



Development of a Responsible Labor Strategy for Sugar Company Tres Valles

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About BSR

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FUNDAHRSE

About FUNDAHRSE

FUNDAHRSE is a private development organization aimed at promoting, training, researching, and implementing CSR in Honduras. FUNDAHRSE's membership includes 71 leading companies, both local and multinational. FUNDAHRSE is a member of FORUM EMPRESA, an organization that brings together companies from all over the Americas engaged in promoting CSR. Visit www.fundahrse.org for more information.

Executive Summary

Agriculture contributes 13 percent of the gross domestic product of Honduras, and the country's sugar industry plays an important role in the sector, employing 10 percent of the economically active population. Yet, the industry faces tough competition from dynamic Brazilian and major Asian producers. Unable to influence international prices, the Honduran sugar industry has looked for ways to improve its efficiency and increase investments and output. In this industry that remains labor intensive, especially during the harvest season, firm profitability is directly linked to worker productivity.

Honduras's sugar producers however, face labor problems that can negatively affect worker performance and can risk access to international markets. Despite implementation of some safety measures, occupational accidents remain a frequent occurrence, especially among sugarcane cutters. Burning fields for sugarcane harvesting is also a dangerous activity for workers, as they breathe heavy fumes and often lack appropriate protective equipment.

Of particular concern, child labor remains a prevalent problem. The U.S. Department of State 2009 Human Rights Report states that approximately 170 thousand children between the ages of five and 14 are child laborers in Honduras and are oftentimes found harvesting sugarcane.¹ The report also highlights persistent issues with workers' right of association and collective bargaining. It asserts, "[T]he Ministry of Labor frequently failed to provide effective protection to labor organizers."²

Compañía Azucarera Tres Valles (CATV), one of Honduras's sugar mills, seeks to become a more efficient and responsible sugar producer—recognizing that labor standard violations can jeopardize access to international markets and that implementing responsible labor practices (RLPs) can lead to positive returns. BSR and *Fundación Hondureña de Responsabilidad Social Empresarial* (FUNDAHRSE), a Honduran corporate social responsibility NGO, partnered with CATV to provide strategic recommendations on how to link business objectives and benefits to the implementation of robust labor policies and programs. The project focused on recommendations related to: 1) salaries and benefits, 2) worker quality of life, 3) health and safety, 4) child labor, and 5) freedom of association.

The project's short-term results have included:

- 1 Improved health and safety conditions for workers and cost savings associated with reduced injuries
- 2 A renewed commitment to sustainable community development

¹ U.S. State Department. "2009 Human Rights Report: Honduras." March 11, 2010. www.state.gov/g/drl/rls/hrrpt/2009/wha/136117.htm.

² Ibid.

About CATV

CATV started in 1975 as a state-owned enterprise and became a privately owned firm in 1994. The company exports 30 percent of its refined sugar to the international market and has improved its production efficiency by 40 percent in the past 15 years. CATV is an active member of the Association of Honduran Sugar Producers (APAH) and the Sugar Foundations (FUNAZUCAR) and was one of the first sugar mills in Honduras to work with the UN and Japanese technology to generate electricity from sugarcane waste, known as bagasse.



Sugarcane cutters in one of the company's fields

- 3 Improvements in internal staff and worker communication
- 4 A clearly defined company vision and policy to guide the implementation of RLPs. Anticipated long-term outcomes could include increases to productivity and further reduction in costs associated with occupational injuries, decreases in instances of child labor, and increased company respect for employees' freedom of association.

Opportunity

The Honduran sugar industry is a vital component of the national economy employing 10 percent of the population and generating more than US\$25 million in paid salaries yearly.³ Private sugar mills own 50 percent of the land, and independent producers own the remaining half, but often rent out their land to the sugar mills. Production has become more efficient in recent years, and with increased consumption and favorable weather conditions, figures from the Central Bank of Honduras state that the U.S. dollar value of exports increased by 39 percent from 2008 to 2009, from US\$20.9 million to US\$29.1 million.⁴

Child labor violations and inadequate safety measures for sugarcane cutters have persisted, in part because of the Ministry of Labor's lack of resources and limited auditing capacity. In addition, cane cutters suffer from bronchial infections, kidney pains, headaches, and hearing problems. Freedom of association is also severely limited because of strong private sector opposition.⁵

When CATV was a state-owned firm, its workers were represented by labor unions and received financial rewards, known as "sugar bonuses," at the end of the year. The company also made financial donations to surrounding communities. Before being privatized and becoming Tres Valles, the union was dissolved, which resulted in a tense relationship between the sugar mill and the worker community. Today the atmosphere has largely improved, but workers still identify areas for improvements in the company. Specifically, employees identify that company decisions should be made more transparently—and suggest that this goal can be achieved through increased communication with managers.

Additionally, although each year the company has increased support for community health, education, and local government organizations, the surrounding community continues to wish for increased corporate contributions to foster community development.

Given company plans to expand production and increase market share, CATV wished to find ways to improve its labor productivity, while working to continue gaining community support and improve its workers' quality of life. CATV worked with BSR and FUNDAHRSE to implement stronger RLPs to help the company achieve better worker-management relations, higher worker productivity, and more collaborative community relations.

³ Ana Gomez. "Honduras: Sugar Annual, 2010." USDA, April 13, 2010.

⁴ Ibid.

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Ayax Irias Coello. "Diagnóstico sobre la producción y las condiciones laborales en la agroindustria de la caña de azúcar en Honduras," Tegucigalpa, Honduras, 2005.

Strategy

To evaluate CATV's labor policies and safety programs and to design a responsible labor strategy, BSR and FUNDAHRSE conducted a series of activities and met regularly with the company's management team to follow-up on recommendations.

As a first step, the BSR and FUNDAHRSE project team researched international labor practices and buyers' expectations in the sugar industry through a benchmark study. The team, together with CATV, then mapped the company's stakeholders and conducted interviews to better understand internal and external stakeholders' concerns and perspectives on responsible labor and the company's performance. The team also conducted a materiality analysis, an assessment of the importance of different issues raised by stakeholders based on impact on business strategy and society.

The BSR and FUNDAHRSE team conducted a gap analysis to understand the differences between "best practice" in each area and the company's current policies and management systems. They also engaged management in an internal exercise to define and establish a company vision. Finally, the BSR/FUNDAHRSE team coached the company's human resources group, who led the project internally, on effective ways to implement RLPs.

Implementation

BSR and FUNDAHRSE presented the findings of the benchmarking study to company management, using examples from Coca-Cola, Pepsi Co., and Nestle to demonstrate the expectations of international buyers regarding suppliers' social practices. The project team also used the example of the Salvadoran Sugar Association's efforts to eliminate child labor and implement other RLPs to show how a regional competitor addressed a pressing social issue and demands from international buyers.

Next, the team mapped the company's stakeholders and conducted interviews to gather perceptions of the company and its policies.

Interviews with management and workers revealed the following concerns:

- » Although there was little opportunity for professional advancement within the company, workers sought more technical and on-the-job training to improve their skills and advance their careers.
- » Employees wanted more education on health and workplace safety.
- » Workers expressed dissatisfaction with low salaries, and lack of transparency around pay scales and of clear, consistent financial incentives.
- » Worker-manager communication, especially regarding salaries, was seen as very poor. Workers also wished to be more aware of the company's objectives and would like to become more involved in the changes needed to achieve such long-term goals.
- » Managers and workers agreed that the company child labor policy was not enforced and that this was a persistent issue in the sugar fields.

In interviews, members of the surrounding community expressed these opinions:

- » The company was recognized as the area's main source of employment, subsequently raising community expectations regarding the firm's financial contributions to community development.

- » More specifically, external stakeholders believed CATV should make more investments in infrastructure, education, and other public services.
- » Community-company communications were seen as weak and reactive. The community wanted to establish communication mechanisms to voice grievances and provide suggestions.
- » During the harvest season, the company was seen as negatively impacting their health and the environment, mainly because of the burning of sugarcane and increased traffic.

Through a materiality analysis using these interviews as input, BSR and FUNDAHRSE ranked issues according to importance to stakeholders and their impact on company success. Five main areas on which CATV should focus emerged: 1) salaries and benefits, 2) worker quality of life, 3) health and safety, 4) child labor, and 5) freedom of association.

With these priorities defined, the consulting team performed a gap analysis to identify specific areas for improvements for CATV. The analysis evaluated existing programs and labor policies and assessed the effectiveness of their implementation. The following gaps in the company's program were identified:

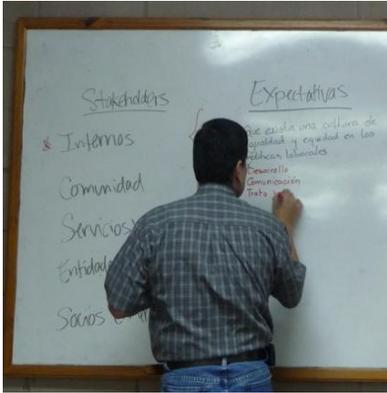
- » The company has the required written labor policies, as mandated by the national labor code, but there is inadequate follow-up or effective implementation.
- » Safety measures and child labor policies are not enforced well enough in the sugar fields, especially during harvest season with temporary employees.
- » There is no effective, consistent communication with employees regarding labor issues. Workers believe the company is not transparent in its decision-making processes, especially with regard to salary and compensation.
- » The company does not have adequate or properly targeted training programs—especially with regard to health and safety—so workers are unaware of the risks of laboring in the sugarcane fields and in the company's mill.

To address these inconsistencies and to improve the company's labor practices, the following recommendations were presented to CATV management who quickly embraced them and began to implement them:

- » **Develop a company-wide, “two-way” system of communication.** Effective management communication should work on all levels of the company, and workers should be able to easily and effectively provide feedback and ideas to managers.
- » **Strengthen a proactive corporate culture.** Workers and managers need to understand their obligations and responsibilities regarding work health and safety. If company policies are not met, CATV must have defined and clear disciplinary measures. Enforcing accountability, following-up on company policies, and conducting evaluations are essential management practices to create a corporate culture that proactively addresses social and labor issues.
- » **Establish a worker-training program for each department.** Each activity performed by employees needs a formal training program focused on health and safety and raising awareness of risk prevention.
- » **Create a culture of continuous improvement.** Improvement should be based on a set of steps that involve: responsible labor planning and goal-setting, program implementation, regular performance measurement and analysis, follow-up actions, and revision of strategies to improve performance.



Local consultant during project meeting



Company vision exercise

BSR and FUNDAHRSE also worked with CATV management to define a company vision. While defining the vision, managers took into account what various stakeholder groups expected of them and how they would prefer to be perceived by their stakeholders. Aware of stakeholder expectations, managers wished to be perceived as partners in sustainably developing the surrounding communities while generating benefits for the company, its employees, and the neighboring population.

Finally, a coaching session with the human resources team focused on ways to effectively design and implement corporate programs. The session also identified a list of success factors that would help the company effectively execute this project’s strategic recommendations, including: 1) obtaining executive and managerial support, 2) developing standardized processes, and 3) holding meetings to evaluate progress and obtain feedback.

Results

Notwithstanding project difficulties due to the serious political crisis in the country, several key results were attained and more are expected to follow given the implementation of some of the specific and targeted suggestions provided to CATV.

SHORT-TERM RESULTS

The company took several steps that resulted in the following significant and immediate positive outcomes:

- 1 **Reduction in work-related injuries.** Human resources director Luis Colindres says he “used the information from the materiality analysis to conduct an internal risk assessment and analyze work-related injuries.” He identified Frente 2—a specific plot of the company’s sugarcane plantation—as the number-one site for accidents for the company in the previous five months.

Mr. Colindres focused on implementing new safety measures for Frente 2. He found that inadequate personal protection equipment and technical training led to accidents as cutters often slashed their left shins and forearms. Cutters received protective shin guards and training on sugarcane cutting techniques, and supervisors participated in a safety and hazards workshop.

These measures resulted in the reduction of 77 accidents in one month, saving the company more than 7,000 Honduran Lempiras (equivalent to US\$369), based on reduced sick-leave pay and not including savings related to avoided medicals costs. Additionally, the numbers represent the decline from one month to the following only, as the company just recently started analyzing this data as a result of BSR’s project. These savings are seen as significant as they depict the potential savings that these types of interventions could have if implemented in all areas of the company.

- 2 **Focus on community development and sustainability of projects.** Results from external stakeholder interviews led Luis Colindres to explain, “To change the way in which we donate, we cannot simply give money to these communities.” The company will present a detailed strategic community investment plan, which delineates several entrepreneurship opportunities to promote project sustainability, to the community. Ideas for community development include donating chickens so families can start egg-selling businesses and donating pigs to start a butcher shop. Tres Valles also plans to involve the local government in the implementation of future projects, including requesting their financial contribution, to ensure long-term longevity of development initiatives.



Sugarcane cutter with shin guard

- 3 **Awareness-raising and improved compliance through information sharing and communication of labor policies.** Industrial Engineering Manager Joseph Hernández called a special meeting with his team to share the country’s laws against work-place harassment, child labor, and overtime. He stated, “The group was unaware of the existence of these laws,” and they decided to share the information with industrial supervisors and coordinators at the end of the busy harvest season. These informational meetings have never been done before and have helped to increase awareness to ensure that engineering staff and workers comply with labor laws.
- 4 **Defining the company’s vision and outlook on responsible practices.** Tres Valles’s vision on RLPs was also formalized and documented as follows: “To be a company that promotes strategies with shared benefits, integrated development, and continuous improvements that have mutual benefits for its collaborators and communities to improve their quality of life and allow the sustainable development of the company and a social license to operate.” This formal vision will help the company set strategies to achieve its newly defined goals and align this mission with the company’s overall strategy. This defined vision can also help guide the company’s internal and external communication.
- 5 **Defining labor policies that support the company’s vision.** Once priorities were identified, Tres Valles’s management team developed a set of labor policies addressing each of the focus areas. The policies describe the company’s position regarding different labor issues, as well as the company’s commitment to their implementation and internal controls to ensure proper follow-up to these measures.

As part of its efforts to improve different labor issues within the company, Tres Valles has also drafted an extensive plan with specific action items for the implementation of its various labor policies. For example, the company has begun to standardize the performance evaluation of its employees and implement public recognition programs that reward work achievements. Tres Valles has also created an accessible employee welcome manual that contains information on the company’s policies, benefits, and procedures,

In addition, Tres Valles has drafted a communication strategy to improve worker-manager dialogue. The plan outlines various formal communication mechanisms, the message they should carry, how frequently they should be updated, their target group within the company, and the person responsible for managing them.

ANTICIPATED LONG-TERM OUTCOMES

Management is committed to finding the best means to implement better labor practices. Upon the completion and implementation of clearly elaborated labor policies, several benefits should follow:

- 1 **Increases in worker productivity.** Implementing appropriate trainings, reward systems, and communication mechanisms will reengage workers and improve employee satisfaction with the workplace. According to Manager Luis Guzman, “Technical workshops will be tailored according to each worker’s needs.” With a more capable workforce, CATV will be able to achieve higher productivity levels.
- 2 **Enhanced worker participation.** During interviews, company management expressed opinions like “labor unions pose a risk to the company.” The company was not open to the idea of freedom of association until recently and now considers the formal representation of workers in management-worker relations as important. Participation in worker associations, like solidarity or cooperative associations—a form of worker association with both labor and management representation funded partly by the company and partly by deductions from workers’ wages—or other types of associations are being considered. Although unconstrained freedom of association continues

to be a controversy, these associations could improve communication and create opportunities for workers, for example, by allowing workers to own a small portion of company stock and create a self-financed fund for loans and investments in recreational activities.

- 3 **Significant reduction in incidences of child labor.** Developing a responsible, proactive, and law-abiding corporate culture will result in more results-driven action plans and improved training for supervisors and coordinators. This change will increase the awareness of company staff about the company's child labor policies and allow CATV to evaluate the effectiveness of its strategies. These efforts, along with improvements in primary school education for the surrounding communities, could eventually lead to sharp reductions in illicit child labor at CATV, helping the company meet international buyers' demands and expectations.
- 4 **Formation of strategic alliances with external stakeholders to tackle community development issues.** Given management's interest in sustainability and community expectations of the company, partnerships are being developed with Dutch-based international NGO Netherlands Development Organization and the Pan American Development Foundation (PADF) to provide the company with technical expertise to implement appropriate solutions for community development. These partnerships have the potential to create jobs in the community, alleviate extreme poverty, and improve relationships between CATV and its surrounding communities.

LESSONS LEARNED AND USEFUL TIPS

In replicating this project, the following tips can be useful to companies looking to improve their RLPs:

- 1 **Formalize and document company policies and establish efficient communication channels.** Writing down regulations and internal policies and disseminating them to all members of the company results in more efficient communication. Understanding company policies and clearly communicating them is crucial for the implementation of RLPs.
- 2 **Conduct interviews with multiple stakeholders.** The successful implementation of strategic RLPs requires knowing the views and opinions of the company's internal and external stakeholders. As seen in this project, results from these interviews can serve as an effective guide for designing a strategic responsible labor program.
- 3 **Establish a comprehensive approach for reducing illicit child labor.** Some field workers say they allow children because they "feel bad for the family's situation" and that children assist with their families' income. The company should look into opportunities to strengthen the surrounding communities' abilities to provide an alternative for children who are in the workplace (i.e., education programs). Providing viable alternatives for children and raising awareness among parents about the perils of child labor can be effective ways to decrease incidences of child labor in the sugar industry.

About DR-CAFTA Project

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