

Kaba Sustainability Charta



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Dear Stakeholders of the Kaba Group

We are proud to present the Kaba Sustainability Charta. What was behind the idea of launching it? Everything except producing another document that nobody needs and nobody wants to read. In fact, the written document is the smallest part of the Sustainability Charta. Above all else, sustainability is about defining the value portfolio of a company and about corporate behavior. Keeping this priority in mind, our real concern is how to make sure that the Kaba Group will continue to be a leader in the eyes of all our stakeholders.

In today's rapidly changing environment characterized by the increasing unpredictability of facts and impacts, outstanding technology or an award-winning marketing organization is far from being sufficient for leadership. We think that leadership implies assuming responsibility for all the relevant stakeholders of the company.

That's largely what we have done in the past, though we were probably not always fully aware of how we did it and why we did it. Moreover, as in every company, room for improvement certainly exists. The Kaba Sustainability Charta will help us both to gain awareness of our responsibility and to improve our assumption of our responsibility. Concisely, the Kaba Sustainability Charta is at the same time a report of Kaba's achievements and a list of Kaba's ambitions as we become a leader in sustainability.

Because the Kaba Sustainability Charta is a new way in expressing our commitment to sustainability, we would very much appreciate your feedback, either by e-mail or fax or by commenting on your findings in a direct discussion with the management. We earnestly hope that you will support our efforts. Thank you.

Ulrich Graf
President and CEO



Dr. Werner Stadelmann
CFO





Commitment to Sustainable Development



“Sustainability will help us strengthen our reputation as a globally active security corporation committed to consolidating its future success by assuming its responsibilities to stakeholders.”

As long as there are human beings, they will need to protect themselves and their property against offenses by other human beings and against all kinds of harm, whatever the cause. Security and inviolacy being elementary needs of mankind, it is legitimate to deduce that the demand for solutions and products providing security and convenience will perpetuate. In contrast to certain consumer goods, such as snowboards or acoustic hearing devices, typically linked to certain cycles of life, security is a lifelong preoccupation of all of us. Thus, the business in which Kaba is operating is by nature characterized by a high degree of sustainability.

We are living up to the commitment to sustainability in our strategic thinking; in our long-term planning; in our way of doing business with all kinds of customers all over the world; in our behavior toward employees, suppliers, or business partners; and in the ways we deal with the other stakeholders.

Sustainability affects the entire environmental spectrum in which we are acting and living. It begins with a sustainable use of resources, whether human, financial, material, or energy. We are paying particular attention to the economic and social interests of our stakeholders, with whom we want to establish a relationship characterized by mutual trust and respect. Sustainability ultimately will help us to consolidate our reputation as a globally active security corporation committed to consolidating assuring its future success by assuming its responsibilities to stakeholders.

As a guideline of our sustainability commitment, we align our efforts with the Ten Principles of the UN Global Compact, launched in 2000 (see Appendix). The Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector – in partnership with other social actors – can help make the vision of a more sustainable and inclusive global economy come true.

The Global Compact's Ten Principles in the areas of human rights, labor, the environment, and anti-corruption enjoy universal consensus and are derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. For more details, consult www.unglobalcompact.org or see the extract of the Ten Principles in the Appendix on page 30.

By subordinating all our activities and goals to sustainable development, we strive to combine economic success, social performance, and ecological efficiency. However, at the same time, we are realistic enough to recognize that this commitment is not an end in itself but a target that helps us to steer our processes in a direction of long-term prosperity.



The Strategy of Sustainability



“Compatibility is a logical consequence of Kaba’s «Total Access» strategy that makes new modules compatible with all existing and future products.”

Investments in security are usually made with a medium to long-term perspective. However, in the course of time, certain parameters will demand changes. Both residential and business facilities are subject to such changing requirements.

New requirements may arise when a company expands or integrates acquired firms and when the risk scenario and the security needs change. For Kaba customers, however, these changes are nothing to worry about because they know that all new modules and systems are compatible with the Kaba solution already installed.

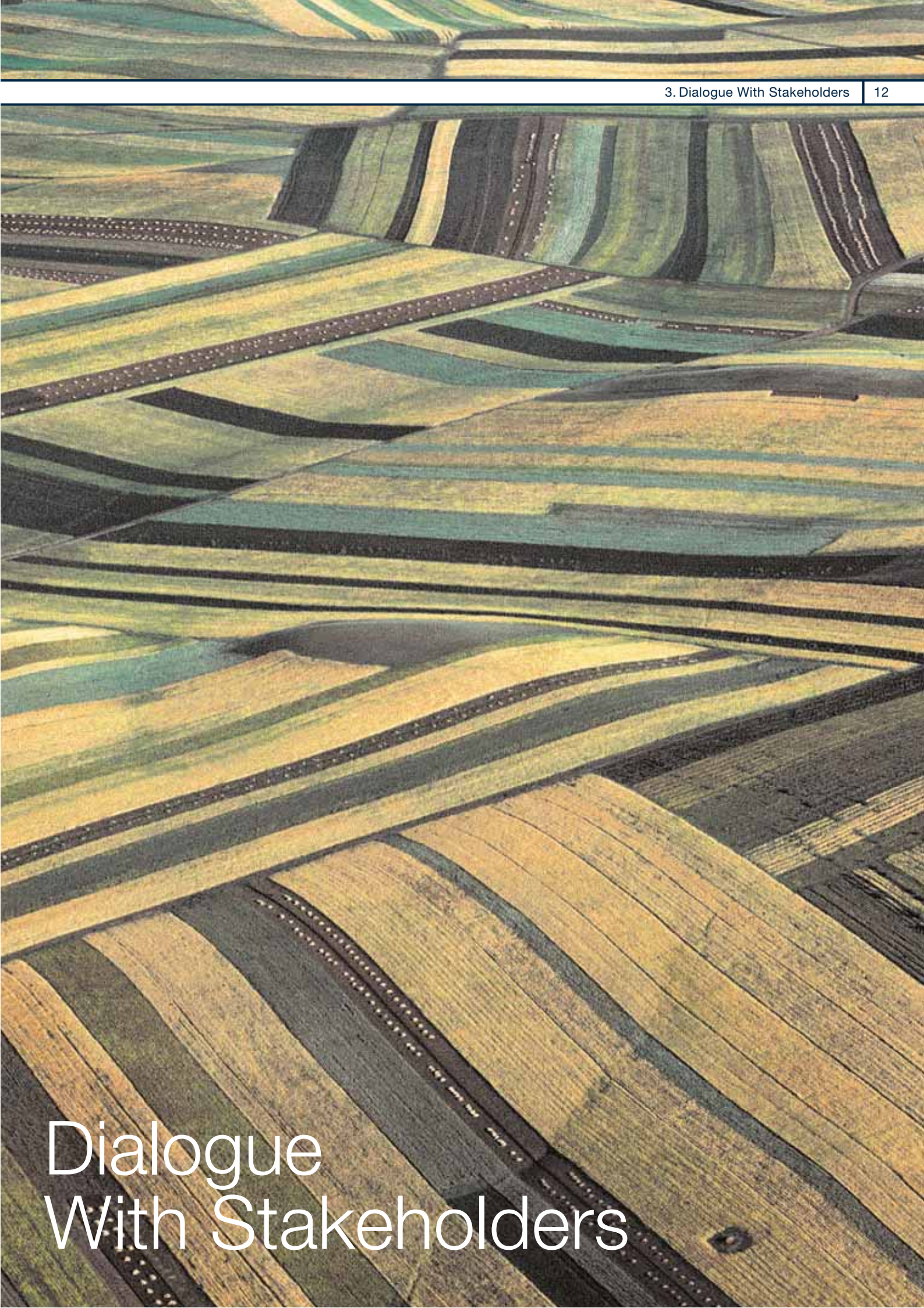
As a matter of course, this compatibility is not coincidental but a logical consequence of Kaba’s «Total Access» strategy. The principle of this strategy is to provide solutions that are part of an integrated system.

Systematic implementation of the «Total Access» strategy begins when new products and product families are still in the design stage. One of the top priorities for Kaba’s developers is to make new modules compatible with all existing and future products. To implement this strategy without compromise, all companies of the Kaba Group must be sufficiently integrated to produce systems, processes, and methods that are compatible with each other. Regardless of whether a company develops, manufactures, advises, or sells, it must never be an outsider; any insular solution would undermine the «Total Access» philosophy.

Kaba is the only provider worldwide with the capability of uniting locking technology and access control within a single, user-friendly system. Two core competencies help Kaba achieve this goal:

- **Mechatronic locking cylinders based on the Legic RFID technology**
These merge mechanical functions with electronic convenience. Identification criteria and authorization capabilities can be programmed and modified quickly and securely at any point in time.
- **Com-ID (Common Identification Media)**
This is a globally protected Kaba technology that uses one single identification medium (key, card, or a combination of the two) and the associated authorization management to sustainably control access to buildings, facilities, or networks.

Thus, sustainability of investment in security technology is not only defined by technical product evaluation, but also explicitly takes into account the administrative and technical input of operators, their flexibility in adapting to changes in framework conditions, and their independence within the scope of set economic targets.



Dialogue With Stakeholders



“We expect our stakeholders to tell us where they see potential for improvements in terms of sustainability.”

Kaba strives to initiate and maintain interactive communication in an atmosphere of mutual trust and confidence. We provide our stakeholders with all the information they need to comprehend our strategy as well as our decisions and deliverables. Moreover, we expect our stakeholders to tell us where they see potential for improvement in terms of sustainability. By establishing and practicing an open dialogue, we aim to better manage the issues, which ultimately leads to a reduction of risks to the company.

Once a year, Kaba invites major customers, suppliers, business partners, friends, neighbors, journalists, etc., to a full day of presentations and discussions called “Kaba talks”. Participants learn about our business, our technology, our markets, and our achievements. “Kaba talks” has been recognized by an increasing number of stakeholders as an excellent opportunity to get in-depth knowledge about Kaba and to establish a personal relationship with the management. Kaba management, on the other hand, appreciates the direct contact with the participants and wants to receive immediate feedback on the presentations and answers to specific questions.

The high priority Kaba is dedicating to the dialogue with stakeholders is illustrated by our website. It provides a constantly updated picture of the Kaba Group and includes many links to regional Kaba websites all over the world.

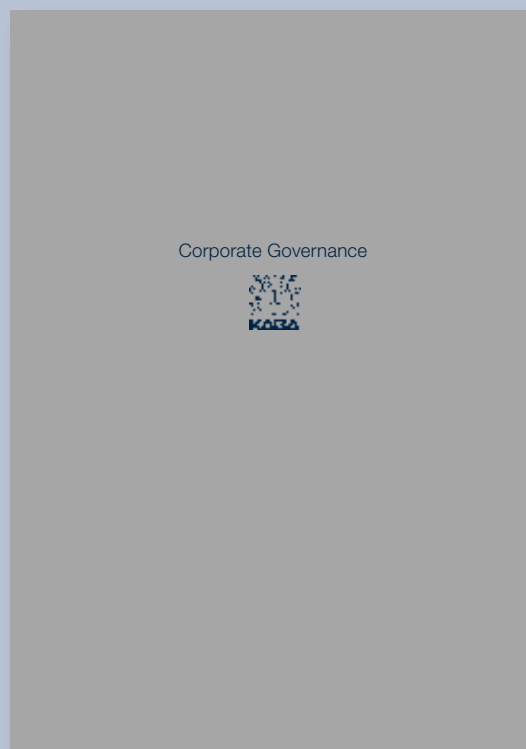
Managers of the Kaba Group or of regional Kaba companies actively participate in public conferences, symposiums, workshops, etc. Frequent topics are the challenges of the security industry and the solutions the industry is able to provide.

Kaba plays an active role in becoming and being a good citizen. By investing in research and the development of new technologies that enhance security for individuals or organizations and by providing efficient solutions for the increasing threats of terrorism, theft, raids, espionage, kidnappings, etc., Kaba contributes to protecting and facilitating the lives of millions of people every day.

In order to facilitate the communication flow mainly with the business community, Kaba edits a magazine called *Security Update*. The publication provides an excellent impression of innovative products and systems and how they are implemented jointly with the customers.

CORPORATE GOVERNANCE

The facts and figures related to Corporate Governance are available in the separate brochure “Corporate Governance” which each year is distributed together with the Annual Report/Financial Report of Kaba.





The Economic Dimension



“We think that providing satisfaction to our customers is the essence for our license to operate.”

4.1 Maximizing Stakeholder Value

Kaba’s strategy is to maximize the creation of value for stakeholders by maintaining its focus on «Total Access» and, as a result, to consolidate and develop its existing leadership positions in the areas of physical and logical access to sites, buildings, containers, and enterprise data.

Kaba’s offering ranges from individual components, products, and systems to fully integrated single-source solutions in access control, key and locking systems, high-security container and hotel locks, and door systems, as well as data collection and time management.

Kaba’s main stakeholders are customers, employees, shareholders, business partners, suppliers, and the general public.

4.2 Focus on Value Creation

Kaba’s main driver to maximize stakeholder value is sustainable growth, both organic and by acquisitions.

Organic growth:

Kaba is constantly investing in research into and the development of new technologies, leading to innovative products and solutions that enlarge existing markets or give access to new markets. The focus is on accelerating Kaba’s organic growth.

Growth by acquisitions:

From time to time, Kaba buys additional companies, which enlarges the installed base and provides sales synergies with the existing Kaba group companies. These takeovers in the business field of «Total Access» allow Kaba to accelerate growth in general, to gain market shares, to increase profit growth per share and – thanks to the synergies – to sustain organic growth.

In addition, value is created or enhanced by focusing on the following approaches:

- Exploiting the upgrade and replacement business, with 70 % of all «Total Access» systems and components being installed in existing buildings and facilities (installed base) in order to stabilize income and raise barriers to entry
- Using synergies and maximizing long-term profitability
- Achieving cost savings by continuously optimizing the degree of vertical integration, standardizing system components, customizing systems, assembling at service centers located as close as possible to the end-user, and, finally, maintaining decentralized management with profit centers
- Maintaining the high level of quality and reputation

4.3 Responsibility to Customers

We seek a long-term personal partnership with our customers based on trust, openness, and reciprocity. It is our ambition to hold the leading edge in every market or segment.

Kaba strives to give its customers solutions that optimize benefits in terms of security, organization, and convenience. We think that providing satisfaction to our customers is the essence for our license to operate.

Anticipating and meeting our customers' needs is the key to achieving our ambitious strategic and financial goals. We are determined to provide our customers with innovative technology, attractive products, and top-quality services. Kaba guarantees full investment protection, with compatibility between different existing products and compatibility between existing and new products.

To ensure full investment sustainability for our customers, we apply strict diligence in checking whether an investment is relevant, effective, and efficient. We achieve this by answering the following questions:

- **Relevance:** Is the project designed to solve the specific problem of the customer?
- **Effectiveness:** Will the solution meet the customer's requirements within a given operational setting?
- **Efficiency:** Is the investment adequate for the customer to achieve his operational targets within the useful service life?

To better understand how investment sustainability is implemented in the security technology sector, please see the box "Investment Sustainability in Practice" on page 21.

4.4 Responsibility to Shareholders and to the Financial Community

It is Kaba's strategic priority to maintain a profitable growth momentum and to achieve our financial goals. We recognize that sound profit growth is essential to increase shareholder value and to implement our corporate strategy.

Our responsibility to the financial community includes proactive investor relations. We are in a steady dialogue with analysts, private and institutional investors, economic media, and other stakeholders.

The first contact person for investor relations is the CFO. He addresses the requirements of the financial community in line with local regulations and ad-hoc-publicity restrictions, either by phone or in one-on-one meetings. At least twice a year, Kaba invites analysts and media to separate conferences where fiscal-year results or half-year results are presented and discussed. In addition, the Kaba management organizes road shows and participates in investors' symposiums or other events organized for the financial community.

Other much-valued sources of information are the unique *Investor's Handbook*, providing a detailed and well-structured view of the Kaba Group, and the customer magazine *Security Update*.

INVESTMENT SUSTAINABILITY IN PRACTICE

The following practical example refers to investment sustainability in the access process. This process is determined by three levels. The first is *organizational structure*. It stipulates which persons or offices are competent to grant authorization to a person or a group of persons to access a specific room or to access critical data. The second level is *authorization management* where it is decided who has access to which room in which manner and at which time. Once the decision criteria have been defined, they cannot be bypassed by the users. This results in a substantial increase in quality, considerable savings in administrative costs, and fully controlled and comprehensible decision-making and implementation processes (revision capability).

Access control, the third level, is quasi reduced to an executive element that receives the authorization data from authorization management via a defined interface and selects the physical or logical access accordingly.

Flexibility and Independence – New Criteria for Sustainability

Since rule-setting processes are changed more frequently than executive procedures, an IT-supported workflow cannot be compared to the service life of 10 to 25 years of technical security equipment. The owner's flexibility and independence in performing necessary modifications become the real criteria for sustainability.

Conversely, if the concept of authorization management is developed incorrectly or out of line with internal regulations (data security, hierarchies, room concept, etc.), sustainability is not achieved. This is the greatest overall risk, especially as internal, hierarchical, or organizational constraints often impede the development of an optimal concept.

Avoid Supplier Dependence

Another risk in terms of sustainability would be posed by assigning a large cross-company project to a single supplier. This risk can be avoided by intelligent selection of interfaces that reduce the degree of dependence. Planning and implementation of IT processes should therefore not be entrusted to a single source. The associated extra costs are a good investment in terms of sustainability because the processes can still be reconstructed years later and without help from the supplier.



The Environmental Dimension



“We make sure that our products and solutions are designed to meet the highest environmental standards throughout their entire lifecycle.”

5.1 Responsibility to the Environment

A responsibility to the environment is part of our corporate strategy. We protect our environment actively on all levels and in all areas and functions.

We adhere to and respect environmental standards. Our activities are continuously examined with regard to their ecological impact. Simultaneously, we continue to improve our processes in order to optimize the ecological performance of our group.

We are committed to installing machinery and equipment designed to minimize waste, both hazardous and non-hazardous.

5.2 Meeting the Highest Standards

We make sure that our products and solutions are designed to meet the highest environmental standards for the whole of their lifecycle.

To carry out our environmental and waste-minimization policy, we:

- Meet or exceed legal requirements
- Embrace environmental management through the commitment of our management and board of directors
- Communicate this policy to all employees and the public
- Conserve energy and materials and recycle when possible
- Strive to eliminate pollution through process improvement
- Educate and train employees to work in an environmentally responsible manner
- Plan for emergencies through established preparedness and response procedures

INTEGRATED MANUFACTURING – LESS PAPER, MORE PERFORMANCE

Every day, about 900 transactions are handled by Kaba AG in Wetzikon. They involve orders for manufacturing keys (including duplicates), cylinders, and further locking system components. Presently, most of the work related to data flows and the procedures from order entry to shipping of the finished products is done by hand. Accordingly, paper is an important data medium. The fact that this system functions smoothly is illustrated by the high degree of satisfaction of some 600 authorized partners who forward orders to Kaba in Wetzikon on behalf of their customers.

Savings potential: 3.2 tons of paper per year

But it's not good enough to be good. Kaba AG, which operates as a production and distribution company in locking technology and simultaneously serves the entire Kaba Group as the Mechatronics Competence Center, wants to further strengthen its position as a technology and quality leader in security systems and locking technology components. For this reason, its management has launched an investment program that will simplify and accelerate the production processes for Kaba 8 and Kaba star keys. The implementation of integrated manufacturing projects is accompanied by a project that will soon eliminate the need for physical production documents. After it has been completed, it will be possible to save about 3.2 metric tons of paper each year.

Benefits for customers and employees

Apart from this – literally – weighty ecological factor, integrating manufacturing will provide a number of added benefits. For instance, customers will be delighted to see even shorter turnaround times. The time gained by process automation will be appreciated mainly by users who just can't wait to receive their duplicate keys – and experience confirms that they are in the majority. The traceability and steerability of orders will also improve perceptibly with the new manufacturing approach. And finally, the manual portion of work performed will be relieved, resulting in costing advantages. Indeed, the introduction of integrated manufacturing will upgrade the existing workstations and help secure the competitiveness of Wetzikon as an industrial production site. Thanks to its employee-friendly corporate culture, Kaba AG in Wetzikon has long been considered an employer of above-average appeal. This view is affirmed by the annual results of the employee satisfaction surveys that have been conducted by *Cash*, the Swiss business weekly, since the year 2000.



The Social Dimension



“Our business ethics derive first of all from the personal behavior of the individuals working within the Kaba Group.”

6.1 Commitment to Business Ethics

All our decisions, activities, and projects are governed by principles of ethics in business. The cornerstones of these principles refer to compliance with national and international laws or regulations, to fairness in competition, and to integrity in our relations with the different stakeholders.

Our business ethics derive primarily from the personal behavior of the individuals working within the Kaba Group. The ethics principles that guide these individuals are stipulated by a series of written documents, notably this Kaba Sustainability Charta, the Kaba Manual, the Corporate Governance Principles, the articles of incorporation of Kaba, and other binding guidelines.

6.2 Responsibility to Employees

Recognizing that motivated and trained employees are the key success factors for Kaba, we strive to be an attractive employer, providing competitive working conditions and a corporate environment that values the skills and talents of all the individuals working for our group. Irrespective of race, gender, nationality, religion, or sexual orientation, we respect the individual value and equality of all employees.

We aim to provide all of our employees with good, healthy, and safe working conditions. We invest continuously in the training of our employees on all levels and in all functions. Special attention is given to young people, whose contribution will be decisive in the successful implementation of our strategy. Kaba delegates entrepreneurial responsibilities through to the lowest possible level. Pay is determined chiefly by professional skills, personal performance, and the achievement of objectives. Decisions and related actions are based on the needs of the company, not on personal interests or relationships.

When laws, guidelines, and principles are not complied with, employees are invited to report such occurrences to their superiors. The superiors are to respond appropriately, while at the same time protecting employees who are performing in good faith from possible negative impacts of their reporting.

6.3 Sharing Responsibility with Our Business Partners

In dealing with our business partners, we apply the highest standards of excellence and mutual respect. We expect them to support us in fulfilling our responsibilities to stakeholders and to share the Ten Principles of the UN Global Compact.

Following these principles, our business partners shall not use forced labor or employ children. They should employ workers based on their skills and qualifications to do a good job rather than based on their personal characteristics or beliefs. Discrimination in employment practices on grounds of race, national origin, gender, religion, age, disability, marital status, membership in associations, sexual orientation, or political opinion is not accepted.

Business partners shall recognize that wages must equal or exceed the minimum wage or the prevailing industry wage, whichever is higher. Employees shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological, or verbal harassment or abuse.

6.4 Kaba Manual

Specific guidelines for decision-making and for corporate management, both part of the Kaba Manual, provide a regulatory framework for all Group companies and employees. The Kaba Manual sets further detailed policies and rules of behavior that apply to the processes within Kaba as a group as well as in the individual divisions.

6.5 Responsibility to Society

To a considerable extent, we owe our success to what we receive from the communities around us. For example, we operate in surroundings that provide Kaba with an advanced infrastructure and offer our employees an attractive social and economic environment. Recognizing these benefits, we aim to intensify the dialogue with our communities and to support them properly.



Appendix



“A good human rights record can support improved business performance.”

The Ten Principles of the UN Global Compact

The Global Compact’s Ten Principles in the areas of human rights, labor, the environment, and anti-corruption enjoy universal consensus and are derived from the following:

- The Universal Declaration of Human Rights
- The International Labor Organization’s Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, and the environment. The principles are as follows:

The following description of the Ten Principles is an edited excerpt of the original text as reproduced on www.unglobalcompact.org

PRINCIPLE ONE

Businesses should support and respect the protection of internationally proclaimed human rights.

Why Human Rights Are Important for Business

The responsibility for human rights does not rest with governments or nation states alone. Human rights issues are important both for individuals and the organizations that they create. As part of its commitment to the Global Compact, the business community has a responsibility to uphold human rights both in the workplace and more broadly within its sphere of influence. A growing moral imperative to behave respon-

sibly is allied to the recognition that a good human rights record can support improved business performance. Reasons for companies to address human rights issues include:

Compliance With Local and International Law

As a minimum, businesses should strive to ensure that their operations are consistent with the legal principles applicable in the country of operation. The consideration of lawsuits against multinationals for poor practice outside their country of origin is a growing trend.

Promoting the Rule of Law

Businesses operating outside their country of origin may have an opportunity to promote and raise standards in countries where support and enforcement of human rights issues is insufficient. Societies where human rights are respected are more stable and provide a good environment for business.

Addressing Consumer Concerns

Access to global information means that consumers are increasingly aware of where their goods come from and the conditions under which they are made. A proactive approach to human rights can reduce the potentially negative impacts of adverse publicity from consumer organizations and interest groups.

Supply Chain Management

Global sourcing and manufacturing means that companies need to be fully aware of potential human rights issues, both upstream and downstream. Promoting best practice in human rights will allow business to select appropriate business partners.

Increasing Worker Productivity and Retention

Workers who are treated with dignity and given fair and just rewards for their work are more likely to be productive and remain loyal to an employer. New recruits increasingly consider the social and environmental record of companies when making their choice of employer.

Building Good Community Relationships

Companies that operate on a global basis are visible to a large audience worldwide as a result of the advances in communications technologies. Addressing human rights issues positively can bring rewards both at site level, within local communities, as well as in the broader global commons in which companies operate.

Bringing Human Rights Into Company Policy and Culture

A key starting point is for individuals within companies to develop an understanding of the issues, for example by making reference to the Universal Declaration of Human Rights. Companies also need to ensure that they are respecting existing national laws in the countries where they operate and identify how these may vary according to local culture. Equally important is that respect for human rights is embedded in the core values and culture of the organization.

The development and implementation of a human rights policy should take into account any appropriate guidelines and, where possible, include input from and consultation with relevant stakeholder groups.

PRINCIPLE TWO

Businesses should make sure they are not complicit in human rights abuses.

Complicity

Many agree that “complicity” is a difficult concept to appreciate and categorize, and understanding complicity in order to avoid complicity in human rights violations represents an important challenge for business. As the dynamics between governments, companies, and civil society organizations are changing, so too does our understanding of when and how different organizations should take on responsibilities for human rights issues. While recognizing that the role of governments in ensuring respect for human rights continues to be extremely important, the changing operating context for business has prompted the Office of the High Commissioner for Human Rights (OHCHR) to lead efforts to define what constitutes corporate complicity in human rights abuses.

It is important to understand that in a business context the notion of complicity can occur in a number of forms:

Direct complicity occurs when a company knowingly assists a state in violating human rights. An example of this is in the case where a company assists in the forced relocation of peoples in circumstances related to business activity.

Beneficial complicity suggests that a company benefits directly from human rights abuses committed by someone else. For example, violations committed by security forces, such as the suppression of a peaceful protest against business activities or the use of repressive measures while guarding company facilities, are often cited in this context.

Silent complicity describes the way human rights advocates see the failure by a company to raise the question of systematic or continuous human rights violations in its interactions with the appropriate authorities. For example, inaction or acceptance by companies of systematic discrimination in employment law against particular groups on the grounds of ethnicity or gender could bring accusations of silent complicity.

Contemporary Issues

Human rights issues have become increasingly important as the nature and scope of business has changed. Different actors have different roles to play, and it is important for business to be aware of the contemporary factors that have made human rights an organizational issue.

Globalization

The growth in private investment has witnessed companies expanding operations to countries previously untouched by global markets. In some instances, these countries have poor human rights records and/or the capacity of the state to address these issues is limited. In these cases, the role of business in promoting and respecting human rights is particularly important.

Growth of Civil Society

In some instances, the capacity of the state to address human rights issues has diminished. As a result, a steady alienation of people has occurred towards just those public institutions that were established to serve them. Non-governmental organizations of all types and sizes have grown to fill the void, progressively influencing both public policy and the market agenda. They include new human-rights, labor, and corporate-accountability organizations.

Transparency and Accountability

The need for transparency in business practice has been highlighted by globalization, the growth of civil society interests, and some recent problems in the corporate sector. Advances in information technologies and global communications mean that companies can ill afford to conceal poor or questionable practices.

PRINCIPLE THREE

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Freedom of Association and Collective Bargaining

Businesses face many uncertainties in this rapidly changing global market. Establishing genuine dialogue with freely chosen workers' representatives enables both workers and employers to understand each other's problems better and find ways to resolve them. Security of representation is a foundation for building trust on both sides. Freedom of association and the exercise of collective bargaining provide opportunities for constructive rather than confrontational dialogue, and this harnesses energy to focus on solutions that result in benefits to the enterprise, its stakeholders, and society at large.

A number of studies indicate that the dynamic that results from freedom of association can set in motion a "decent work" cycle that increases productivity, incomes, and profits for all concerned. The guarantee of representation through a "voice at work" facilitates local responses to a global economy and serves as a basis for sustainable growth and secure investment returns. The results help bridge the widening representational gap in global work arrangements and facilitate the input of those people, regions, and economic sectors – especially women and informal sector workers – who

otherwise may be excluded from participating in processes that build decent work environments.

Freedom of Association

Freedom of association implies a respect for the right of employers and workers to join associations of their own choice. It does not mean that workforces must be organized or that companies must invite unions in. Employers should not interfere in an employee's decision to associate, or discriminate against the employee or a representative of the employee. "Association" includes activities of rule formation, administration, and the election of representatives. The freedom to associate involves employers, unions, and workers' representatives freely discussing issues at work in order to reach agreements that are jointly acceptable. These freedoms also allow industrial action to be taken by workers (and organizations) in defense of their economic and social interests.

Collective Bargaining

Collective bargaining refers to the process or activity leading up to the conclusion of a collective agreement. Collective bargaining is a voluntary process used to determine terms and conditions of work and the regulation of relations between employers, workers, and their organizations. An important part of the effective recognition of the right to collective bargaining is the "principle of good faith." This is important for the maintenance of the harmonious development of labor relations. This principle implies that the social partners work

together and make every effort to reach an agreement through genuine and constructive negotiations and that both parties avoid unjustified delays in negotiations. The principle of good faith does not imply a pre-defined level of bargaining or require compulsory bargaining on the part of employers or workers and their organizations.

PRINCIPLE FOUR

Businesses should uphold the prohibition of all forms of forced and compulsory labor.

Forced and Compulsory Labor

Forced or compulsory labor is any work or service that is extracted from any person under the menace of any penalty and for which that person has not offered himself or herself voluntarily. Providing wages or other compensation to a worker does not necessarily indicate that the labor is not forced or compulsory. By right, labor should be freely given and employees should be free to leave in accordance with established rules.

Forced labor deprives societies of the opportunity to develop human resources for the modern labor market and to develop skills and educate children for the labor markets of tomorrow. The debilitating consequences of forced labor are felt by the individual, in particular by children, as well as by the economy itself, since the degradation of human capital and social stability results in insecure investments.

By retarding the proper development of human resources, forced labor lowers the level of productivity and economic growth for society generally. The loss of income due to disruption of regular jobs or income-generating activities reduces the lifetime earnings of whole families and with it, the loss of food, shelter, and health care.

While companies operating legally do not normally employ such practices, forced labor can become associated with enterprises through their use of contractors and suppliers. As a result, all managers should be aware of the forms and causes of forced labor, as well as how it might occur in different industries. Forced and compulsory labor can take a number of forms:

- Slavery
- Bonded labor or debt bondage, an ancient practice but still in use in some countries, in which both adults and children are obliged to work in slave-like conditions to repay debts of their own or their parents or relatives
- Child labor in particularly abusive conditions where the child has no choice about whether to work
- The work or service of prisoners if they are hired to or placed at the disposal of private individuals, companies, or associations involuntarily and without [the] supervision of public authorities
- Labor for development purposes required by the authorities, for instance to assist in construction, agriculture, and other public works
- Work required in order to punish opinion or expression of views ideologically opposed to the established political, social, or economic system

- Exploitative practices such as forced overtime or the lodging of deposits (financial or personal documents) for employment.

PRINCIPLE FIVE

Businesses should uphold the effective abolition of child labor.

Child Labor

Child labor has occurred at some point in time in virtually all parts of the world as nations have undergone different stages of development. It remains a serious issue today in many developing countries – although it also exists (more invisibly) in the developed, industrialized countries, where it occurs, for example, in some immigrant communities.

Forced labor deprives societies of the opportunity to develop human resources for the modern labor market and to develop skills and educate children for the labor markets of tomorrow. The debilitating consequences of forced labor are felt by the individual, in particular by children, as well as by the economy itself, since the degradation of human capital and social stability results in insecure investments.

Child labor deprives children of their childhood and their dignity. Many of the children work long hours for low or no wages, often under conditions harmful to their health as well as physical and mental development.

They are deprived of an education and may be separated from their families. Children who do not complete their primary education are likely to remain illiterate and never acquire the skills needed to get a job and contribute to the development of a modern economy. Consequently, child labor results in scores of under-skilled, unqualified workers and jeopardizes future improvements of skills in the workforce.

Child labor occurs because of the pressures of poverty and lack of development but also simply as a result of exploitation. It exists both in the formal and in the informal economy. However, it is in the latter case where the majority of the worst forms of child labor are found.

Although children enjoy the same human rights as adults, their lack of knowledge, experience, and power means that they also have distinct rights by virtue of their age. These rights include protection from economic exploitation and work that may be dangerous to their health or morals and that may hinder their development. This does not mean that children should not be allowed to work, rather that there are standards that distinguish what constitutes acceptable or unacceptable work for children at different ages and stages of their development.

Employers should not use child labor in ways that are socially unacceptable or that lead to a child losing his or her educational opportunities. The complexity of the issue of child labor means that companies need to address the issue sensitively and not take action which may force working children into more exploitative forms of work. Nevertheless, as Principle 5 states, the goal of all companies should be the abolition of child labor within their sphere of influence.

It is useful to mention that the use of child labor can damage a company's reputation. This is especially true in the case of transnational companies that have extensive supply and service chains, where the economic exploitation of children, even by a business partner, can damage a brand image and have strong repercussions on profit and stock value.

Priority is given to eliminating, for all persons under the age of 18, the worst forms of child labor, including hazardous types of work or employment. The worst forms of child labor are defined as:

- All forms of slavery – this includes the trafficking of children, debt bondage, forced and compulsory labor, and the use of children in armed conflict.
- The use, procuring, or offering of a child for prostitution, for the production of pornography, or for pornographic purposes.
- The use, procuring, or offering of a child for illicit activities, in particular the production and trafficking of drugs.
- Work that is likely to harm the health, safety, or morals of the child as a consequence of its nature or the circumstances under which it is carried out.

PRINCIPLE SIX

Businesses should uphold the prohibition of discrimination with respect to employment and occupation.

Discrimination

The definition of discrimination in employment and occupation is “any distinction, exclusion, or preference that has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation”, and is made on the basis of “race, color, sex, religion, political opinion, national extraction, or social origin”. Obviously, distinctions based strictly on the inherent requirements of the job are not discrimination.

Discrimination can arise in a variety of work-related activities. These include access to employment and to particular occupations and to training and vocational guidance. Moreover, it can occur with respect to the terms and conditions of the employment, such as, for example, equal remuneration, hours of work and rest, paid holidays, maternity leave, security of tenure, advancement, social security, and occupational safety and health. In some countries additional issues for discrimination in the workplace, such as age and HIV status, are growing in importance. It is also important to realize that discrimination at work arises in a range of settings and can be a problem in a rural agricultural business or in a high technology city-based business.

Non-discrimination means simply that employees are selected on the basis of their ability to do the job and that there is no distinction, exclusion, or preference made on other grounds. Employees who experience discrimination at work are denied opportunities and have their basic human rights infringed upon. This affects the individuals concerned and negatively influences the greater contribution that they might make to society.

Discrimination – Direct and Indirect

Discrimination can take many forms, both in terms of gaining access to employment and in the treatment of employees once they are in work.

It may be direct, such as when laws, rules, or practices explicitly cite a reason such as sex or race to deny equal opportunity. Most commonly, discrimination is indirect and arises where rules or practices have the appearance of neutrality but in fact lead to exclusions. This indirect discrimination often exists informally in attitudes and practices, which if unchallenged can perpetuate in organizations. Discrimination may also have cultural roots that demand more specific individual approaches.

PRINCIPLE SEVEN

Businesses should support a precautionary approach to environmental challenges.

What Is a Precautionary Approach?

The Rio Declaration firmly established the link between environmental issues and development by stating that "... in order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it."

Therefore, if environmental protection is to be considered as an integral part of the development process, how can the environmental risks associated with human activities be assessed?

The Rio Declaration sets out an extremely important idea, now widely accepted by policy makers, of a precautionary approach to environmental protection: "In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation."

The concept is not new, having emerged in association with Clean Air legislation in the Federal Republic of Germany in the 1970s. It has become an accepted principle in the European Union and a part of international environmental law. The German "Vorsorgeprinzip" embraces notions of risk prevention, cost effectiveness, ethical responsibilities towards the environment, and the (sometimes) uncertain nature of human knowledge and understanding.

Precaution is founded on a number of key concepts, such as

Preventive Anticipation, [or] taking action if necessary before scientific proof is available on the grounds that a delay in the action will cause damage to nature and society.

Safeguarding Ecological “Space”, [or] not impinge on ecological margins, so that we protect and widen the assimilative capacity of the natural environment. This means refraining from undesirable resource use.

Proportionality of Response to show that selected degrees of restraint are not unduly costly. In other words, allowing for the possibly greater dangers for future generations if important life support systems are undermined.

Duty of Care, [or] placing the onus of proof on those undertaking an activity or carrying out change to demonstrate no environmental harm.

Promoting Intrinsic Natural Rights, [or] allowing natural processes to function such that they maintain essential support for all life on earth.

Paying for Ecological Debt, or compensating for past errors of judgment as indicated by the notion of “common but differentiated responsibility” enshrined in the UN Framework Convention on Climate Change.

PRINCIPLE EIGHT

Businesses should undertake initiatives to promote greater environmental responsibility.

The Background to Principle 8

The Rio Earth Summit in 1992 acted as a “wake-up call” for many parts of society, not [the] least of which [was] the business sector. For the first time a comprehensive group of stakeholders gathered together to discuss the issues raised by the patterns of industrialization, population growth, and social inequality around the world. The conference highlighted the true fragility of the planet and, in particular, drew attention to three concerns:

- The damage occurring to many natural ecosystems
- The threat of a reduction in the capacity of the planet to support life in the future
- Our ability to sustain long-term economic and social development

The message to companies was spelled out in Chapter 30 of Agenda 21, in which the role of business and industry in the sustainable development agenda is discussed. And an outline of what environmental responsibility means for business is presented:

“[the] responsible and ethical management of products and processes from the point of view of health, safety, and environmental aspects. Towards this end, business and industry should increase self-regulation, guided by appropriate codes, charters, and initiatives integrated

into all elements of business planning and decision-making and fostering openness and dialogue with employees and the public.” (30.26)

“In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.”

In the ten years since “Rio”, the imperative for business to conduct its activities in an environmentally responsible manner has not lessened. On the contrary, as recent analyses of the “state of the planet” indicate, despite progress in some areas (e.g., ozone-depletion, air-pollution in many developed regions, or advances towards reducing greenhouse gases under the Kyoto Protocol), the overall trends are negative, and much work still remains to be done. Scientists and experts are reporting disturbing global trends concerning not only vital aspects of our life support system but also the foundation of our social development system.

Given the increasingly central role of the private sector in global governance issues, the public is demanding that business manage its operations in a manner that not only enhances economic prosperity and promotes social justice but also ensures environmental protection in the regions and countries where it is based. Through Principle 8, the Global Compact provides a framework for business to take forward some of the key challenges made 10 years ago.

PRINCIPLE NINE

Businesses should encourage the development and diffusion of environmentally friendly technologies.

Defining Environmentally Friendly Technologies

Encouraging the development and diffusion of environmentally friendly technology is a longer-term challenge for a company that will draw on both the management and research capabilities of the organization. For the purposes of engaging with the Global Compact, environmentally friendly technologies are those that are described in Chapter 34 of Agenda 21 as being “environmentally sound”. Agenda 21 outlines environmentally sound technologies

(ESTs) as those which "... protect the environment, are less polluting, use all resources in a more sustainable manner, recycle more of their wastes and products, and handle residual wastes in a more acceptable manner than the technologies for which they were substitutes. [ESTs] are not just individual technologies, but total systems that include know-how, procedures, goods and services, and equipment as well as organizational and managerial processes."

Important here is an understanding that this broad definition includes end-of-pipe and monitoring techniques but this explicitly encourages more progressive preventive approaches, such as pollution prevention and cleaner production technologies. The aspiration of this principle is, therefore, towards clean technology where the function is to provide a human benefit or service, rather than concentrating on products per se.

Reasons to Develop and Diffuse (ESTs)

Environmentally proficient technologies allow us to reduce the use of finite resources and to use existing resources more efficiently. For example, improvements in the power-to-weight ratio of batteries has led to a significant reduction in the use of toxic heavy metals while bringing substantial benefits to the consumer.

Waste storage, treatment, and disposal are costly in financial as well as in environmental and social terms. Since environmentally sound technologies generate less waste and residues, the continued use of inefficient technologies can represent increased operating costs for business. In addition, it also results in a retrospective focus on control and remediation rather than prevention. In contrast, avoiding environmental impacts through pollution prevention and ecological product design increases the efficiency and overall competitiveness of the company and may lead to new business opportunities.

As environmentally sound technologies reduce operating inefficiencies, they also lead to lower emissions of environmental contaminants. This primarily benefits workers who are exposed to much lower levels of hazardous materials on a daily basis and also results in a substantially reduced risk of accidents or technological disasters.

PRINCIPLE TEN

Businesses should work against corruption in all its forms, including extortion and bribery

Transparency and the Fight Against Corruption

On June 24, 2004, during the Global Compact Leaders Summit, UN Secretary-General Kofi Annan announced that “at your urging, and after extensive consultations with all participants that yielded overwhelming expressions of support, the Global Compact henceforth will include a tenth principle, against corruption, reflecting the recently adopted United Nations convention on that subject.”

On December 9, 2004, marking International Anti-Corruption Day, the Global Compact launched a worldwide effort to raise awareness and deepen the commitment of its participants to combat and eliminate corruption.

Over the following twelve months, the initiative will focus on providing background information, guidance, and tools to more than 2,000 participating businesses and other organizations around the world. Partnering with the UN Office on Drugs and Crime (UNODC), Transparency International (TI), and the International Chamber of Commerce (ICC), the Global Compact will hold several dialogue events and support the collection of corporate practice cases, which will be showcased in a publication to be released in the fall of 2005.

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