly dire constraints on natural resources. According to water.org, today nearly 1 billion people do not have access to safe water, while 2.5 billion do not have access to improved sanitation and 1.2 billion people have no access at all. With an original target date of 2015, in many ways achievement of the Millennium Development Goals feels just as far away as ever.

With the populations of India, China and other Asian nations experiencing some of the greatest population gains, the workers and communities within the supply chains of the apparel sector and beyond are already feeling the impacts of these resource constraints. Given this reality, global businesses have not only an opportunity, but also a **responsibility**, to act.

Learn more at www.un.org/millenniumgoals/.



Over the past decade, LSF has supported more than 30 projects in 15 countries where LS&Co. has a business presence. An evaluation of these projects provided LS&Co. with a baseline of knowledge regarding workerfocused programs, as well as an understanding of where opportunities exist to bring these programs to scale — particularly in the areas of empowering women, eradicating poverty, health, and worker rights. Through its work with community partners, LSF was able to share key lessons learned, including:

- Worker voices, collected through surveys and interviews, are critical to developing successful programs that are responsive to worker needs;
- Forging trust between NGOs and suppliers is the "connective tissue" of successful in-factory worker programs; and
- Impact measurement of worker programs must show mutual benefits for workers and the business.

In addition to understanding the impacts of and challenges met by the **LSF driven initiatives**, LS&Co. also worked with BSR to conduct an evaluation of the following:

- Current progress made toward achieving the MDGs in the key countries of focus;
- The landscape of current factory-based worker programs (within and outside of LS&Co.'s supply chain);
- Results from existing worker-needs surveys; and
- Factory management assessments of worker needs.

The evaluation process revealed that in many regions there remains an industry-wide lack of knowledge regarding worker aspirations and needs, as well as a lack of understanding of how workers and suppliers view the impact of initiatives and programs already in place. The assessment also helped bring to light the critical need for LS&Co. to engage a multi-stakeholder group in the development of this newly expanded approach and the strategy for its implementation.

ENGAGING STAKEHOLDERS

In the fall of 2011, Ceres brought together a group of stakeholders from across the globe for a series of dialogues to help evaluate and provide feedback to LS&Co.'s proposal for a new approach to engaging its suppliers to improve worker well-being. Stakeholders reviewed each component of LS&Co.'s proposed strategy — from the vision, priorities and goals to the company's plan for implementation and indicators for measuring success. The stakeholder group included NGOs, labor organizations, socially responsible investors, and LS&Co. suppliers, as well as companies both within and outside of the apparel sector. The organizations convened included:

- AFL-CIO
- Calvert Investments
- CARE Cambodia
- Ceres
- Crescent Bahuman Ltd. (LS&Co. supplier)
- CSR Asia
- Environmental Justice Foundation
- Grupo M (LS&Co. supplier)
- H&M
- Hewlett Packard
- Interfaith Center for Corporate Responsibility
- ILO Better Work
- International Textile Garment and Leather Workers' Federation
- Lotus Garments Company (LS&Co. supplier)
- Marks & Spencer
- Crystal (LS&Co. supplier)
- Oxfam America
- The Timberland Company

The organizations that participated in this stakeholder engagement process do not necessarily endorse Levi Strauss & Co. or the approach detailed within this report. The following chapter presents the core components of this new strategy, along with a summary of key stakeholder feedback and guidance gathered throughout these Ceres' led dialogues.

SHAPING THE APPROACH

The key objective for LS&Co.'s engagement in a multistakeholder dialogue process was to gather feedback from a variety of perspectives to help inform and shape its proposed strategy. Throughout these discussions, stakeholders served to highlight both the immense challenges still remaining to improve the baseline performance of many suppliers and the significant opportunities for collaboration that exist for bringing this program and its objectives to scale.

The following sections introduce LS&Co.'s proposed new approach and highlight key stakeholder feedback on:

- 1. Guiding principles;
- 2. Priorities, goals and indicators for success;
- 3. Measuring impact; and
- 4. Implementation and the improvement continuum.

GUIDING PRINCIPLES

LS&Co.'s vision is that this new approach will help improve workers' well-being, restore the environment, and provide mutual benefit for its suppliers. To help achieve this vision, the company identified a set of guiding principles to ensure it remained focused on its ultimate objectives.

The Guiding Principles

- 1. Listen to workers' voices to remain relevant and responsive;
- 2. Prioritize strategic suppliers that operate in countries with the greatest need;
- Invest in programs with demonstrated impact, but be willing to pilot initiatives to address unmet needs;
- 4. Concentrate on factory-level efforts that can also impact workers' families and communities;
- 5. Track progress by using metrics and qualitative tools to capture impact;
- 6. Leverage scale, impact and LS&Co.'s leadership in the industry by partnering with global, national and local stakeholders; and
- 7. Share lessons and successes to inspire others to improve workers' well-being.

Stakeholders supported the proposed guiding principles and also identified key issues for consideration in the development phase of the new approach.

• **Commitment to Protecting Worker Rights.** Echoing the company's belief in the importance of maintaining its TOE commitment, stakeholders re-empha-

sized the importance of an ongoing, dedicated effort to improve the performance of suppliers' compliance to the TOE. Basic human rights — including freedom of association and right to collective bargaining remain at the foundation of a worker's well-being. Stakeholders argued that without those basic rights protected, in addition to access to a living wage, the full impact of the programs proposed under this strategy will not be realized.

 Self-sustained Programs. Stakeholders stressed the importance of designing this initiative so that its programs would be self-sustaining in the long term. In its guiding principles, LS&Co. acknowledges the importance of listening to worker voices to remain relevant and responsive. It must be recognized that worker needs will shift over time. Designing the program to allow for evolution will be necessary for continued positive impact. Additionally, partnering with local and global stakeholders, as well as industry leaders, will be essential for ensuring the long-term success of the program and supporting its move to self-sufficiency.

CHALLENGING ISSUE: A LIVING WAGE



Stakeholders agreed that the issue underpinning the success of many of the proposed programs under this new approach is the challenge of providing workers with a living wage. A living wage affords a worker the

ability to meet the most basic necessities of life food, clothing, shelter, healthcare, and education. Setting and meeting a living wage is a hot-button issue for all companies with global supply chains; it is a challenge that can only be met through the leadership of individual companies, coupled with collaboration between companies, unions, NGOs and governments. Establishing a living wage will require businesses, NGOs, governments, industry associations, unions, suppliers and others to come together to jointly determine a solution and a way forward.

In early 2011, LS&Co. adopted a new position on wages. Within this statement, LS&Co. recognizes that it cannot go it alone. For change to be realized, other companies must adopt similar policies and advocate for governments to set adequate minimum wage requirements and enforce the labor laws designed to protect worker rights. Read more about LS&Co.'s wage position.

- Inclusiveness. To ensure programs are sustained in the long term, stakeholders strongly advised that the design process be inclusive of the workers themselves. Accessing accurate and unbiased worker survey information is extremely difficult, and stakeholders recommended engaging others in the industry to share learning and strategies for accessing information on worker needs beyond wages. Stakeholders also observed the need to create ownership from the start of the process among not only workers, but also management and the surrounding communities. Stakeholders recommended taking a bottom-up approach, involving all of these groups in determining not only the "what" but also the "how."
 - Engaging Unions. Stakeholders suggested that unions could be a good partner for collaboration and accessing worker opinions. Additionally, stakeholders suggested conducting an analysis of factories within the supply chain that have collective bargaining agreements in place. This information would provide a more comprehensive sense of factories/regions where collective bargaining could be an effective mechanism to leverage for implementing additional worker programs.
 - Engaging Management. Stakeholders suggested conducting management surveys in the assessment and program development phases. Engaging management at the supplier factories could contribute to increased uptake and a sense of ownership for these programs over the long term.
 - Engaging the Community. Engaging credible, local partners will help the programs to become embedded within the local communities.
 Support from local institutions, both urban and rural, will be essential for success. Designing programs to be inclusive of the surrounding communities may also increase potential for an in-flow of funding, expanded benefits, and the opportunity to transition ownership of certain programs to the community over the long term.
- Public Policy and Engaging Local Governments. Given the complex regulatory environments within which suppliers operate, as well as the varying levels of government support for worker rights, stakeholders suggested local public policy engagement to help create an environment in which these programs can succeed. Stakeholders stressed the

importance of conducting regional evaluations to better understand how local regulations might serve to encourage or inhibit uptake of the new approach.

Measurement and Disclosure. The new strategy is expected to result in a number of social, environmental and business benefits. Stakeholders recommended creating metrics and integrating systems for program evaluation into current supplier assessment processes and that these metrics be designed to measure outcomes over time. Additionally, stakeholders highlighted their expectation for public disclosure of the progress and impact of this initiative - as well as the importance of setting targets for improving uptake and impact in the short and long term. Stakeholders also noted that as the TOE remains at the heart of this program, credibility for this program will depend upon the disclosure of how suppliers are currently performing against compliance requirements.

THE RUGGIE MANDATE



In 2005 John Ruggie was appointed to be the UN Secretary General's Special Representative on Human Rights and Transnational Corporations and Other Businesses. With this appointment

came the mandate to help clarify the different roles and responsibilities that state and business hold for protecting human rights. A multi-year, multi-stakeholder consultation process ensued resulting in the development and release of the "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework." In June 2011 the UN Human Rights Council endorsed this framework, establishing it as the global reference point. The three pillars of the Guiding Principles address:

- 1. **The state duty to protect** against human rights abuses, including by business;
- 2. The corporate responsibility to respect human rights through proactive due diligence; and
- 3. **Greater access to remedy** for victims of human rights abuses involving companies.

Stakeholders recognized the potential for the new supplier standard to serve as a model for carrying out the corporate responsibility pillar and advocating for local governments to take increased responsibility. The group recommended using and referencing this Framework in the development and implementation of the new approach to supplier engagement. Learn more here.

PRIORITIES, GOALS AND INDICATORS FOR SUCCESS

Taking into account LS&Co.'s own experience, its understanding of the needs of workers within the apparel supply chain, and taking inspiration from the Millennium Development Goals (MDGs), the company identified five areas of focus for its new approach:

- Economic empowerment;
- Good health and family well-being;
- Equality and acceptance;
- Education and professional development; and
- Access to a safe and healthy environment.

Priority Areas and Alignment with the MDGs

For each of the five priorities, LS&Co. developed an overarching goal designed to guide the development of worker well-being programs in the factory and community. The company also identified areas of focus for the programs, as well as potential indicators for measuring impact.

One key principle is that there is no one-size-fits-all approach for addressing worker needs and improving the well-being of workers, their families, and communities on the ground. Thus, the design of programs under each priority area — as well as the indicators for measuring impact — will need to be developed and customized at the factory-level and will be determined based on the needs of supplier workers and their communities.

Stakeholders supported the choice of the five priority areas and applauded LS&Co. for its use of the MDGs in the design of this strategy. For many garment factory workers, it is their families and communities that are at times in greatest need of support and services. As this program will go beyond the factory walls — thinking about not only the worker, but also where they are coming from and who they may have left behind — the potential impact for this new approach is much greater.

Included below are the goals for each priority, areas of program focus, and examples of potential indicators that could be used for measuring impact at the factory level. Stakeholders reviewed each of the priority areas and provided guidance for focusing and developing the programs, as well as the indicators for measuring impact. FIGURE 1.1 / PRIORITY AREAS AND ALIGNMENT WITH THE MDGS

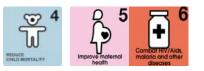


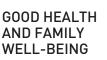
Potential Indicators for Measuring Impact:

- Increase in number of workers reporting improvement in living standards
- Increase in number of workers reporting access to financial services
- Increase in number of workers reporting having been able to save money
- Increase in factory and worker productivity, providing positive impact to workers' wages and benefits and supplier profitability
- Creation of small enterprise owned and managed by workers' families
- Increase in families' disposable and discretionary income

Stakeholders stressed the importance of using this initiative to address the systemic challenges that remain within supplier facilities and identified providing workers with a living wage as a critical underlying issue. The group observed that the ultimate success of many of the proposed programs will be undermined if workers are unable to meet their most basic necessities.

- Freedom of Association. Stakeholders expressed that one of the keys to helping workers achieve a living wage is the freedom to associate and form unions. Although freedom of association and the right to collective bargaining are included within the scope of the existing TOE, stakeholders supported the use of an indicator focused upon the right to have democratic elections of worker representatives, and how these representatives help to drive change, as well as uptake of this new strategy and its programs.
- Financial Empowerment and Access to Services. In many countries where suppliers operate, women workers do not maintain control of their paychecks, making economic empowerment difficult to achieve. Stakeholders recommended identifying strategies to address this challenge and developing an indicator to track progress.





Goal: Workers, their families and com-

munities are enabled to understand, identify, acquire and apply necessary health resources and practices.



CHALLENGING ISSUE: CULTURAL EXPECTATIONS

A primary challenge raised by stakeholders is the potential obstacles that cultural norms and expectations may

have on the implementation and uptake of many of the programs proposed by this new approach. Specific cultural issues may impact workers' (particularly female workers) ability to take advantage of health and educational services, or even control their wages once they leave the factory. The stakeholders recommended taking a holistic view of how to implement this new approach and identifying strategies to advocate for improved government policies, educate communities on the importance of benefits such as reproductive health services, and develop creative solutions that will allow all workers to take advantage of the services provided.

Areas of program focus:

- Hygiene
- Sexual and reproductive health
- Nutrition
- Children's health

Potential Indicators for Measuring Impact:

- Increase in number of workers reporting access to nutritious and affordable meals
- Increase in number of workers reporting having received adequate pre- and post-natal care
- Increase in workers awareness of and access to HIV/AIDS prevention and treatment
- Increase in workers awareness and practice of good hygiene and health promotion
- Reduction in worker sick days
- Increase in (female) workers awareness of and ability to apply family planning
- Decrease in child mortality due to infectious and vector-borne diseases
- Increase in childhood immunizations

At a moment in time when many cuts are being made to healthcare investments, stakeholders were pleased to see a focus placed upon reproductive, maternal, and child health.

- Access vs. Affordability. Stakeholders observed that it is not only important for workers to have access to health services, but it will also be key to focus on affordability. If workers do not have the resources to pay for these services, it will not matter if services are accessible or not
- **Reproductive health services.** Cultural constraints may create obstacles to the uptake of these services – particularly on the part of female workers. Oftentimes women cannot make family planning decisions or afford safe, quality, or timely healthcare, which makes maternal health and child mortality difficult to address. Stakeholders strongly emphasized the need to focus upon addressing these external cultural issues and identify strategies for elevating worker and community education and awareness.



EQUALITY AND ACCEPTANCE

Goal: Workers are protected from harassment and discrimination. Workers' voices are recognized and respected and

workers are able to freely communicate and dialogue with management. Communication skills are extended to household and community members.

Areas of program focus:

- Harassment and discrimination
- Communication and negotiation

Potential Indicators for Measuring Impact:

- Increase in hotline services available for female workers and migrant workers
- Increase in worker confidence in communication and utilizing dispute resolution mechanisms; increase in management's commitment to listen and resolve grievances
- Reduction in worker-management disputes
- Increase democratic elections for worker representatives in the factories
- Reduced incidents of domestic violence

In addition to establishing a living wage, stakeholders agreed that one of the most critical issues linked to the uptake of this new standard is addressing challenges of equality and empowerment. Female factory workers dominate the apparel industry's supply chain. Without empowerment and fair and equal treatment, workers particularly female workers — will be unable to realize the full benefits of the other programs proposed.

EMPOWERING WOMEN WORKERS

According to some estimates, women represent 70 percent of the world's poor and more than half of the estimated 33 million people living with HIV worldwide. In its work with the Levi Strauss Foundation and BSR's HERProject, LS&Co. has found alarmingly low levels of knowledge about menstrual health, family

planning, pregnancy and post-partum care, and HIV/AIDS. The result? These factory workers miss a great deal of work due to reproductive health problems. LS&Co. has found programs on these issues to be an "easy win" that also produce clear business benefits.

Stakeholders recommended building upon this work, as well as LS&Co.'s support of the United Nations Women's Empowerment Principles, to further catalyze actions that advance and empower women in the workplace, marketplace and community. Learn more about the Women's Empowerment Principles here.

"We believe in the importance of women's empowerment for community development and regard equality as a human right and respect it."

- Azhar Bilal, Crescent Bahuman Ltd. LS& Co. Supplier, Pakistan
- Factory Power Dynamics. Stakeholders noted the need to address the cultural power dynamics that typically exist within factories where male managers are often in charge of hiring. This dynamic can result in gender discrimination, harassment, and violence against women. Stakeholders recommended including a focus on integrating more women into positions of management and hiring roles, as well as emphasized the importance of establishing effective grievance mechanisms.
- Worker Representation. Stakeholders observed that the objectives of the equality and acceptance priority will only be achieved when worker

representation is supported within the factory, and workers are able to form their own associations and unions. Stakeholders highlighted the opportunity to influence unions around the issue of gender equality—ensuring that unions are respecting and representing women's rights and women are included in union leadership.

- **Migrant Workers.** Stakeholders recognized that migrant workers are a significant part of the global apparel sector supply chain and noted that there is rising concern about their treatment and attention to their particular needs. Stakeholders encouraged the expansion of these programs to also address the challenges that are specific to the migrant worker — including debt bondage, document withholding, violence, etc.
- **Gender-specific Safety Considerations.** Stakeholders recommended including a focus on safety issues that are specific to women within the workplace and identify opportunities to adapt manufacturing processes for the female worker. Additionally stakeholders recommended addressing safety concerns outside of the factory walls, as women workers in particular regions face significant safety risks traveling to and from work.



EDUCATION AND PROFESSIONAL DEVELOPMENT

Goal: Workers and their families and, where possible, communities, are provided access

to basic education (reading and writing) and an opportunity to develop other professional development skills.

Areas of program focus:

- Literacy and basic education
- Professional skills and development

Potential Indicators for Measuring Impact:

- Increase in number of workers reporting having access to basic and other education they need
- Increase in number of workers reporting job satisfaction
- Increase in number of workers promoted (vs. external hires, female vs. male)
- Reduction in worker turnover and absenteeism
- Increase in worker productivity
- Increase in factory and worker productivity, providing positive impact to workers' wages and benefits and

supplier profitability of small enterprise owned and managed by workers' families

 Increase of families' disposable and discretionary income

A significant opportunity embedded within the education and professional development priority area is the potential for job creation.

- Job Creation. Stakeholders recommended drawing out the potential economic impact by demonstrating how these programs will serve to benefit not only the supplier, but also the economic security of worker families and the surrounding communities. Through supplier incentives, this new standard could result in longer-term contracts with suppliers and improve business relationships — resulting in increased employment opportunities for workers within the communities surrounding factories.
- Empowering Workers. Through the increase of worker responsibilities and promotions, these programs could have significant impact on the empowerment of the workforce. Useful indicators for measuring impact include worker turnover rates, as well as an increase in promotions. Stakeholders recommended tracking and disclosing disaggregated data for male and female workers to ensure all workers are benefitting from programs and to identify any potential gaps in program uptake and effectiveness.
- Child Education. Stakeholders recommended expanding the focus of these programs to also cover the issues of access and affordability of education for the children of workers and the community. Childhood education is closely tied to the challenge of a living wage because if wages are not sufficient, children are often required to leave school to work or because they cannot afford the school fees.



ACCESS TO A SAFE AND HEALTHY ENVIRONMENT

Goal: Workers, their families and communities have access to clean water, sanita-

tion, a safe, clean living environment, and community infrastructure.

Areas of program focus:

- Water and sanitation
- Mobility
- Environmental preparedness and resilience

Potential Indicators for Measuring Impact:

- Increase in number of workers and families who have access to safe drinking water and basic sanitation within and outside the factory walls
- Increase in workers with access to safe, reliable and affordable transportation between work and home
- Increase in factories and communities with natural disaster preparedness plans in place
- Waste disposal infrastructures are secured and operational

This new approach is one part of a larger, more comprehensive LS&Co. environmental sustainability strategy. Stakeholders recommended linking the new standard — and specifically the programs within the access to a safe and healthy environment priority area — to the broader work being done across the company to address environmental sustainability within the supply chain. From product design to agricultural processes to advocacy for climate policy — all of these elements of the larger sustainability program are related and support each other. Communicating this linkage would further demonstrate both the sustainability impact, as well as the business value, of implementing this new approach.

- Link to Climate Change. Stakeholders suggested drawing a stronger connection between these programs and the broader issue of climate change. Specifically because this priority area refers to disaster resilience and access to clean water—two challenges that have been in part created and exacerbated by the onset of climate change.
- Climate Change Adaptation. Referencing experiences with the disaster response to the earthquake in Haiti, stakeholders recommended working closely with factories in the design of disaster resilience and preparedness programs. In the aftermath of the earthquake in Haiti, many factories refused to be the central points for relief services. This highlights the need for companies to influence factories to become part of the solution.
- Links to Clean Energy. Many of the programs identified within this priority area address the symptoms of climate change, but not the root cause. Stakeholders recommended focusing on the challenge of supplier factories' reliance upon fossil fuels for energy. Many suppliers do not have the option of accessing renewable energy and with international efforts — through the United Nation's Sustainable Energy for All program

 increasingly focused upon renewable energy infrastructure and access, there is a significant opportunity for LS&Co. and other companies to engage.



THE ECONOMICS OF EXTREME WEATHER EVENTS

In November 2011, the Intergovernmental Panel on Climate Change (IPCC) released its most recent

assessment of the impacts of climate change specifically extreme weather events and disasters. The report found that climate change is causing an increase in the frequency, intensity, spatial extent, and duration of many extreme weather events. The report findings support what many businesses — including Levi Strauss & Co. — already know: that climate change has real economic impacts.

Learn about the IPCC report and its findings here.

MEASURING IMPACT

Measuring the impact of worker-based programs is an ongoing challenge that many companies are individually and collectively working to overcome. More difficult is creating metrics that are not only able to track accurate and credible data, but that are also meaningful and help to further evolve and improve the programs over time. Stakeholders were pleased to see that LS&Co. is taking a customized approach for developing metrics at the factory level and agreed that the indicators need to be designed so that they can meet the needs of a particular region, factory, worker group, and community.

Stakeholders provided additional guidance for developing indicators for measuring impact.

• Engage Local Organizations. Local institutions are quite often those best positioned to help companies identify appropriate and effective indicators for measuring impact. Local NGOs may already be focused upon driving the objectives set forth by LS&Co. and likely have experience measuring impact, as well as insights regarding potential pitfalls to avoid. Stakeholders suggested taking the opportunity to understand the landscape of community organizations and identify opportunities to set common goals and use similar metrics. This alignment will also help in the long-term for ensuring ownership of the programs by suppliers and the communities.

- Demonstrate Value for Suppliers. Stakeholders recommended thinking through indicators that may not only demonstrate performance impacts of the programs, but that may also demonstrate value to the supplier. Communication of the business benefits, coupled with incentives, will help gain buy-in and will build the business case for scaling this program to include more suppliers and other companies.
- Ensure Ease of Measurement. Stakeholders suggested creating indicators that can be easily measured and that can be independently verified. Indicators that require worker self-reporting can be challenging when analyzing data for trends of impact. For example, if a worker has not yet been educated on the topic of self-esteem and empowerment, the baseline assessment may not be accurate, because that worker does not yet have an understanding of what self-esteem means. Therefore, the follow up assessment results will not be indicative of the actual change or impact that the educational process may have had.
- **Communicate the Business Value**. There is an existing perception that these types of programs are very expensive. There will be economies of

scale, however, as other companies, suppliers, governments and funders become involved. LS&Co. should identify ways in which the company might measure, track and report the return on investment for this initiative over time. This will be key for encouraging other companies to participate.

IMPLEMENTATION AND THE IMPROVEMENT CONTINUUM

To help LS&Co. determine the types of programs needed at each factory and how best to implement them, the company developed an **Improvement Continuum** to determine the level of education and awareness needed for each of its suppliers — including workers within the factory walls, their families, and surrounding communities. The Improvement Continuum will also be utilized when determining which vendors to engage in the pilot testing of the new standard. To provide LS&Co. with the most diverse pilot group possible, vendors at different points along the Improvement Continuum will be targeted allowing LS&Co. to better understand the challenges and opportunities involved in working with companies at the **fundamental**, growing, and expanded stages. Figure 2.1 details the three phases along the Improvement Continuum. The figure also underscores that at the foundation of this continuum is the protection of human rights provided by the existing Terms of Engagement.

New approach and programs built upon the commitment to	FUNDAMENTAL	GROWING	EXPANDED
compliance with the Terms of Engagement	About: meeting workers' fundamental needs	About: reaching workers' families	About: expanding impact to communities
Programs designed to improve the well-being of workers, their families and the communities	How: awareness, skills and access to basics via the factory	How: access and shared knowledge beyond factories' four walls	How: multiplied impact and scale into the communities
	LS&Co. role: assess workers' needs and facilitate workplace education and in-factory initiatives	LS&Co. role: facilitate extension of knowledge to family and create partnerships for access to services	LS&Co. role: broker successful partnerships to extend reach to communities
Protecting worker rights remains to be the foundation of engagement with suppliers	TERMS OF ENGAGEMENT		

Stakeholders appreciated the continuum approach for designing and implementing this initiative in various regions of the world. It will be important for long-term success to recognize the varying levels of sophistication in different countries and to ensure that there is a basic foundation of knowledge before moving factories along the continuum. Stakeholders commented that the inclusion of families and communities is an ambitious, but necessary, goal of this approach. Recognizing the need for community-based programs that go beyond the individual worker is critical to seeing meaningful impact.

Understanding the need to crawl before you walk or run, stakeholders acknowledged that it will be necessary to use the pilot year to better understand potential obstacles and opportunities, as well as to put in place the systems necessary to track impact over time.

Stakeholders identified key elements critical to successful implementation of the new standard.

- **Creating Tools for Uptake.** Stakeholders suggested identifying tools that will encourage and empower workers to realize the benefits of these programs. For example, collective bargaining could be used as a mechanism to ensure that the benefits of these programs are guaranteed to workers.
- Linking to Business Decision-Making. Stakeholders stressed the importance of evaluating internal business processes to help achieve program objectives. Decreasing lead times have put many factories under intense pressure. If this trend for shorter lead times is combined with lower prices for product, the result will be a situation in which sustainability improvements are not possible. Stakeholders recommended taking a fundamental and honest examination of product pricing and purchasing practices — from design to finishing — to understand how to enable successful program adoption.
 - Engaging LS&Co. Employees. Implementation of this program will require a commitment to adjust LS&Co.'s business processes in the areas of sourcing and purchasing. Stakeholders recommended involving these departments early on in this program's development and in the pilot projects.
 - Incentives for Internal Employees. Just as suppliers must be incentivized to shift their business processes, so must internal corporate employees. Stakeholders recommended identifying ways to link objectives of this initiative to



the individual goals and performance assessments of employees that have direct impact on the sourcing and purchasing decisions.

- Training and Capacity Building. Successful implementation will in large part hinge upon capacity building and training within the supplier factories. Stakeholders advised committing resources not only for training factory workers and management — but also for corporate employees who work with the suppliers' management teams and engage workers.
- Strengthening the Employer/Employee Relationship. It was suggested that the strained employee/employer relationship within many supplier factories could present significant challenges to successful implementation of this program. This is an issue that will only be addressed in the long term through the building of trust. Those companies that own factories, like LS&Co., may be well positioned to address this challenge by sharing with suppliers lessons learned about building successful employer/ employee relations and the business benefits of doing so. Stakeholders also recommended identifving ways in which buyers more generally could support the strengthening of those relationships through improved sourcing practices and business processes.
- Incentivizing Suppliers. Creating incentives for suppliers will be critically necessary to the uptake of these programs, and stakeholders recommended aligning those incentives with supplier contracts and purchasing practices. Longer-term supplier relationships will better position the company and the supplier to partner, implement and realize the benefits of this initiative.

- Government Incentives. The stakeholder group also suggested exploring how government incentives could be utilized and how local governments could be encouraged to develop additional incentives for suppliers.
- Communicating the Business Rationale. Stakeholders observed that a critical component for the successful and sustained implementation of this program is the identification and communication of the business value for moving beyond compliance. Demonstrating how this program and its objectives are integrated into the business strategy will be critical for getting buy-in from supplier factories and other companies that may be considering following suit.
- Ensuring Supplier Responsibility. To ensure that these programs are sustained over the long-term, there needs to be a sense of responsibility placed upon the supplier. Stakeholders suggested being clear about how those expectations will be set and how management will be engaged in the process from the start. It will also be necessary to set expectations for what is to be achieved in the first year, 3 years or 5 years. Stakeholders suggested setting goals with the factory management so that there is a shared vision for success in the short and long term.
- **Piloting.** Stakeholders acknowledged the need for LS&Co. to initially focus implementation on a smaller group of suppliers, but encouraged the company to communicate its strategy for expanding this to cover all suppliers and sub-contractors in the future. Stakeholders noted concern over the pace of rollout for this project and suggested that the company explain how and why it determined its pilot vendors, as well as the number of facilities covered by each vendor. See details on LS&Co.'s strategy for implementation in the following section.
- Expanding the Scope. Stakeholders recommended extending the implementation of the new approach beyond the factory and into the farms. For the apparel industry, many of the hidden costs of cotton — child labor, environmental impacts and worker exploitation — occur at the farm level. There are multi-variable risks, both social and environmental, at the commodity level. Stakeholders recommended examining where the greatest impacts occur within the full supply chain and use this analysis to prioritize implementation of specific programs.



Calling to Action. Stakeholders recognized this initiative as a significant opportunity for LS&Co. and other companies within and outside of the apparel sector to demonstrate leadership and raise supply chain standards. Stakeholders recommended leveraging other industry efforts to bring on more partners. Industry collaborations may also be an opportunity to go beyond the traditional industry leaders and access companies that are just entering into this space and could learn from this strategy's focus and approach to implementation.

MOVING FORWARD: IMPLEMENTING THE NEW APPROACH

With the help of stakeholder guidance and insights, LS&Co. developed a plan for its pilot testing and implementation of the new approach. LS&Co. agreed with stakeholder feedback regarding the importance of business integration and not only identified strategies for engaging suppliers, but also examined ways in which the company could shift its own internal business processes and develop strategies for engaging partners outside of its supply chain — with NGOs, labor, government agencies, peer companies, and others.

LS&Co. believes that developing a supply chain with empowered, protected and educated workers makes good business sense and will help it to be a stronger company. As with many decisions that are made to strengthen the long-term financial sustainability of a business, LS&Co. is making a meaningful commitment to the development, implementation, evaluation, and cultivation of this new supplier engagement and the associated programs.

Utilizing the "test and scale" approach will ensure that implementation is deliberate and consciously designed to be nimble and allow for evolution over time. LS&Co. will continue to openly disclose plans for implementation, indicators for measuring success, and progress committing to share information among all key partner organizations, including its competitors.

Over the next five years, LS&Co. will be focusing efforts in three primary areas:

- 1. Supplier engagement;
- 2. Business decision-making; and
- 3. Building partnerships.

Included below are details of the essential components of each of LS&Co.'s strategic areas.

SUPPLIER ENGAGEMENT

Utilizing a test-and-scale approach, LS&Co. will begin implementation with several key vendors in the first year — and building upon lessons learned, will expand to additional suppliers in following years. Recognizing the multiplier effect that this initiative can have, LS&Co. will also be expanding efforts to include suppliers of other brands and retailers. Action items for implementation at the supplier level include:

• Worker Inclusion. Currently LS&Co. engages with workers and unions during the TOE assessment

process, gathering information on how factory management is treating workers. The company agreed with stakeholders on the importance of engaging workers and will be prioritizing the inclusion of workers not only in the assessment of their needs, but also in program development. LS&Co. will also identify opportunities to engage worker representative bodies to help assess worker needs.

- Supplier Incentives. In recent years, requests for suppliers to establish environmental and social sustainability programs within factories have increased rapidly. Educating suppliers on the business benefits and providing them with direct incentives for establishing worker-needs programs will be key for both the short- and long-term success of this standard. In the initial pilot year, LS&Co. will identify and test various supplier incentives—collaborating with peer companies in the process.
- Shared Learning. Implementation of the new strategy with suppliers across LS&Co.'s supply chain will provide a wealth of opportunity for shared learning — particularly among the suppliers themselves. LS&Co. will create opportunities for suppliers to join together to share lessons learned and also develop a network where suppliers may support each other.

BUSINESS DECISION MAKING

To enable the successful implementation of the new strategy, LS&Co. understands the importance of examining its own decision-making processes. Specifically, LS&Co. will work to:

- Improve Purchasing Practices. LS&Co. will identify strategies for shifting its own internal purchasing practices to decrease negative impacts and enable adoption of the new approach.
- **Support Factory Productivity Improvement.** The company will demonstrate support for its suppliers that strengthen factory productivity and efficiency.
- Develop the Business Case. LS&Co. strongly believes that setting higher standards for itself and its supply chain makes it a stronger business. Responding to stakeholder feedback, LS&Co. will identify metrics for tracking the business case and measuring ROI for the worker programs put in place. The company is committed to sharing this information with its suppliers, as well as with companies within and outside of the apparel sector.

BUILDING PARTNERSHIPS

From assessing worker needs to designing programs and measuring impact, it is clear that one company cannot do this alone. Partnerships with NGOs in the communities where factories operate, engagement with labor organizations and local governments, and collaboration with peer companies within and outside the apparel industry will be critical for successful implementation. Specifically, LS&Co. will focus its efforts on:

- Worker Surveys. A core priority will be addressing the key challenges identified during the research and planning stages, specifically:
 - 1. The lack of knowledge of worker aspirations and needs in many regions; and
 - 2. The lack of understanding of how workers and suppliers view the impact of initiatives and programs that are already in place.

In order to address these knowledge gaps, LS&Co. will work in close partnership with NGOs and other companies to evaluate current worker surveys and develop an improved system allowing for the gathering of accurate and credible opinions from the workers themselves regarding their needs in each of the five priority areas. Where programs may have already been established, these surveys will also provide an opportunity to gather worker feedback on the impact of those initiatives. Under the leadership of the Levi Strauss Foundation with support from BSR, the development of worker survey approaches is underway.

- **Public Policy.** As a member of the Ceres-led Businesses for Innovative Climate and Energy Policy (BICEP), LS&Co. understands the value of businesses es engaging in public policy advocacy. Stakeholders observed, within the countries where LS&Co.'s suppliers operate, public policy might inhibit or support the company's efforts to improve worker well-being. Thus, the company will first identify potential obstacles and opportunities, and then engage in policy advocacy with local governments.
- Engage Business. Collaboration with other companies and retailers will be necessary for bringing this new standard to scale. LS&Co. will focus initial engagement on companies located within the pilot vendors and then will expand its focus to bring in other companies both within and outside of its industry.

"A little over a decade ago, world leaders agreed on a set of targets — the Millennium Development Goals — a blueprint to improve the well-being of the world's most vulnerable people...There are many opportunities for providing extraordinary benefits to the poorest and most vulnerable members of society. In many cases there are also opportunities for the private sector — not merely as exercises in corporate responsibility, but as sound business."

 Ban Ki-moon, UN Secretary General Abuja, Nigeria / May 23, 2011

SCALING IMPACT THROUGH COLLABORATION

Levi Strauss & Co. has a vision of a supply chain that will go beyond compliance to be focused upon improving worker well-being, restoring the environment, and strengthening communities through education and empowerment. For the past two decades, companies within the apparel sector have been focused on the protection of human rights through auditing and monitoring. Protecting these basic rights is fundamental and should be at the foundation of every global supply chain strategy, yet the progress that has been made in the past 20 years is just not enough.

The stakeholder consultation process raised to the surface the enormity of the challenges ahead. Significant obstacles remain — from addressing wage issues to combating cultural norms. Companies from across the apparel sector and beyond have a shared responsibility to collectively raise the bar. This effort will only be successful through the active engagement of workers and suppliers, and with the help of community-based NGOs and service providers, local governments, labor groups, and the investor community.

Opportunities exist to build upon the commitment of LS&Co., as well as that of the other companies already working to improve the well-being of supply chain workers in various regions of the world. There is an urgent need to bring together the collective lessons learned from these existing programs, to collaborate and tackle the key challenges that still remain, including accessing the worker voice, measuring impact, and bringing these efforts to scale.

So what can you do to take action?

- Become or recommend a partner organization. To address key challenges like accessing the worker voice and assessing program impacts, there is a need to find partners that can help identify practical solutions—particularly local stakeholders and partners that understand the needs and aspirations of the workers in these communities.
- Share ideas, resources and research. Openly sharing lessons learned from worker-focused programs and research on how programs have had impact will help in the collective design of successful programs that can a have long-term, sustained impact. We need to disclose and learn from the challenges, and develop informed and innovative on-the-ground actions.



- Participate in a progress assessment. Late in 2012, LS&Co. will convene stakeholders to review progress and provide feedback as part of the test-and-scale approach to rolling out the program. All types of organizations can support and participate in the assessment of progress by working with their own networks and supply chains, as well as helping LS&Co. improve worker programs and then identify opportunities and partnerships for implementing the approach throughout global supply chains.
- Engage your stakeholders and supply chain partners. No matter the industry, opportunities exist to positively impact the workers that are helping to produce your products. Proactively engage your stakeholders and supply chain partners to better understand the challenges faced by workers and think about what your business can do now to engage suppliers.

There is an urgency to take action now, and the business case is clear. Improving the lives of supply chain workers by building an educated and empowered workforce will help to create a more stable and resilient supply chain.

Systemic change does not come easily, nor does it come quickly. We invite you to join us. There is only one way that this effort to pioneer a new supply chain strategy — creating tangible improvements in the lives of workers across the world — will be successful, and that is if we move forward together.

Join us on the path toward a more sustainable future.

FOR MORE INFORMATION

Comments or interested in learning more?

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Ceres Andrea Moffat, Vice President moffat@ceres.org

ABOUT CERES

Ceres is a non-profit organization leading a national coalition of investors, environmental organizations, labor unions and other public interest groups working with a network of more than 75 companies to address sustainability challenges such as global climate change, water scarcity and sustainable supply chains. In 1997, Ceres launched the Global Reporting Initiative (GRI), which has become the internationally established standard for corporate reporting on the "triple bottom line" of economic, social and environmental performance. Ceres also directs the Investor Network on Climate Risk (INCR) network of 100 institutional investors with collective assets totaling more than \$10 trillion.

ABOUT LEVI STRAUSS & CO.

Levi Strauss & Co. is one of the world's largest brandname apparel companies and a global leader in jeanswear. The company designs and markets jeans, casual wear and related accessories for men, women and children under the Levi's[®], Dockers[®], Signature by Levi Strauss & Co.[™], and Denizen[®] brands. Its products are sold in more than 110 countries worldwide through a combination of chain retailers, department stores, online sites, and franchised and company-owned stores. As of November 27, 2011, the company operated 498 stores within 32 countries. Levi Strauss & Co.'s reported fiscal 2011 net revenues were \$4.8 billion. For more information, go to http://levistrauss.com.

LINKS AND RESOURCES / ORGANIZATIONS

Levi Strauss & Co. Levi Strauss Foundation Ceres BSR

ADDITIONAL INFORMATION ON LEVI STRAUSS SUPPLIER PROGRAMS

Levi Strauss & Co. Supplier Terms of Engagement Levi Strauss & Co. Supplier List Announcement of new program

RELATED TOOLS AND PROGRAMS

The 21st Century Corporation: The Ceres Roadmap for Sustainability Ceres Aqua Gauge: A Framework for 21st Century Water Risk Management Intergovernmental Panel on Climate Change Assessment Millennium Development Goals UN Guiding Principles on Business and Human Rights United Nations Sustainable Energy for All Women's Empowerment Principles