

S-360: Working Practices in the Food Sector

The Investor Forum works to put stewardship at the heart of the decision making process. Shareholders increasingly need to incorporate the impact of all value drivers when considering their long-term investment thesis – including non-financial factors such as culture, human capital, environmental impact and citizenship. For investors, insights in these areas are becoming a differentiating factor.

In 2017, we focused on the working environments of the distribution centres and the potential for abuse within the textile supply chain in the apparel sector. In 2018, we extended those insights and lessons into our analysis of the food retail sector. These are large consumer facing businesses, and significant employers, directly and indirectly, which have the power to influence complex global supply chains. The risks the sector faces differ – but labour exploitation and creating a productive working environment are systemic challenges.

15 Members participated in the workshop and research trip. Investors agreed that the project gave them a valuable insight into the companies that they would not otherwise have had, whilst companies welcomed the opportunity to discuss these issues and gain insights into the areas of material interest for investors.

The Taylor Review of Modern Working Practices, published in July 2017, states a clear belief that “the tone for fair and decent work is set at the top of an organisation, reflecting the demands of shareholders and consumers and extending out into the workforce and the wider supply chain.” The Board’s attitude towards organisational values and culture, and its perspective on stakeholder, operational and reputational risks are key indicators of the quality of the workplace and exposure to risk areas. As such, we wrote to the Chairmen of the three listed UK supermarkets, and asked them to engage with investors on the issue.

Tesco plc and **J Sainsbury plc** each engaged constructively and provided insights into their supply chains and the way they frame and manage these issues. We learnt important lessons on business practice, and what investors, ESG integration looks like from a company/s perspective.

“ At Sainsbury’s, our values underpin everything we do as a business, helping to strengthen our relationships and build trust with our stakeholders. I encouraged our team to open our supply chain to investor scrutiny through the Investor Forum’s project. We believe that the engagement demonstrated our commitment to working in partnership with our stakeholders and our commitment to doing the right things for our customers. We found the dialogue valuable and it further enhanced our understanding of our shareholders’ interests. ”

David Tyler, Chairman of J Sainsbury plc

Research trip insights

Sainsbury’s Ethical Trading team worked with us to arrange access to two of their private UK-based fresh produce suppliers, to show investors front-line examples of labour supply challenges.

With a vast majority of the workforce for these businesses coming from Eastern Europe on a seasonal basis, the potential restriction on the free movement of people is expected to result in a shortage of workers for the peak harvest season. As well as migrant labour that moves freely into, and out of, the sector, we wanted to understand the threats of exploitation, both here in the UK and at the high-risk points in the supply chain.

Media scrutiny of living conditions on one site we visited was a catalyst for industry-wide improvement and agreement on best practice guidelines. The group inspected the accommodation, and heard that in a short time, the cost of improving the physical environment had made financial, as well as humanitarian, sense.

The suppliers we visited want their efforts to ‘do the right thing’ with regards to their staff and broader sustainability issues to be recognised more explicitly by the supermarkets. Whilst treating people well creates a positive culture and a productive workforce, they gave examples of other suppliers cutting corners but retaining contracts with key retailers.

Recognition and reward throughout the chain, perhaps through longer-term contractual support, would support increased investment, leading to a more virtuous circle. Issues discussed included:

Working practices:

- ◆ Managing a multi-cultural workforce
- ◆ Temporary worker accommodation
- ◆ Wage levels
- ◆ Labour provider monitoring
- ◆ Whistleblowing
- ◆ Modern slavery remediation policies
- ◆ Developing and retaining talent
- ◆ Attracting migrant labourers

Wider Sustainability issues:

- ◆ Biodiversity and water management
- ◆ Energy efficiency
- ◆ Packaging and waste management
- ◆ SEDEX auditing
- ◆ Community engagement
- ◆ Industry collaborations

Collaboration

The complexity of challenges within supply chains means that companies are increasingly working together to address significant challenges within categories as a more effective response than the historical audit-heavy certification regimes. Many of the issues are larger than any one company can fix alone, and so collaborative action across the industry at a pre-competitive level is important. Sainsbury's, for example, are involved in 42 different multi-stakeholder initiatives and working groups on social and environmental sustainability.

As part of the project, we heard from the British Retail Consortium, who have encouraged their members to agree common goals to address what they see as the biggest global challenges of the coming decades, including modern slavery and decent work, sustainable economic growth, inequalities, climate change and responsible consumption and production. Using the United Nations Sustainable Development Goals (SDGs) as a framework, the BRC created their 'Better Retail, Better World' programme. The Forum believes that investors should look positively on companies who are able to demonstrate that they are attempting to identify and mitigate risk, increase transparency, and build trust with society.



Engagement questions

As part of the project, we sought to address the following questions:

For companies:

- ◆ How should companies best allocate resources in corporate reporting/ investor relation teams with regard to provision and communication of non-financial data?
- ◆ How can companies encourage investors to incorporate insights from non-financial metrics into their investment conversations on matters which are material to company value?
- ◆ How should companies balance the tension created by short-term competitive factors and consumers' preference for low prices with the desire to create a sustainable, resilient supply chain and to act in a responsible way?

For investors:

- ◆ What signals can be sent to corporate executives to recognise and incentivise good business practice, empower internal teams, and reinforce positive behaviour?
- ◆ What impact should responsible business practices have on the valuation multiple investors attach to a company? How can workforce related risks be reflected in valuation frameworks?